

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle
Counties, Michigan

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

September 20, 2010

To The Board of Education
Hillman Community Schools
Alpena, Montmorency and Presque Isle Counties, Michigan
Hillman, Michigan 49746

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hillman Community Schools, as of and for the year ended June 30, 2010 and June 30, 2009, which collectively comprise the Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hillman Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

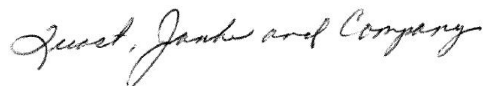
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hillman Community Schools, as of June 30, 2010 and June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in

accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hillman Community Schools' financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

QUAST, JANKE AND COMPANY



Certified Public Accountants, P.C.

Hillman Community Schools Management's Discussion and Analysis

This section of Hillman Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the years ended June 30, 2010 and 2009. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hillman Community Schools financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds – the General Fund, the Food Service Fund, and the 2005 Debt Retirement Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD &A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Other Supplemental Information

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most

Hillman Community Schools Management's Discussion and Analysis

private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

Hillman Community Schools Management's Discussion and Analysis

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2009 and 2008

TABLE 1:

| | <u>Governmental Activities</u> | |
|--|--------------------------------|----------------------|
| | <u>June 30, 2010</u> | <u>June 30, 2009</u> |
| Assets | | |
| Current and other assets | \$ 1,781,840 | \$ 1,813,771 |
| Capital assets – Net of accumulated depreciation | <u>7,549,582</u> | <u>7,792,628</u> |
| Total assets | 9,331,422 | 9,606,399 |
| Liabilities | | |
| Current liabilities | 946,935 | 767,038 |
| Long-term liabilities | <u>5,574,013</u> | <u>6,165,740</u> |
| Total liabilities | <u>6,520,948</u> | <u>6,932,778</u> |
| Net Assets | | |
| Invested in property and equipment – Net of related debt | 1,607,192 | 1,274,126 |
| Restricted | 3,213 | 3,457 |
| Unrestricted | <u>1,200,069</u> | <u>1,396,038</u> |
| Total net assets | <u>\$ 2,810,474</u> | <u>\$ 2,673,621</u> |

Hillman Community Schools Management's Discussion and Analysis

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$2,810,474 at June 30, 2010. Capital assets, net of related debt compares the original cost, less depreciation of the School District's capital assets to long-term debt. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$1,200,069 was unrestricted.

The \$1,200,069 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2010 and 2009.

TABLE 2:

| | <u>Governmental Activities</u> | |
|--|--------------------------------|-----------------------|
| | <u>Year Ended June 30,</u> | |
| | <u>2010</u> | <u>2009</u> |
| Program revenue: | | |
| Charges for services | \$ 124,777 | \$ 124,342 |
| Grants and categoricals | 1,178,438 | 1,058,332 |
| General revenue: | | |
| Property taxes | 2,336,500 | 2,267,840 |
| State foundation allowance | 1,873,467 | 2,038,994 |
| Investment earnings | 31,059 | 39,769 |
| Other | 31,802 | 57,119 |
| Total revenue | 5,576,043 | 5,586,396 |
| Function/Program Expenses | | |
| Instruction | 2,832,101 | 2,480,514 |
| Support services | 1,653,336 | 1,966,138 |
| Community services | 258 | - |
| Food services | 309,571 | 312,786 |
| Athletics | 106,105 | 120,618 |
| Interest on long-term debt | 274,643 | 287,070 |
| Depreciation (unallocated) | 263,177 | 278,292 |
| Total expenses | 5,439,191 | 5,445,418 |
| Increase (Decrease) in Net Assets | <u>\$ 136,852</u> | <u>\$ 140,978</u> |

Hillman Community Schools Management's Discussion and Analysis

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5,439,191. Certain activities were partially funded from those who benefited from the program or by other governments and organizations that subsidized certain programs with grants and categoricals. We paid for the remaining "public benefit" portion of our governmental activities with \$2,336,500 in taxes, \$1,873,467 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$136,852. Key reasons for the change in net assets were continued fiscal management. The increase in net assets differs from the change in fund balance and reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$1,090,780, which is a decrease of \$65,340 from last year. The primary reason for this decrease is state funding cuts. Also, in the General Fund, our principal operating fund, the balance decreased \$56,462 to \$911,302. Overall, actual General Fund revenue and expenses were within 99 percent of budgeted amounts.

The 2005 Debt Retirement Fund fund balance decreased by \$13,438.
The Food Service Fund Balance increased by \$4,881.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were not material.

There were no significant variances between the final budget and actual costs.

Hillman Community Schools
Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At June 30, 2010, the School District had \$13,069,394 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net increase (including additions and disposals) of \$53,725.

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|---------------------|---------------------|
| Land and improvements | \$ 563,234 | \$ 563,234 |
| Buildings and improvements | 9,795,961 | 9,795,961 |
| Buses and Other Vehicles | 638,366 | 652,324 |
| Equipment | <u>2,071,833</u> | <u>2,004,150</u> |
| Total capital assets | 13,069,394 | 13,015,669 |
| Less accumulated depreciation | <u>5,519,812</u> | <u>5,223,041</u> |
| Net capital assets | <u>\$ 7,549,582</u> | <u>\$ 7,792,628</u> |

This year's addition of \$71,725 consisted of food service equipment and technology.

Debt

At the end of this year, the School District had \$5,942,398 in bonds outstanding versus \$5,295,160 in the previous year – a decrease of 5.60 percent. These bonds consisted of the following:

| | |
|----------------------|---------------------|
| 2005 Refunding Bonds | \$ 5,915,000 |
| Bus notes | <u>27,398</u> |
| | <u>\$ 5,942,398</u> |

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this limit. The School District's outstanding unqualified general obligation debt of \$5,942,398 is significantly below the statutorily imposed limit.

Other obligations include employee-compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Hillman Community Schools Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2010 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2011 fiscal year is 25 percent and 75 percent of the February 2010 and September 2010 student counts, respectively. The 2011 fiscal year budget was adopted in June 2010, based on an estimate of students that will be enrolled in September of 2010. Approximately 49 percent of total General Fund revenues is from state funding. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operation. Based on early enrollment data at the start of the 2010-2011 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2011 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates minimal changes in the foundation allowance.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, Jill Olsen at Hillman Community Schools, 245 Third Street, PO Box 518, Hillman, Michigan 49746.

HILLMAN COMMUNITY SCHOOLS
 Alpena, Montmorency and Presque Isle Counties, Michigan

STATEMENT OF NET ASSETS
June 30, 2010 and 2009

| | June 30, | |
|--|---------------------|---------------------|
| | 2010 | 2009 |
| ASSETS: | | |
| Cash & equivalents | \$ 1,082,301 | \$ 1,030,663 |
| Accounts receivable | 0 | 1,057 |
| Due from State of Michigan | 431,263 | 492,876 |
| Inventories | 3,213 | 3,457 |
| Dererred bond costs | 361,450 | 361,450 |
| Accumulated amortization | (96,387) | (75,732) |
| Capital assets | 13,069,394 | 13,015,669 |
| Accumulated depreciation | <u>(5,519,812)</u> | <u>(5,223,041)</u> |
| Total Assets | 9,331,422 | 9,606,399 |
| LIABILITIES: | | |
| Accounts payable | 2,702 | 1,398 |
| Accrued payroll and other liabilities | 498,123 | 308,731 |
| Accrued interest | 40,346 | 42,342 |
| Deferred revenue | 37,387 | 61,805 |
| Current portion of long term liabilities | 368,377 | 352,762 |
| Non current portion of long term liabilities | <u>5,574,013</u> | <u>6,165,740</u> |
| Total Liabilities | 6,520,948 | 6,932,778 |
| NET ASSETS: | | |
| Investment in capital assets - net of related debt | 1,607,192 | 1,274,126 |
| Restricted | 3,213 | 3,457 |
| Unrestricted | <u>1,200,069</u> | <u>1,396,038</u> |
| Total Net Assets | \$ <u>2,810,474</u> | \$ <u>2,673,621</u> |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

STATEMENT OF ACTIVITIES
Years Ended June 30, 2010 and 2009

| | Program Revenues | | | | Governmental Activities | |
|--|---------------------|-------------------------|---------------------------------------|-------------------------------------|--|---------------------|
| | Expenses | Charges for Services | Operating Grants/ Contributions | Capital Grants/ Contributions | Net (Expenses) Revenues And Changes in Net Assets Years Ended June 30, 2010 | 2009 |
| GOVERNMENTAL ACTIVITIES: | | | | | | |
| Instruction | \$ 2,832,101 | \$ 14,580 | \$ 826,713 | \$ 0 | \$ (1,990,808) | \$ (1,692,340) |
| Supporting Services | 1,653,336 | 3,024 | 78,512 | 0 | (1,571,800) | (1,896,381) |
| Community Services | 258 | 0 | 0 | 0 | (258) | 0 |
| Food Services | 309,571 | 54,556 | 248,213 | 25,000 | 18,198 | (37,347) |
| Athletics | 106,105 | 52,617 | 0 | 0 | (53,488) | (71,314) |
| Interest on long term debt | 274,643 | 0 | 0 | 0 | (274,643) | (287,070) |
| Depreciation (Unallocated) | <u>263,177</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(263,177)</u> | <u>(278,292)</u> |
| Total Governmental Activities | \$ <u>5,439,191</u> | \$ <u>124,777</u> | \$ <u>1,153,438</u> | \$ <u>25,000</u> | (4,135,976) | (4,262,744) |
| GENERAL PURPOSE REVENUES: | | | | | | |
| Property taxes, levied for general purpose | | | | | 1,757,083 | 1,666,684 |
| Property taxes, levied for debt retirement | | | | | 579,417 | 601,156 |
| State school aid - Unrestricted | | | | | 1,873,467 | 2,038,993 |
| Investment earnings | | | | | 31,059 | 39,769 |
| Other | | | | | <u>31,802</u> | <u>57,119</u> |
| Total General Purpose Revenues | | | | | <u>4,272,828</u> | <u>4,403,721</u> |
| Change in Net Assets | | | | | 136,852 | 140,977 |
| Net Assets - Beginning of Year | | | | | <u>2,673,621</u> | <u>2,532,644</u> |
| Net Assets - End of Year | | | | | \$ <u>2,810,473</u> | \$ <u>2,673,621</u> |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2010 and 2009

| ASSETS | | | 2005 | | | Totals June 30 | |
|--|---------------------|------------------|--------------------|--|---------------------|---------------------|--|
| | GENERAL | FOOD SERVICE | DEBT RETIREMENT | OTHER NONMAJOR GOVERNMENTAL FUNDS | 2010 | 2009 | |
| Cash | \$ 895,885 | \$ 21,523 | \$ 156,620 | \$ 8,274 | \$ 1,082,302 | \$ 940,574 | |
| Accounts receivable | 0 | 0 | 0 | 0 | 0 | 2,959 | |
| Due from State of Michigan | 431,263 | 0 | 0 | 0 | 431,263 | 484,883 | |
| Due from other funds | 0 | 0 | 0 | 0 | 0 | 385 | |
| Inventory | 0 | 3,213 | 0 | 0 | 3,213 | 2,419 | |
| | <u>\$ 1,327,148</u> | <u>\$ 24,736</u> | <u>\$ 156,620</u> | <u>\$ 8,274</u> | <u>\$ 1,516,778</u> | <u>\$ 1,431,220</u> | |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | | | | |
| LIABILITIES: | | | | | | | |
| Accounts payable | \$ 2,260 | \$ 0 | \$ 0 | \$ 442 | \$ 2,702 | \$ 1,978 | |
| Salaries payable | 267,174 | 4,392 | 0 | 1,884 | 273,450 | 209,608 | |
| Retirement | 45,259 | 744 | 0 | 319 | 46,322 | 35,046 | |
| Payroll taxes | 20,204 | 297 | 0 | 144 | 20,645 | 15,849 | |
| Employee benefits | 44,111 | 1,381 | 0 | 0 | 45,492 | 40,553 | |
| Due to other funds | 0 | 0 | 0 | 0 | 0 | 385 | |
| Deferred revenue | 36,838 | 549 | 0 | 0 | 37,387 | 60,320 | |
| Total Liabilities | 415,846 | 7,363 | 0 | 2,789 | 425,998 | 363,739 | |
| Fund Equity: | | | | | | | |
| Reserved | 0 | 17,373 | 156,620 | 0 | 173,993 | 164,732 | |
| Unreserved - Undesignated | 911,302 | 0 | 0 | 5,485 | 916,787 | 902,749 | |
| Total Fund Equity | 911,302 | 17,373 | 156,620 | 5,485 | 1,090,780 | 1,067,481 | |
| | <u>\$ 1,327,148</u> | <u>\$ 24,736</u> | <u>\$ 156,620</u> | <u>\$ 8,274</u> | <u>\$ 1,516,778</u> | <u>\$ 1,431,220</u> | |

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
June 30, 2010

| | | |
|---|----|-------------------------|
| TOTAL FUND BALANCES - GOVERNMENTAL FUNDS | \$ | 1,090,780 |
| Amounts reported for governmental activities in the statement of net assets are different because - | | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds: | | |
| Capital assets at cost | | 13,069,394 |
| Accumulated depreciation | | (5,519,812) |
| Long term liabilities not due and payable in the current period and therefore not reported in the funds - | | |
| Bonds payable | | (5,942,390) |
| Compensated balances | | (112,214) |
| Bond issuance costs including premiums reported as an expenditure in governmental funds and are reported as a deferred expense and amortized over the life of the bond issue in the statement of activities | | |
| Bond issuance costs and premiums | | 361,450 |
| Accumulated amortization | | (96,387) |
| Accrued interest payable not included as a liability in governmental activities | | (40,346) |
| Rounding | | <u>(1)</u> |
| TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES | \$ | <u><u>2,810,474</u></u> |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
Years Ended June 30, 2010 and 2009

| | GENERAL | FOOD SERVICE | 2005 DEBT RETIREMENT | OTHER NONMAJOR GOVERNMENTAL FUNDS | TOTALS JUNE 30, | |
|---|-------------------|------------------|----------------------------|--|---------------------|---------------------|
| | | | | | 2010 | 2009 |
| REVENUES: | | | | | | |
| Local Sources | \$ 1,832,899 | \$ 57,015 | \$ 563,743 | \$ 52,703 | \$ 2,506,360 | \$ 2,585,893 |
| State Sources - | 2,246,738 | 15,937 | 17,628 | 3,145 | 2,283,448 | 2,591,861 |
| Federal Sources | 402,083 | 257,276 | 0 | 0 | 659,359 | 337,397 |
| Interdistrict and Other Sources | 129,871 | 0 | 0 | 0 | 129,871 | 59,792 |
| Total Revenues | 4,611,591 | 330,228 | 581,371 | 55,848 | 5,579,038 | 5,574,943 |
| EXPENDITURES: | | | | | | |
| Instruction | 2,968,104 | 0 | 0 | 0 | 2,968,104 | 2,738,425 |
| Supporting Services | 1,629,144 | 0 | 0 | 11,258 | 1,640,402 | 1,690,891 |
| Community Services | 258 | 0 | 0 | 0 | 258 | 0 |
| Food Service | 0 | 325,347 | 0 | 0 | 423,113 | 297,008 |
| Athletics | 0 | 0 | 0 | 97,766 | 97,766 | 97,120 |
| Debt Service - | | | | | | |
| Principal Repayment | 0 | 0 | 340,000 | 2,611 | 342,611 | 315,000 |
| Interest and Fiscal Charges | 0 | 0 | 254,809 | 534 | 255,343 | 274,679 |
| Total Expenditures | 4,597,506 | 325,347 | 594,809 | 112,169 | 5,727,597 | 5,413,123 |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Operating Transfers in | 0 | 0 | 0 | 56,000 | 56,000 | 76,000 |
| Operating Transfers out | (56,000) | 0 | 0 | 0 | (56,000) | (76,000) |
| Bus note proceeds | 0 | 0 | 0 | 0 | 0 | 63,950 |
| Redemption of school bus loans | (12,762) | 0 | 0 | 0 | (12,762) | (11,615) |
| Interest on school bus loans | (1,935) | 0 | 0 | 0 | (1,935) | (2,851) |
| Sale of Fixed Assets | 150 | 0 | 0 | 0 | 150 | 1,997 |
| Net Other Financing Sources (Uses) | (70,547) | 0 | 0 | 56,000 | (14,547) | 51,481 |
| NET CHANGE IN FUND BALANCES | (56,462) | 4,881 | (13,438) | (321) | (65,340) | 213,301 |
| FUND BALANCE - BEGINNING OF YEAR | 967,764 | 12,492 | 170,058 | 5,806 | 1,156,120 | 854,180 |
| FUND BALANCE - END OF YEAR | \$ 911,302 | \$ 17,373 | \$ 156,620 | \$ 5,485 | \$ 1,090,780 | \$ 1,067,481 |

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2010

| | | | |
|---|----|----------------|------------|
| NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS | \$ | \$ | (65,340) |
| Amounts reported for governmental activities in the statement of activities are different because - | | | |
| Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | | | |
| Depreciation expense | | (314,771) | |
| Capital outlay | | <u>71,724</u> | |
| Net | | | (243,047) |
| Accrued interest recorded in the statement of activities when incurred and reported in governmental funds when paid | | | 1,996 |
| Bond principal repayment reported as an expenditure in governmental funds and as a reduction of long term debt in the statement of activities | | | 352,762 |
| Amortization of bond issuance costs and premiums previously reported as expenditures in governmental funds and currently reported as deferred expenses and amortized in the statement of activities | | | (20,654) |
| Decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6 | | | 111,136 |
| Rounding | | | <u>(1)</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ | <u>136,852</u> | |

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FIDUCIARY FUND
BALANCE SHEET
June 30, 2010 and 2009

| | <u>June 30,</u> | |
|-----------------------------|------------------|------------------|
| | <u>2010</u> | <u>2009</u> |
| <u>ASSETS</u> | | |
| Cash in bank | \$ <u>53,418</u> | \$ <u>55,091</u> |
| <u>LIABILITIES</u> | | |
| Due to school organizations | \$ <u>53,418</u> | \$ <u>55,091</u> |

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Hillman Community Schools conform to United States generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Government Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identified with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.):

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within approximately 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Fiduciary Fund statements are also reported using the economic resources measurement focus and the modified accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund -

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Food Service Fund –

This Fund's primary purpose is the provision of breakfasts and lunches to the District's pupils.

2005 Debt Retirement Fund -

This fund's primary purpose is the collection of tax revenue levies for the retirement of the 2005 refunding bonds issued by the School District.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Assets, Liabilities, and Net Assets or Equity -

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds”. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds”.

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1, of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have any infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------------|-------------|
| Buildings and additions | 20-50 years |
| Buses and other vehicles | 5-10 years |
| Furniture and other equipment | 3-10 years |
| Land improvements | 12-30 years |

Compensated Absences - The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Long term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant Expenditure budget variances.

Fund Deficits - The School District had no accumulated fund balance deficits.

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS:

Deposits of the School District are carried at cost and maintained at Independent Bank, a federally insured bank, Community Financial Credit Union, a federally insured credit union, and the Michigan Liquid Asset Fund.

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued):

At year-end, The School District's deposits and investments were reported in the basic financial statements in the following categories:

| | <u>Governmental Activities</u> | <u>Fiduciary Funds</u> | <u>Total Primary Government</u> |
|----------------------|--------------------------------|------------------------|---------------------------------|
| Cash and Investments | <u>\$1,082,301</u> | <u>\$ 53,418</u> | <u>\$ 1,135,719</u> |

The Government Accounting Standards Board Statement No. 3 requires the amount of total bank balances to be classified in one of three categories of credit risk. These categories are:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name.
- (3) Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent by not in the entity's name). Bank deposits including certificates of deposit:

| | |
|---------------------|---------------------|
| Category 1. | \$ 500,000 |
| Category 2. | - |
| Category 3. | <u>635,719</u> |
| Total Bank Balances | <u>\$ 1,135,719</u> |
| Carrying Amount | <u>\$ 1,135,719</u> |

NOTE 4. CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

| | Balance July 1, 2010 | Additions | Disposal | Balance June 30, 2010 |
|--------------------------------|-------------------------|----------------|---------------|--------------------------|
| Land and improvements | \$ 563,234 | \$ - | \$ - | \$ 563,234 |
| Buildings and improvements | 9,795,961 | - | - | 9,795,961 |
| Buses and other vehicles | 652,324 | 4,042 | 18,000 | 638,366 |
| Furniture and equipment | <u>2,004,150</u> | <u>67,683</u> | - | <u>2,071,833</u> |
| Total Capital Assets | 13,015,669 | 71,725 | 18,000 | 13,069,394 |
| Accumulated Depreciation | | | | |
| Land and improvements | 157,174 | 15,856 | - | 173,030 |
| Buildings and improvements | 3,065,621 | 189,622 | - | 3,255,243 |
| Buses and other vehicles | 552,201 | 23,677 | 18,000 | 557,878 |
| Furniture and equipment | <u>1,448,045</u> | <u>85,616</u> | - | <u>1,533,661</u> |
| Total Accumulated Depreciation | <u>5,223,041</u> | <u>314,771</u> | <u>18,000</u> | <u>5,519,812</u> |

| | | | | |
|----------------|---------------------|--------------------|-------------|---------------------|
| Capital Assets | <u>\$ 7,792,628</u> | <u>\$(243,046)</u> | <u>\$ -</u> | <u>\$ 7,549,582</u> |
|----------------|---------------------|--------------------|-------------|---------------------|

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 4. CAPITAL ASSETS (Continued):

Depreciation expense was charged to activities of the School District as follows:

| | |
|-------------------------------|-------------------|
| Governmental activities: | |
| Instruction | \$ 4,535 |
| Support services | 26,843 |
| Food services | 11,877 |
| Athletics | 8,339 |
| Unallocated | <u>263,177</u> |
| Total governmental activities | <u>\$ 314,771</u> |

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

There were no interfund receivables or payables.

Operating transfers out from the General Fund are as follows:

| | |
|---------------|------------------|
| Athletic Fund | <u>\$ 56,000</u> |
|---------------|------------------|

NOTE 6. ADVANCE REFUNDING OF 1997 BUILDING AND SITE BONDS:

On November 1, 2005 the School District issued \$6,980,000 of refunding bonds with an interest rate of 4.015%. The School District issued the bonds to advance refund \$7,030,000 of the outstanding 1997 Building and Site Bonds with interest rates of 5.125% to 6.625%. The School District transferred the net proceeds along with other resources to an escrow agent. The escrow agent will provide for all future debt service on the refunded portion of the 1997 Building and Site Bonds. As a result, that portion of the 1997 Building and Site Bonds is considered defeased, and the School District has removed the liability from its accounts.

The advance refunding reduced total debt service payments over the next 17.5 years by approximately \$1,120,000. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$865,817 less amount initially provided by the 1997 Debt Retirement Fund of \$329,000 for a net present value savings of \$536,817.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7. LONG-TERM DEBT:

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2010:

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Reduction</u> | <u>Ending</u> <u>Balance</u> |
|----------------------|------------------------------------|------------------|-------------------|---------------------------------|
| Bonds Payable- | | | | |
| Bus Notes | \$ 40,160 | \$ - | \$ 12,762 | \$ 27,398 |
| 2005 Refunding | <u>6,255,000</u> | <u>-</u> | <u>340,000</u> | <u>5,915,000</u> |
| | 6,295,160 | - | 352,762 | 5,942,398 |
| Other Obligations- | | | | |
| Compensated Absences | <u>223,350</u> | <u>-</u> | <u>111,136</u> | <u>112,214</u> |
| | <u>\$ 6,518,510</u> | <u>\$ -</u> | <u>\$ 463,898</u> | <u>\$ 6,054,612</u> |

Annual debt service requirements to maturity for the above governmental fund obligations are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|---------------------|---------------------|
| 2011 | \$ 368,377 | \$ 243,245 | \$ 611,622 |
| 2012 | 379,021 | 230,173 | 609,194 |
| 2013 | 380,000 | 215,812 | 595,812 |
| 2014 | 395,000 | 200,612 | 595,612 |
| 2015 | 415,000 | 184,812 | 599,812 |
| 2016-2020 | 2,350,000 | 641,010 | 2,991,010 |
| 2021-2023 | <u>1,655,000</u> | <u>136,830</u> | <u>1,791,830</u> |
| | <u>\$ 5,942,398</u> | <u>\$ 1,852,494</u> | <u>\$ 7,794,892</u> |

Bonds and other obligations payable consist of the following:

| | |
|---|---------------------|
| 2005 Refunding Bonds, dated November 1, 2005, with interest of 4.015% payable May 1 and November 1. | \$ 5,915,000 |
| Bus Notes payable | 27,398 |
| Accrued sick pay | <u>112,214</u> |
| | <u>\$ 6,054,612</u> |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7. LONG-TERM DEBT (continued):

Other Obligations -

Compensated Absences:

The District accrues a liability for compensated absences which meet the following criteria:

- (1) The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- (2) The obligation relates to rights that vest or accumulate.
- (3) Payment of the compensation is probable.
- (4) The amount can be reasonably estimated.

All teaching staff, after twelve years of employment with the district, are eligible to be reimbursed for accumulated sick days, up to a maximum of 188 days, upon retirement from teaching. They will be reimbursed at the then daily substitute teaching pay rate, which was \$75 for the year ended June 30, 2010. As of June 30, 2010 the amount which would be due upon retirement for eligible staff is \$112,214.

NOTE 8. RISK MANAGEMENT:

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 9. ECONOMIC DEPENDENCY:

Approximately 49% of the District's General Fund revenues are received from the State of Michigan through the Michigan Department of Education. This District is considered to be economically dependent on this revenue source.

NOTE 10. PENSION PLAN:

Plan Description - The School District participates in the Michigan Public School Employees Retirement System (MPSERS), a statewide, cost-sharing, multiple- employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publically available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.54% for the period from July 1, 2009 through September 30, 2009, and 16.94% for the period October 1, 2009 through June 30, 2010 of the covered payroll to the plan. The School Districts contributions to the MPSERS plan for the year ended June 30, 2010 approximated \$411,900.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

REQUIRED SUPPLEMENTAL INFORMATION

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan
 BUDGET COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2010

| | Original Budget | Final Amended Budget | Actual |
|------------------------------------|--------------------|----------------------------|-------------------|
| REVENUES: | | | |
| Local Sources | \$ 1,720,327 | \$ 1,808,767 | \$ 1,832,899 |
| State Sources | 2,548,597 | 2,257,060 | 2,246,738 |
| Federal Sources | 251,431 | 410,292 | 402,083 |
| Interdistrict and other sources | <u>70,000</u> | <u>129,871</u> | <u>129,871</u> |
| Total Revenues | 4,590,355 | 4,605,990 | 4,611,591 |
| EXPENDITURES: | | | |
| Instruction- | | | |
| Basic Programs | 2,273,713 | 2,351,988 | 2,310,653 |
| Added Needs | 649,882 | 675,040 | 657,451 |
| Supporting Services - | | | |
| Pupil | 54,273 | 59,487 | 57,884 |
| Instructional Staff | 128,640 | 35,544 | 32,586 |
| General Administration | 130,229 | 175,588 | 165,277 |
| School Administration | 230,103 | 234,133 | 231,128 |
| Business Services | 182,774 | 169,591 | 164,710 |
| Operation & Maintenance | 604,708 | 588,656 | 571,618 |
| Transportation | 294,113 | 294,415 | 281,617 |
| Other Support Services | 132,213 | 140,667 | 124,324 |
| Community Services - | | | |
| Community Activities | <u>0</u> | <u>258</u> | <u>258</u> |
| Total Expenditures | 4,680,648 | 4,725,367 | 4,597,506 |
| OTHER FINANCING SOURCES (USES) | | | |
| Sale of assets | 0 | 150 | 150 |
| Operating Transfers Out | (100,430) | (56,000) | (56,000) |
| Redemption of school bus loans | (12,762) | (12,800) | (12,762) |
| Interest on school bus loans | <u>(1,936)</u> | <u>(1,950)</u> | <u>(1,935)</u> |
| Net Other Financing Sources (Uses) | <u>(115,128)</u> | <u>(70,600)</u> | <u>(70,547)</u> |
| NET CHANGE IN FUND BALANCE | (205,421) | (189,977) | (56,462) |
| FUND BALANCE - BEGINNING OF YEAR | <u>801,153</u> | <u>967,764</u> | <u>967,764</u> |
| FUND BALANCE - END OF YEAR | \$ <u>595,732</u> | \$ <u>777,787</u> | \$ <u>911,302</u> |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

BUDGET COMPARISON SCHEDULE - FOOD SERVICE FUND
Year Ended June 30, 2010

| | Original Budget | Final Amended Budget | Actual |
|---------------------------------------|--------------------|----------------------------|-----------|
| REVENUES: | | | |
| Local Sources | \$ 59,170 | \$ 53,641 | \$ 57,015 |
| State Sources | 13,930 | 15,307 | 15,937 |
| Federal Sources | 190,000 | 260,968 | 257,276 |
| Total Revenues | 263,100 | 329,916 | 330,228 |
| EXPENDITURES: | | | |
| Supporting Services - Food Service | 293,097 | 334,816 | 325,347 |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating Transfers in | 35,000 | 0 | 0 |
| NET CHANGE IN FUND BALANCE | 5,003 | (4,900) | 4,881 |
| FUND BALANCE - BEGINNING OF YEAR | 4,787 | 12,492 | 12,492 |
| FUND BALANCE - END OF YEAR | \$ 9,790 | \$ 7,592 | \$ 17,373 |

OTHER SUPPLEMENTAL INFORMATION

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
Years Ended June 30, 2010 and 2009

| REVENUES: | Years Ended June 30, | |
|------------------------------|----------------------|--------------|
| | 2010 | 2009 |
| Local Sources - | | |
| Current tax levy | \$ 1,730,779 | \$ 1,647,845 |
| Other taxes | 13,470 | 14,125 |
| Interest on delinquent taxes | 12,834 | 4,714 |
| Transportation fees | 3,024 | 6,449 |
| Interest on investments | 8,011 | 14,071 |
| Rentals | 18,000 | 16,200 |
| Royalties | 3,018 | 6,710 |
| Local grants and donations | 8,398 | 12,581 |
| Medicaid outreach | 14,580 | 3,420 |
| Other | 20,785 | 21,773 |
| Total Local Sources | 1,832,899 | 1,747,888 |
| State Sources - | | |
| State Foundation Grant | 1,850,838 | 2,028,448 |
| Isolated districts | 17,927 | 17,915 |
| Court Placed Children | 4,702 | (7,368) |
| Special Education | 99,294 | 117,010 |
| At Risk - Section 31a | 188,335 | 127,934 |
| G.S.R.P. | 76,040 | 93,768 |
| Strong Family Safe Children | 9,602 | 10,300 |
| Total State Sources | 2,246,738 | 2,388,007 |
| Federal Sources - | | |
| Title 1 | 123,877 | 136,856 |
| ARRA Stabilization | 152,251 | 201,903 |
| ARRA Title 1 | 63,469 | 0 |
| Title II A | 49,513 | 42,284 |
| Safe & Drug Free Schools | 2,044 | 1,936 |
| Small Rural Schools | 10,929 | 10,875 |
| Title II D | 0 | 1,186 |
| Total Federal Sources | 402,083 | 395,040 |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE (CONTINUED)
Years Ended June 30, 2010 and 2009

| | Years Ended June 30, | |
|--|----------------------|---------------|
| | <u>2010</u> | <u>2009</u> |
| REVENUES (Continued): | | |
| Interdistrict and Other Sources | | |
| Transfers from other governmental units: | | |
| AMA Educational School District | \$ 129,871 | \$ 104,010 |
| Total Revenues | 4,611,591 | 4,634,945 |
| EXPENDITURES: | | |
| Instruction | 2,968,104 | 2,752,535 |
| Supporting Services | 1,629,144 | 1,718,452 |
| Community Services | 258 | 0 |
| Total Expenditures | 4,597,506 | 4,470,987 |
| OTHER FINANCING SOURCES (USES): | | |
| Sales of fixed assets | 150 | 0 |
| Redemption of school bus loans | (12,762) | (12,182) |
| Interest on school bus loans | (1,935) | (2,515) |
| Transfer to Athletic Fund | (56,000) | (61,000) |
| Transfer to Food Service Fund | 0 | (15,000) |
| Net Other Financing Sources (Uses) | (70,547) | (90,697) |
| NET CHANGE IN FUND BALANCE | (56,462) | 73,261 |
| FUND BALANCE - BEGINNING OF YEAR | 967,764 | 894,503 |
| FUND BALANCE - END OF YEAR | \$ 911,302 | \$ 967,764 |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
 DETAIL OF EXPENDITURES
Years Ended June 30, 2010 and 2009

| INSTRUCTION: | Salaries | Employee Benefits | Purchased Services | Supplies and Other Costs | Other Expenses | Capital Outlay | Totals Year Ended June 30, | |
|----------------------------------|------------|-------------------|--------------------|--------------------------|----------------|----------------|----------------------------|--------------|
| | | | | | | | 2010 | 2009 |
| Basic Programs - | | | | | | | | |
| Elementary | \$ 680,966 | \$ 410,840 | \$ 13,702 | \$ 25,407 | \$ 2,259 | \$ 35,682 | \$ 1,168,856 | \$ 1,079,248 |
| Secondary | 578,490 | 395,092 | 52,795 | 45,987 | 1,581 | 0 | 1,073,945 | 1,036,766 |
| Pre School | 29,015 | 13,926 | 19,690 | 5,221 | 0 | 0 | 67,852 | 85,865 |
| Total Basic Programs | 1,288,471 | 819,858 | 86,187 | 76,615 | 3,840 | 35,682 | 2,310,653 | 2,201,879 |
| Added Needs - | | | | | | | | |
| Special Education | 202,204 | 108,409 | 2,571 | 649 | 0 | 0 | 313,833 | 301,887 |
| Compensatory Education | 198,991 | 131,184 | 7,623 | 5,820 | 0 | 0 | 343,618 | 248,769 |
| Total Added Needs | 401,195 | 239,593 | 10,194 | 6,469 | 0 | 0 | 657,451 | 550,656 |
| Total Instruction | 1,689,666 | 1,059,451 | 96,381 | 83,084 | 3,840 | 35,682 | 2,968,104 | 2,752,535 |
| SUPPORTING SERVICES: | | | | | | | | |
| Pupil - | | | | | | | | |
| Truancy Services | 0 | 0 | 2,874 | 0 | 0 | 0 | 2,874 | 2,064 |
| Guidance Services | 18,858 | 8,935 | 25,275 | 945 | 0 | 0 | 54,013 | 77,270 |
| Teacher Consultant | 0 | 0 | 997 | 0 | 0 | 0 | 997 | 0 |
| Total Pupil | 18,858 | 8,935 | 29,146 | 945 | 0 | 0 | 57,884 | 79,334 |
| Instructional Staff Services - | | | | | | | | |
| Improvement of Instruction | 0 | 0 | 567 | 0 | 0 | 0 | 567 | 8,245 |
| Educational Media Services | 0 | 0 | 2,500 | 605 | 0 | 0 | 3,105 | 52,321 |
| Educational Television | 0 | 0 | 0 | 1,737 | 0 | 0 | 1,737 | 0 |
| Instructional Related Technology | 0 | 0 | 0 | 18,300 | 0 | 0 | 18,300 | 0 |
| Supervision and Direction | 5,314 | 2,875 | 0 | 0 | 0 | 0 | 8,189 | 7,903 |
| Testing | 0 | 0 | 0 | 688 | 0 | 0 | 688 | 0 |
| Total Instructional Staff | 5,314 | 2,875 | 3,067 | 21,330 | 0 | 0 | 32,586 | 68,469 |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
 DETAIL OF EXPENDITURES (CONTINUED)
Years Ended June 30, 2010 and 2009

| SUPPORTING SERVICE (CONTINUED): | Salaries | Employee Benefits | Purchased Services | Supplies and Other Costs | Other Expenses | Capital Outlay | Totals Year Ended June 30, | |
|---------------------------------------|--------------|-------------------|--------------------|--------------------------|----------------|----------------|----------------------------|--------------|
| | | | | | | | 2010 | 2009 |
| General Administration Services - | | | | | | | | |
| Board of Education | \$ 5,365 | \$ 414 | \$ 17,136 | \$ 0 | \$ 1,871 | \$ 0 | \$ 24,786 | \$ 23,421 |
| Executive Administration | 63,768 | 69,391 | 1,530 | 0 | 5,802 | 0 | 140,491 | 105,763 |
| Total General Administrative Services | 69,133 | 69,805 | 18,666 | 0 | 7,673 | 0 | 165,277 | 129,184 |
| School Administrative Services - | | | | | | | | |
| Office of the Principal | 137,041 | 90,942 | 1,709 | 1,436 | 0 | 0 | 231,128 | 223,701 |
| Business Services - | | | | | | | | |
| Fiscal Services | 75,275 | 48,505 | 1,370 | 1,088 | 709 | 0 | 126,947 | 133,712 |
| Other Business Services | 0 | 0 | 23,771 | 0 | 13,992 | 0 | 37,763 | 40,360 |
| Total Business Services | 75,275 | 48,505 | 25,141 | 1,088 | 14,701 | 0 | 164,710 | 174,072 |
| Operations and Maintenance - | | | | | | | | |
| Operations of Buildings Services | 174,676 | 135,556 | 83,788 | 171,826 | 312 | 4,346 | 570,504 | 605,321 |
| Security Services | 0 | 0 | 1,114 | 0 | 0 | 0 | 1,114 | 0 |
| Total Operations and Maintenance | 174,676 | 135,556 | 84,902 | 171,826 | 312 | 4,346 | 571,618 | 605,321 |
| Pupil Transportation Services - | | | | | | | | |
| Pupil Transportation Services | 147,062 | 58,718 | 7,810 | 62,128 | 1,857 | 4,042 | 281,617 | 304,132 |
| Other Support - | | | | | | | | |
| Staff/Personnel Services | 35,685 | 18,095 | 0 | 0 | 0 | 0 | 53,780 | 45,887 |
| Non Instructional Technology | 0 | 0 | 54,000 | 16,544 | 0 | 0 | 70,544 | 88,352 |
| Total Other Support | 35,685 | 18,095 | 54,000 | 16,544 | 0 | 0 | 124,324 | 134,239 |
| Total Supporting Services | 663,044 | 433,431 | 223,327 | 275,297 | 24,543 | 8,388 | 1,629,144 | 1,718,452 |
| COMMUNITY SERVICES: | | | | | | | | |
| Community Activities | 0 | 0 | 258 | 0 | 0 | 0 | 258 | 0 |
| Total Expenditures | \$ 2,352,710 | \$ 1,492,882 | \$ 319,966 | \$ 358,381 | \$ 28,383 | \$ 44,070 | \$ 4,597,506 | \$ 4,470,987 |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FOOD SERVICE FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
Years Ended June 30, 2010 and 2009

| REVENUES: | Years Ended June 30, | |
|-----------------------------------|-------------------------|-------------------------|
| | 2010 | 2009 |
| Local Sources - | | |
| Cafeteria sales | \$ 46,026 | \$ 54,869 |
| Milk machine | 210 | 0 |
| Earnings on investments | 40 | 41 |
| Headstart sales | 5,154 | 5,095 |
| GSRP lunches | 3,166 | 0 |
| Other | <u>2,419</u> | <u>13,471</u> |
| Total Local Sources | 57,015 | 73,476 |
| State Sources - | | |
| Section 31a At Risk | 2,930 | 2,730 |
| Section 31d School Lunch | <u>13,007</u> | <u>12,379</u> |
| Total State Sources | 15,937 | 15,109 |
| Federal Sources - | | |
| National School Lunch Program | 148,632 | 138,426 |
| National School Breakfast Program | 52,609 | 48,510 |
| Fresh Food & Vegatable | 14,563 | 0 |
| ARRA Equipment Assitance | 25,000 | 0 |
| Donated commodities - Entitlement | 15,754 | 14,953 |
| Donated commodities - Bonus | <u>718</u> | <u>3,572</u> |
| Total Federal Sources | <u>257,276</u> | <u>205,461</u> |
| Total Revenues | 330,228 | 294,046 |
| EXPENDITURES: | | |
| Supporting Services - | | |
| Food Service - | | |
| Salaries and wages | 79,244 | 86,811 |
| Employee benefits | 57,100 | 56,602 |
| Purchased services | 9,589 | 4,478 |
| Food and milk | 117,898 | 121,960 |
| USDA Delivery charge | 25,768 | 24,129 |
| Sales tax | 124 | 147 |
| Supplies and other costs | 7,970 | 9,968 |
| Capital outlay | <u>27,654</u> | <u>0</u> |
| Total Expenditures | 325,347 | 304,095 |
| OTHER FINANCING SOURCES (USES): | | |
| Operating Transfers In | <u>0</u> | <u>15,000</u> |
| NET CHANGE IN FUND BALANCES | 4,881 | 4,951 |
| FUND BALANCE - BEGINNING OF YEAR | <u>12,492</u> | <u>7,541</u> |
| FUND BALANCE - END OF YEAR | \$ <u><u>17,373</u></u> | \$ <u><u>12,492</u></u> |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

2005 DEBT RETIREMENT FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
Years Ended June 30, 2010 and 2009

| | Years Ended June 30, | |
|----------------------------------|----------------------|-------------------|
| | 2010 | 2009 |
| REVENUES: | | |
| Local Sources - | | |
| Current tax levy | \$ 557,350 | \$ 599,206 |
| Other taxes | 505 | 95 |
| Interest on delinquent taxes | 3,935 | 1,854 |
| Earnings on investments | 1,953 | 2,710 |
| | <hr/> | <hr/> |
| Total Local Sources | 563,743 | 603,865 |
| State Sources - | | |
| Payment in lieu of taxes | 17,628 | 0 |
| | <hr/> | <hr/> |
| Total Revenues | 581,371 | 603,865 |
| EXPENDITURES: | | |
| Debt Service - | | |
| Bond principal | 340,000 | 330,000 |
| interest on bonded debt | 253,824 | 264,549 |
| Paying agent fees | 225 | 225 |
| Taxes paid back | 760 | 925 |
| | <hr/> | <hr/> |
| Total Expenditures | 594,809 | 595,699 |
| NET CHANGE IN FUND BALANCES | (13,438) | 8,166 |
| FUND BALANCE - BEGINNING OF YEAR | 170,058 | 161,892 |
| | <hr/> | <hr/> |
| FUND BALANCE - END OF YEAR | \$ <u>156,620</u> | \$ <u>170,058</u> |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
June 30, 2010 and 2009

| | <u>Athletic Activities</u> | <u>Durant Debt Retirement</u> | <u>Totals June 30</u> | |
|---|--------------------------------|---------------------------------------|-----------------------|-----------------|
| <u>ASSETS</u> | | | <u>2010</u> | <u>2009</u> |
| Cash | \$ <u>8,274</u> | \$ <u>0</u> | \$ <u>8,274</u> | \$ <u>5,189</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | |
| Accounts payable | \$ 442 | \$ 0 | \$ 442 | \$ 0 |
| Salaries | 1,884 | 0 | 1,884 | 1,322 |
| Retirement | 319 | 0 | 319 | 221 |
| Payroll taxes | <u>144</u> | <u>0</u> | <u>144</u> | <u>101</u> |
| Total Liabilities | 2,789 | 0 | 2,789 | 1,644 |
| Fund balance | <u>5,485</u> | <u>0</u> | <u>5,485</u> | <u>3,545</u> |
| | \$ <u>8,274</u> | \$ <u>0</u> | \$ <u>8,274</u> | \$ <u>5,189</u> |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
Years Ended June 30, 2010 and 2009

| | Athletic Activities | Durant Debt Retirement | Totals Year Ended June 30, | |
|----------------------------------|------------------------|------------------------------|----------------------------|-----------|
| | | | 2010 | 2009 |
| REVENUES: | | | | |
| Local Sources - | | | | |
| Gate receipts | \$ 34,117 | \$ 0 | \$ 34,117 | \$ 49,304 |
| Participation fees | 18,500 | 0 | 18,500 | 0 |
| Earnings on investments | 36 | 0 | 36 | 37 |
| Donations | 25 | 0 | 25 | 4,199 |
| Other | 25 | 0 | 25 | 0 |
| Total Local Sources | 52,703 | 0 | 52,703 | 53,540 |
| State Sources - | | | | |
| Non Plaintiff Durant | 0 | 3,145 | 3,145 | 3,145 |
| Total Revenues | 52,703 | 3,145 | 55,848 | 56,685 |
| EXPENDITURES: | | | | |
| Supporting Services - | | | | |
| Transportation - | | | | |
| Salaries and wages | 9,041 | 0 | 9,041 | 8,401 |
| Employee benefits | 2,217 | 0 | 2,217 | 2,033 |
| Total Transportation | 11,258 | 0 | 11,258 | 10,434 |
| Athletics - | | | | |
| Salaries and wages | 28,870 | 0 | 28,870 | 28,024 |
| Employee benefits | 8,109 | 0 | 8,109 | 7,787 |
| Purchased services | 50,798 | 0 | 50,798 | 52,658 |
| Supplies and other costs | 7,494 | 0 | 7,494 | 13,376 |
| Tournament fees | 2,495 | 0 | 2,495 | 0 |
| Total Athletics | 97,766 | 0 | 97,766 | 101,845 |
| Debt Service - | | | | |
| Redemption of bonds | 0 | 2,611 | 2,611 | 2,492 |
| Interest on bonds | 0 | 534 | 534 | 653 |
| Total Debt Service | 0 | 3,145 | 3,145 | 3,145 |
| Total Expenditures | 109,024 | 3,145 | 112,169 | 115,424 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | 56,000 | 0 | 56,000 | 61,000 |
| NET CHANGE IN FUND BALANCES | (321) | 0 | (321) | 2,261 |
| FUND BALANCE - BEGINNING OF YEAR | 5,806 | 0 | 5,806 | 3,545 |
| FUND BALANCE - END OF YEAR | \$ 5,485 | \$ 0 | \$ 5,485 | \$ 5,806 |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FIDUCIARY FUND
 STATEMENT OF DUE SCHOOL ORGANIZATIONS
Years Ended June 30, 2010 and 2009

| | June 30, | |
|----------------------|----------|--------|
| | 2010 | 2009 |
| ELEMENTARY - | | |
| Camp | \$ 556 | \$ 701 |
| Fines | 516 | 543 |
| Funding Factory | 174 | 174 |
| General Purpose | 9 | 160 |
| MiBLSi | 562 | 142 |
| Playground | 892 | 882 |
| School Spirit Store | 956 | 696 |
| School Success | 62 | 163 |
| Student Improvement | 469 | 323 |
| | <hr/> | <hr/> |
| Total Elementary | 4,196 | 3,784 |
| HIGH SCHOOL - | | |
| Class of 2010 | 1,856 | 6,823 |
| Class of 2011 | 5,438 | 7,405 |
| Class of 2012 | 5,383 | 3,906 |
| Class of 2013 | 2,773 | 2,002 |
| Class of 2014 | 1,528 | 869 |
| Class of 2015 | 768 | 0 |
| Band | 825 | 1,389 |
| Baseball | 799 | 735 |
| Basketball - Girls | 5,169 | 4,393 |
| Basketball - Boys | 145 | 174 |
| Basketball - Jr High | 79 | 0 |
| Broadcasting | 705 | 0 |
| Cheerleading | 18 | 513 |
| Choir | 47 | 46 |
| Corn Maze | 1,854 | 2,420 |
| Drama | 194 | 193 |
| Flag Corp | 135 | 134 |
| Football | 1,727 | 1,371 |
| Golf | 263 | 262 |
| Honor Society | 1,351 | 1,612 |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FIDUCIARY FUND
 STATEMENT OF DUE TO SCHOOL ORGANIZATIONS (CONTINUED)
Years Ended June 30, 2010 and 2009

| | June 30, | |
|---------------------------|----------------------|----------------------|
| | <u>2010</u> | <u>2009</u> |
| HIGH SCHOOL (Continued) - | | |
| Interest | \$ 21 | \$ 43 |
| Library | 430 | 434 |
| Music Boosters | 788 | 1,160 |
| Physics | 914 | 450 |
| Pizza Club | 426 | 194 |
| Rentals | 1,030 | 1,191 |
| Revolving Account | 680 | 680 |
| Shop | 72 | 101 |
| Softball | 690 | 992 |
| Spanish | 93 | 0 |
| Special Ed | 1,003 | 1,056 |
| Student | 2,037 | 2,325 |
| Student Council | 1,149 | 989 |
| Student Improvement | 132 | 2,306 |
| Track | 594 | 561 |
| Volleyball | 3,484 | 941 |
| Youth Community Service | 688 | 685 |
| Yearbook | <u>3,934</u> | <u>2,952</u> |
| Total High School | <u>49,222</u> | <u>51,307</u> |
| | \$ <u>53,418</u> | \$ <u>55,091</u> |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

DETAIL OF BONDED DEBT
 2005 REFUNDING BONDS
June 30, 2010

Purpose of issue -
 Refund 1997 Building & Site Bonds
 Amount of issue: \$ 6,980,000
 Interest rate - 3.000% to 4.125%
 Date of issue - May 1, 2005

| Date | May, 1 | | November, 1 | |
|------|---------------------|-------------------|-------------------|---------------------|
| | Principal | Interest | Interest | Total |
| 2010 | \$ 0 | \$ 0 | \$ 120,962 | \$ 120,962 |
| 2011 | 355,000 | 120,962 | 114,749 | 590,711 |
| 2012 | 365,000 | 114,749 | 107,906 | 587,655 |
| 2013 | 380,000 | 107,906 | 100,306 | 588,212 |
| 2014 | 395,000 | 100,306 | 92,406 | 587,712 |
| 2015 | 415,000 | 92,406 | 84,106 | 591,512 |
| 2016 | 430,000 | 84,106 | 74,431 | 588,537 |
| 2017 | 450,000 | 74,431 | 64,306 | 588,737 |
| 2018 | 470,000 | 64,306 | 53,731 | 588,037 |
| 2019 | 490,000 | 53,731 | 43,931 | 587,662 |
| 2020 | 510,000 | 43,931 | 33,731 | 587,662 |
| 2021 | 535,000 | 33,731 | 23,031 | 591,762 |
| 2022 | 555,000 | 23,031 | 11,653 | 589,684 |
| 2023 | 565,000 | 11,653 | 0 | 576,653 |
| | <u>\$ 5,915,000</u> | <u>\$ 925,249</u> | <u>\$ 925,249</u> | <u>\$ 7,765,498</u> |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

DETAIL OF BUS NOTE PAYABLE
June 30, 2010

Security: 2008 77 passenger bus
 Date of Loan: July 20, 2007
 Interest Rate: 4.82%

| <u>Date</u> | <u>Payment</u> | <u>Principal</u> | <u>Interest</u> |
|--------------|------------------|------------------|-----------------|
| June 23,2011 | \$ 14,697 | \$ 13,377 | \$ 1,321 |
| June 23,2012 | <u>14,697</u> | <u>14,021</u> | <u>675</u> |
| | <u>\$ 29,394</u> | <u>\$ 27,398</u> | <u>\$ 1,996</u> |

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

September 20, 2010

Board of Education
Hillman Community Schools
Alpena, Montmorency and Presque Isle Counties
Hillman, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillman Community Schools, as of and for the year ended June 30, 2010, which collectively comprise the Hillman Community Schools' basic financial statements and have issued our report thereon dated September 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hillman Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hillman Community Schools' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Hillman Community Schools
September 20, 2010
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hillman Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under the *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

QUAST, JANKE & CO.

A handwritten signature in cursive script that reads "Quast, Janke and Company".

Certified Public Accountants, P.C.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

COMPLIANCE REPORT ON FEDERAL PROGRAMS
June 30, 2010

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 20, 2010

Board of Education
Hillman Community Schools
Alpena, Montmorency and Presque Isle Counties, Michigan
Hillman, Michigan 49746

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hillman Community Schools as of and for the year ended June 30, 2010, which collectively comprise Hillman Community School's basic financial statements and have issued our report thereon September 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillman Community School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hillman Community School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hillman Community School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect any misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Hillman Community School's financial statements that is more than inconsequential will not be prevented or detected by Hillman Community School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hillman Community School's internal control.

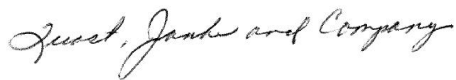
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material deficiencies, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillman Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education, others within the District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



QUAST, JANKE & CO.
Certified Public Accountants, P.C.

Quast, Janke and Company, P.C.

Certified Public Accountants

1010 N. JOHNSON STREET
BAY CITY, MICHIGAN 48708
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Timothy J. Quast, C.P.A.
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David G. Gwizdala, C.P.A.

Members:
American Institute of C.P.A.'s
Michigan Association of C.P.A.'s

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 20, 2010

Board of Education
Hillman Community Schools
Alpena, Montmorency and Presque Isle Counties, Michigan
Hillman, Michigan 49746

Compliance

We have audited the compliance of Hillman Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2010. Hillman Community School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hillman Community Schools' management. Our responsibility is to express an opinion on Hillman Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hillman Community Schools' compliance with those requirements and performing other such procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hillman Community Schools' compliance with those requirements.

In our opinion, Hillman Community Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Hillman Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hillman Community Schools' internal

control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hillman Community Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Hillman Community Schools' internal control.

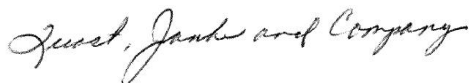
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of Hillman Community Schools as of and for the year ended June 30, 2010, and have issued our report thereon dated September 20, 2010. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the Board of Trustees, management and Federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



QUAST, JANKE & CO.
Certified Public Accountants, P.C.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2010

| | <u>CFDA#</u> | <u>Pass Through Grantor's #</u> | <u>Approved Award</u> | <u>Accrued (Deferred) Revenue July 1, 2009</u> | <u>Prior Year Expenditure</u> | <u>Adjustments Prior Years</u> | <u>Current Year Expenditures</u> | <u>Year's Receipts/ Payments In Kind</u> | <u>Accrued (Deferred) Revenue June 30, 2010</u> |
|--|--------------|-------------------------------------|---------------------------|--|-----------------------------------|--|--|--|---|
| U.S. DEPARTMENT OF EDUCATION: | | | | | | | | | |
| Passed Through M.D.E. - | | | | | | | | | |
| Title I Cluster - | | | | | | | | | |
| Title I Part A | | | | | | | | | |
| 2009/2010 Regular | * 84.010 | 101530-0910 | \$ 127,658 | \$ 0 | \$ 0 | \$ 0 | \$ 123,877 | \$ 123,877 | \$ 0 |
| ARRA - Title 1 Part A | * 84.389 | 101535-0910 | 65,088 | 0 | 0 | 0 | 63,469 | 63,469 | 0 |
| Total Title 1 Cluster | | | 192,746 | 0 | 0 | 0 | 187,346 | 187,346 | 0 |
| ARRA - Stabilization | * 84.394 | 102525-0910 | 152,251 | 0 | 0 | 0 | 152,251 | 152,251 | 0 |
| | | | 201,903 | 201,903 | 201,903 | 0 | 0 | 201,903 | 0 |
| Total ARRA - Stabilization | | | 354,154 | 201,903 | 201,903 | 0 | 152,251 | 354,154 | 0 |
| Safe and Drug Free Schools & Communities | 84.186 | | | | | | | | |
| 2008/2009 Regular | | 102860-08098 | 2,044 | 0 | 0 | 0 | 2,044 | 2,044 | 0 |
| Title II Part A | 84.367A | | | | | | | | |
| 2009/2010 Regular | | 100520-08098 | 49,554 | 0 | 0 | 0 | 49,513 | 49,513 | 0 |
| 2008/2009 Regular | | 090520-0809 | 42,284 | 2,753 | 42,284 | 0 | 0 | 2,753 | 0 |
| Total Title II Part A | | | 91,838 | 2,753 | 42,284 | 0 | 49,513 | 52,266 | 0 |
| Total Passed Through M.D.E. | | | 640,782 | 204,656 | 244,187 | 0 | 391,154 | 595,810 | 0 |
| Direct Grants - | | | | | | | | | |
| Small Rural School Achievement | 84.358A | S358A095163 | 10,929 | 0 | 0 | 0 | 10,929 | 10,929 | 0 |
| Total U.S. Department of Education | | | 651,711 | 204,656 | 244,187 | 0 | 402,083 | 606,739 | 0 |

* Major Program

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2010

| | CFDA# | Pass Through Grantor's # | Approved Award | Accrued (Deferred) Revenue July 1,2009 | Prior Year Expenditure | Adjustments Prior Years | Current Year Expenditures | Year's Receipts/ Payments In Kind | Accrued (Deferred) Revenue June 30,2010 |
|---|--------|--------------------------|----------------|--|------------------------|-------------------------|---------------------------|-----------------------------------|---|
| U.S. DEPARTMENT OF AGRICULTURE: | | | | | | | | | |
| Passed Through M.D.E. | | | | | | | | | |
| Child Nutrition Cluster: | | | | | | | | | |
| Non-Cash Assistance (Commodities): | | | | | | | | | |
| National School Lunch - Entitlement | 10.555 | | \$ 15,872 | \$ 0 | \$ 0 | \$ 0 | \$ 15,754 | \$ 15,754 | \$ 0 |
| National School Lunch - Bonus | | | 718 | 0 | 0 | 0 | 718 | 718 | 0 |
| Total Non-Cash Assistance | | | 16,590 | 0 | 0 | 0 | 16,472 | 16,472 | 0 |
| Cash Assistance : | | | | | | | | | |
| National School Lunch Program - Section 4 - All Lunches | | | | | | | | | |
| | | 101950 | 18,225 | 0 | 0 | 0 | 18,225 | 18,225 | 0 |
| | | 091950 | 18,992 | 0 | 16,954 | 0 | 2,038 | 2,038 | 0 |
| Total Section 4 - All Lunches | | | 37,217 | 0 | 16,954 | 0 | 20,263 | 20,263 | 0 |
| Section 11 - Free & Reduced | | | | | | | | | |
| | | 101960 | 115,855 | 0 | 0 | 0 | 115,855 | 115,855 | 0 |
| | | 091960 | 117,250 | 0 | 104,736 | 0 | 12,514 | 12,514 | 0 |
| Total Section 11- Free & Reduced | | | 233,105 | 0 | 104,736 | 0 | 128,369 | 128,369 | 0 |
| Total National School Lunch Program | | | 270,322 | 0 | 121,690 | 0 | 148,632 | 148,632 | 0 |
| National School Breakfast Program: | | | | | | | | | |
| | 10.553 | 101970 | 47,852 | 0 | 0 | 0 | 47,852 | 47,852 | 0 |
| | | 091970 | 47,817 | 0 | 43,060 | 0 | 4,757 | 4,757 | 0 |
| Total National School Breakfast Program | | | 95,669 | 0 | 43,060 | 0 | 52,609 | 52,609 | 0 |
| Fresh Fruit and Vegetable Program | | | | | | | | | |
| | 10.582 | 1009V0 | 18,768 | 0 | 0 | 0 | 14,563 | 14,563 | 0 |
| ARRA Equipment Assistance | | | | | | | | | |
| | 10.579 | 919995 | 25,000 | 0 | 0 | 0 | 25,000 | 25,000 | 0 |
| Total Cash Assistance | | | 409,759 | 0 | 164,750 | 0 | 240,804 | 240,804 | 0 |
| Total U.S. Department of Agriculture | | | 426,349 | 0 | 164,750 | 0 | 257,276 | 257,276 | 0 |
| Total Federal Assistance | | | \$ 1,078,060 | \$ 204,656 | \$ 408,937 | \$ 0 | \$ 659,359 | \$ 864,015 | \$ 0 |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS:

Financial Statements:

Type of auditors report issued: unqualified

Internal control over financial reporting:

C Material weaknesses identified? yes no
 C Significant deficiencies identified that are not considered to be material weaknesses? yes no
 Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major programs:

C Material weaknesses identified? yes no
 C Significant deficiencies identified that are not considered to be material weaknesses? yes no

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Identification of major programs:

| <u>CFDA Number</u> | <u>Federal Program</u> |
|--------------------|--------------------------------|
| 84.010 | Title I Part A |
| 84.389 | ARRA Title 1 Part A |
| 84.394 | ARRA Educational Stabalization |

Dollar threshold used to distinguish between type A and type B programs?

\$ 300,000

Auditee qualified as low-risk auditee?

yes no

SECTION II - FINANCIAL STATEMENT FINDINGS:

The District had no reportable conditions, material weaknesses or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

SECTION III - MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2010

| <u>Program</u> | <u>Questioned Findings</u> | <u>Costs</u> |
|--|----------------------------|--------------|
| Title 1 Part A | None | None |
| ARRA - Title 1 Part A | None | None |
| ARRA Educational Stabilization | None | None |
| ARRA Equipment Assistance | None | None |
| Fresh Fruit and Vegetable Program | None | None |
| National School Lunch Program | None | None |
| National School Breakfast Program | None | None |
| Small Rural School Achievement | None | None |
| Safe and Drug Free Schools and Communities | None | None |
| Title II A | None | None |

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
June 30, 2010

1. The expenditures in this Schedule of Expenditures of Federal Awards are in agreement with the amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
2. The amounts reported on the Form R-7120 agree with the Schedule of Expenditures of Federal Awards for Federal programs.
3. The amounts reported on the Recipient Entitlement Balance Report agree with the Schedule of Expenditures of Federal Awards for USDA donated food commodities.
4. The accounting policies used in the preparation of this schedule are identical to those used in preparation of the audited financial statements as set forth in Note 1 to the audited financial statements.