

HASTINGS AREA SCHOOL SYSTEM
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2011

Hastings Area School System

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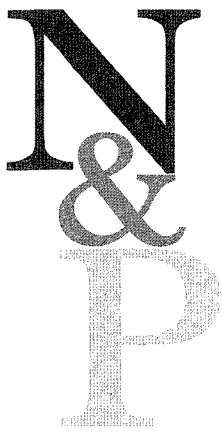
Hastings Area School System

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hastings Area School System, Michigan

Norman & Paulsen, P.C.

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System, as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hastings Area School System's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the significant estimates made by 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, each major fund, and the aggregate remaining fund information of Hastings Area School System as of June 30, 2011, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The administration's discussion and analysis and budgetary comparison schedule as identified in the table of contents, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA/ABV, CVA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Board of Education
Hastings Area School System

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hastings Area School System's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011, on our consideration of Hastings Area School System's internal control over financial reporting and on our tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Norman E. Paulsen, P.C.

November 9, 2011

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

This section of Hastings Area School System's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2011. Please read it in conjunction with the School District's financial statements, which immediately follow 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 Hastings Area School System 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 2010 Capital Projects Fund and the Debt Service 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, parents and other programs.

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

Basic Financial Statements

District-wide Financial Statement

Fund Financial Statements

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

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

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2011

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 and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes 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 a reconciliation.

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2011

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

The School District is the trustee, or fiduciary, for its agency 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 I provides a summary of the School District's net assets as of June 30, 2011 and 2010:

TABLE I	June 30,	
	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 11,168,112	\$ 8,910,624
Capital assets - Net of accumulated depreciation	29,611,369	29,546,206
Other noncurrent assets	<u>249,494</u>	<u>234,111</u>
Total assets	41,028,975	38,690,941
Liabilities		
Current liabilities	10,803,664	9,931,902
Long-term liabilities	<u>22,620,713</u>	<u>21,426,677</u>
Total liabilities	33,424,377	31,358,579
Net Assets		
Invested in property and equipment - net of related debt	6,850,859	6,474,612
Restricted for debt service	538,545	454,774
Unrestricted	<u>215,194</u>	<u>402,976</u>
Total net assets	<u>\$ 7,604,598</u>	<u>\$ 7,332,362</u>

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2011

The above analysis focuses on the net assets (see Table I). 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 \$7,604,598 at June 30, 2011. Capital assets, net of related debt totaling \$6,850,859 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. 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 \$215,194 was unrestricted.

The \$215,194 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, 2011 and 2010.

TABLE 2

	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
Revenue		
Program revenue:		
Charges for services	\$ 1,022,669	\$ 973,226
Grants and categoricals	3,505,532	4,178,818
General revenue:		
Property taxes	5,338,953	5,440,251
State foundation allowance	17,808,511	17,288,462
Interest and investment earnings	23,346	18,369
Other	<u>63,082</u>	<u>75,062</u>
Total revenue	27,762,093	27,974,188
Function/Program Expenses		
Instruction	15,854,491	16,749,770
Support services	7,326,715	6,802,777
Food services	945,438	929,197
Athletics	353,966	359,678
Community services	591,089	563,771
Interest on long-term debt	1,042,063	953,311
Depreciation (unallocated)	<u>1,376,095</u>	<u>1,445,142</u>
Total expenses	<u>27,489,857</u>	<u>27,803,646</u>
Change in net assets	<u>\$ 272,236</u>	<u>\$ 170,542</u>

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2011

As reported in the statement of activities, the cost of all governmental activities this year was \$27,489,857. Certain activities were partially funded from those who benefited from the programs \$1,022,669 or by other governments and organizations that subsidized certain programs with grants and categoricals \$3,505,532. We paid for the remaining "public benefit" portion of our governmental activities with \$5,338,953 in taxes, \$17,808,511 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 \$272,236. Key reasons for the change in net assets were capitalizable expenditures and the repayment of bond principal and other long-term obligations. The change in net assets differs from the change in fund balance and a reconciliation appears on page 16.

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 sources.

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.

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2011

As the School District completed this year, the governmental funds reported a combined fund balance of \$2,660,164, which is an increase of \$1,388,005 from last year.

In the General Fund, our primary operating fund, the fund balance decreased \$214,618 to \$340,780. The General Fund fund balance is reflected as nonspendable for inventories - \$89,400; and unassigned - \$251,380.

In the Capital Projects Fund the fund balance increased from \$-0- to \$1,727,703. The purpose of the Capital Projects Fund is to record the School Board approved Building and Site Bond issue of \$3,200,000 and the expenditures for the various projects until the fund balance is spent.

Our Debt Service Fund reflected a fund balance decrease of \$51,829 and ended the year at \$538,545. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

Our Food Service Fund fund balance decreased \$63,640 to \$48,001.

Our Community Center Fund fund balance decreased \$9,611 to \$5,135 and was supported by an operating transfer from the General Fund of \$105,000.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues 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 as follows:

Budgeted revenues were increased \$807,766, to better reflect state per student foundation funding and adjustments to categorical funding. Actual revenues were within \$53,116 of the final budgeted revenues or 0.2 percent.

Budgeted expenditures were increased \$1,029,828 to better reflect expenditures funded by increased revenues. Actual expenditures ended the year over the final budget by \$51,509 or 0.2 percent.

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2011

Capital Asset and Debt Administration

Capital Assets

At June 30, 2011, the School District had \$55,507,002 invested in a broad range of capital assets, including land, buildings, buses and furniture and equipment. This amount represents a net change (including additions and disposals) of \$1,424,368, or 2.6 percent, from last year.

	<u>2011</u>	<u>2010</u>
Land	\$ 253,410	\$ 253,410
Buildings and improvements	46,067,009	46,067,009
Buses and other vehicles	1,908,370	1,915,245
Furniture and equipment	5,846,970	5,846,970
Construction in progress	<u>1,431,243</u>	<u>-</u>
Total capital assets	55,507,002	54,082,634
Less accumulated depreciation	<u>25,895,633</u>	<u>24,536,428</u>
Net capital assets	<u>\$ 29,611,369</u>	<u>\$ 29,546,206</u>

Debt

At the end of this year, the School District had \$22,581,738 in bonds outstanding versus \$21,074,705 in the previous year - a change of 7.2 percent. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

At the end of this year the School District had \$1,906,475 in notes payable outstanding versus \$1,996,889 in the previous year. During the year the School District paid \$90,414 against principal.

At the end of this year the School District had employee severance pay agreements outstanding of \$273,916 versus \$512,920 in the previous year. During the year the School District made payments totaling \$258,198.

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 debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2011

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

The 2011-2012 foundation allowance has been reduced by \$470 per student. The foundation allowance represents 75% of total District revenue.

Student count is projected to increase slowly over the next five years. However, the uncertain economy in the State of Michigan could impact the number of enrolled students.

Retirement contributions increased to a new rate of 24.46% of payroll, effective October 1, 2011.

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 information, contact the Business Department, 232 West Grand Street, Hastings, Michigan 49058.

HASTINGS AREA SCHOOL SYSTEM

STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 7,550,930
Accounts receivable	145,128
Taxes receivable (net)	-
Due from other governmental units	3,363,722
Inventories	<u>108,332</u>
Total current assets	11,168,112
Noncurrent Assets:	
Capital assets	55,507,002
Less: accumulated depreciation	<u>(25,895,633)</u>
Net capital assets	29,611,369
Issuance cost for bonds, net	<u>249,494</u>
Total noncurrent assets	<u>29,860,863</u>
Total assets	41,028,975
<u>LIABILITIES</u>	
Current Liabilities:	
Short-term note payable	5,300,000
Accounts payable	584,724
Accrued payroll	1,664,626
Accrued benefits	864,967
Accrued interest	243,870
Deferred revenue	4,061
Accrued severance pay	264,319
Notes payable, due within one year	102,392
Bonds payable, due within one year	<u>1,774,705</u>
Total current liabilities	10,803,664
Noncurrent Liabilities:	
Accrued severance pay	9,597
Notes payable	1,804,083
Bonds payable, net	<u>20,807,033</u>
Total noncurrent liabilities	<u>22,620,713</u>
Total liabilities	33,424,377
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	6,850,859
Restricted for debt service	538,545
Unrestricted	<u>215,194</u>
Total net assets	<u>\$ 7,604,598</u>

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets	
Functions/Programs				
Governmental activities:				
Instruction	\$ 15,854,491	\$ 6,605	\$ 2,702,388	\$ (13,145,498)
Support services	7,326,715	86,422	101,345	(7,138,948)
Food services	945,438	308,424	573,374	(63,640)
Athletics	353,966	172,883	-	(181,083)
Community services	591,089	448,335	14,648	(128,106)
Interest on long-term debt	1,042,063	-	113,777	(928,286)
Depreciation (unallocated)	1,376,095	-	-	(1,376,095)
Total Governmental activities	\$ 27,489,857	\$ 1,022,669	\$ 3,505,532	\$ (22,961,656)
General revenues:				
Taxes				
Property taxes, levied for general operations				2,920,273
Property taxes, levied for debt service				2,418,680
State aid not restricted to specific purposes				17,808,511
Interest and investment earnings				23,346
Other				63,082
Total general revenues				23,233,892
Change in Net Assets				272,236
Net Assets - Beginning of year				7,332,362
Net Assets - End of year				\$ 7,604,598

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

<u>ASSETS</u>	<u>General</u>	<u>2010 Capital Projects</u>	<u>Debt Service</u>
Cash and cash equivalents	\$ 4,833,247	\$ 2,160,674	\$ 472,759
Accounts receivable	115,308	-	-
Due from other governmental units	3,363,722	-	-
Due from other funds	38,408	-	65,786
Inventories	89,400	-	-
 Total assets	 <u>\$ 8,440,085</u>	 <u>\$ 2,160,674</u>	 <u>\$ 538,545</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Short-term note payable	\$ 5,300,000	\$ -	\$ -
Accounts payable	100,504	432,971	-
Accrued payroll	1,664,626	-	-
Accrued benefits	864,967	-	-
Due to other funds	79,638	-	-
Accrued interest	89,570	-	-
Deferred revenue	-	-	-
 Total liabilities	 8,099,305	 432,971	 -
Fund Balances:			
Nonspendable:			
Inventories	89,400	-	-
Restricted for:			
Capital projects	-	1,727,703	-
Debt service	-	-	538,545
Food service	-	-	-
Committed for:			
Community services	-	-	-
Unassigned	251,380	-	-
 Total fund balances	 <u>340,780</u>	 <u>1,727,703</u>	 <u>538,545</u>
 Total liabilities and fund balances	 <u>\$ 8,440,085</u>	 <u>\$ 2,160,674</u>	 <u>\$ 538,545</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Total
\$ 84,250	\$ 7,550,930
29,820	145,128
-	3,363,722
13,852	118,046
<u>18,932</u>	<u>108,332</u>
<u>\$ 146,854</u>	<u>\$ 11,286,158</u>

\$ -	\$ 5,300,000
51,249	584,724
-	1,664,626
-	864,967
38,408	118,046
-	89,570
<u>4,061</u>	<u>4,061</u>

93,718 8,625,994

18,932 108,332

- 1,727,703

- 538,545

29,069 29,069

5,135 5,135

- 251,380

53,136 2,660,164

\$ 146,854 \$ 11,286,158

HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balances - Governmental Funds \$ 2,660,164

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.

The cost of the capital assets is	55,507,002
Accumulated depreciation is	<u>(25,895,633)</u>
Total	29,611,369

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Accrued severance pay	(273,916)
Notes payable	(1,906,475)
Bonds payable, net	(22,581,738)
Issuance cost for bonds, net	249,494

Accrued interest payable on long-term liabilities is not included as a liability in governmental activities (154,300)

Net assets of governmental activities \$ 7,604,598

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>2010 Capital Projects</u>	<u>Debt Service</u>
Revenues:			
Local sources	\$ 3,248,648	\$ 21,898	\$ 2,514,783
State sources	18,369,484	-	21,628
Federal sources	1,798,599	-	-
Interdistrict	<u>444,161</u>	<u>-</u>	<u>-</u>
Total revenues	23,860,892	21,898	2,536,411
Expenditures:			
Instruction	16,093,495	-	-
Supporting services	7,247,160	-	-
Food service	-	-	-
Athletics	353,966	-	-
Community services	15,384	-	-
Capital outlay	-	1,431,243	-
Debt service			
Principal retirement	90,414	-	1,718,811
Interest and fiscal charges	170,091	-	869,429
Bond issuance costs	<u>-</u>	<u>37,352</u>	<u>-</u>
Total expenditures	<u>23,970,510</u>	<u>1,468,595</u>	<u>2,588,240</u>
Excess (deficiency) of revenues over expenditures	(109,618)	(1,446,697)	(51,829)
Other financing sources (uses):			
Proceeds from bond issue	-	3,200,000	-
Bond discount	-	(25,600)	-
Operating transfers in	-	-	-
Operating transfers out	<u>(105,000)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(105,000)</u>	<u>3,174,400</u>	<u>-</u>
Net change in fund balances	(214,618)	1,727,703	(51,829)
Fund balances, July 1	<u>555,398</u>	<u>-</u>	<u>590,374</u>
Fund balances, June 30	<u>\$ 340,780</u>	<u>\$ 1,727,703</u>	<u>\$ 538,545</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Total
\$ 769,372	\$ 6,554,701
35,685	18,426,797
537,689	2,336,288
-	444,161
1,342,746	27,761,947
-	16,093,495
-	7,247,160
945,438	945,438
-	353,966
575,559	590,943
-	1,431,243
-	1,809,225
-	1,039,520
-	37,352
1,520,997	29,548,342
(178,251)	(1,786,395)
-	3,200,000
-	(25,600)
105,000	105,000
-	(105,000)
105,000	3,174,400
(73,251)	1,388,005
126,387	1,272,159
\$ 53,136	\$ 2,660,164

HASTING AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Bond discounts are recorded as an other financing use in the governmental funds but not in the statement of activities (where it is amortized over the life of the bond issue)	25,600
Bond issuance costs are recorded as an expenditure in the governmental funds but not in the statement of activities (where it is amortized over the life of the bond issue)	37,352
Accrued severance pay is reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds.	
Accrued voluntary severance plan beginning of year	512,920
Accrued voluntary severance plan end of year	<u>(273,916)</u>
Change in Net Assets of Governmental Activities	<u>\$ 272,236</u>

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 258,873
Investments	<u>916,499</u>
Total assets	<u>\$ 1,175,372</u>
<u>LIABILITIES</u>	
Due to school related organizations	<u>\$ 1,175,372</u>

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hastings Area School System conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

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 Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of 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 the 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 segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided 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 instead as general revenue.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-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 revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Amounts reported as program revenue include (1) charges to customer 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 fund 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 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.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

The 2010 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for the remodeling, equipping and re-equipping and furnishing and refurbishing school facilities; acquiring and installing educational technology in school buildings; developing and improving playgrounds, athletic facilities and sites; and paying the costs of issuing the bonds.

The Debt Service Fund is used to record tax, interest, and other revenue for payment of principle, interest and other expenditures on the bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Food Services Fund and Community Center Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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." Activity 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 tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

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. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. 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 life are not capitalized. The school district does not have 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	5-10 years

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund equity - Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's 2010 Capital Projects fund, Debt Service fund and Food Service fund balances are considered restricted.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

Comparative Data/Reclassifications - Comparative data is not included in the district's financial statements.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The school district did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The Capital Projects Fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of 1351a of the State of Michigan's School Code.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS

The School District's cash and cash equivalents at June 30, 2011, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	\$ <u>7,550,930</u>	\$ <u>258,873</u>	\$ <u>7,809,803</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$7,814,082. Of that amount, \$1,000,000 was covered by federal depository insurance coverage or secured and \$4,570,164 was uninsured and uncollateralized. The balance of \$2,243,918 was invested in bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - INVESTMENTS

Michigan Public Acts 217 and 367 of 1982 authorize school districts to invest surplus monies in U.S. bonds and notes, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, U.S. Government repurchase agreements, bankers acceptances, mutual funds, and government pools that are composed of authorized investments.

The School District's investments at June 30, 2011, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
U.S. Government Agency Bonds	\$ -	\$ 418,712	\$ 418,712
Common and preferred stocks	-	71,518	71,518
Money Market	-	426,269	426,269
	<u>\$ -</u>	<u>\$ 916,499</u>	<u>\$ 916,499</u>

The School District's investments are classified by risk level as investments that are uninsured and unregistered held by the counterparty's trust department or agent in the School District's name.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue include unearned charges for services received prior to meeting all eligibility requirements in the amount of \$4,061.

NOTE 6 - CAPITAL ASSETS

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

	Balance <u>July 1, 2010</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>June 30, 2011</u>
Assets not being depreciated - Land	\$ 253,410	\$ -	\$ -	\$ 253,410
Capital assets being depreciated:				
Buildings and building improvements	46,067,009	-	-	46,067,009
Buses and other vehicles	1,915,245	10,015	16,890	1,908,370
Furniture and equipment	5,846,970	-	-	5,846,970
Construction in progress	<u>-</u>	<u>1,431,243</u>	<u>-</u>	<u>1,431,243</u>
Subtotal	53,829,224	1,441,258	16,890	55,253,592
Accumulated depreciation:				
Buildings and building improvements	17,760,799	1,083,930	-	18,844,729
Buses and other vehicles	1,687,321	63,156	16,890	1,733,587
Furniture and equipment	<u>5,088,308</u>	<u>229,009</u>	<u>-</u>	<u>5,317,317</u>
Subtotal	<u>24,536,428</u>	<u>1,376,095</u>	<u>16,890</u>	<u>25,895,633</u>
Net capital assets being depreciated	<u>29,292,796</u>			<u>29,357,959</u>
Net capital assets	<u>\$ 29,546,206</u>			<u>\$ 29,611,369</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

The School District had construction in progress at year end. These construction projects were paid for from funds received by the \$3,200,000 2010 School Building and Site Bond Issue. The District's cumulative expenditures at June 30, 2011 from this bond issue amounted to \$1,431,243.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:		
Other governmental funds	General Fund	\$ 13,852
General fund	Other governmental funds	38,408
Debt service fund	General Fund	<u>65,786</u>
		<u>\$ 118,046</u>
Interfund Transfers:		
	Transfer Out:	
	General Fund	
Transfer in:		
Other governmental funds	<u>\$ 105,000</u>	

NOTE 8 - SHORT-TERM NOTES PAYABLE

State Aid Note payable to bank, due August 20, 2011, interest at 1.69%	<u>\$5,300,000</u>
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NOTE 9 - 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 accumulated severance pay.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds, net	\$21,074,705	\$ 3,200,000	\$ 1,692,967	\$22,581,738	<u>\$1,774,705</u>
Notes	1,996,889	-	90,414	1,906,475	<u>\$ 102,392</u>
Other Obligations	<u>512,920</u>	<u>19,194</u>	<u>258,198</u>	<u>273,916</u>	<u>\$ 264,319</u>
Totals	<u>\$23,584,514</u>	<u>\$ 3,219,194</u>	<u>\$ 2,041,579</u>	<u>\$24,762,129</u>	

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 9 - LONG-TERM DEBT - (Continued)

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

<u>Year ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,877,097	\$ 956,991	\$ 2,834,088
2013	1,976,697	908,779	2,885,476
2014	1,997,600	837,360	2,834,960
2015	2,077,021	770,925	2,847,946
2016	2,167,387	694,176	2,861,563
Thereafter	<u>14,837,997</u>	<u>3,098,651</u>	<u>17,936,648</u>

Governmental Activities: \$24,933,799 \$ 7,266,882 \$32,200,681

General obligation bonds consist of:

\$3,200,000 School Building and Site Bonds due in annual installments of \$400,000 beginning in 2019 through May 1, 2026; interest from 5.00% to 5.25%	\$ 3,200,000
\$12,125,000 2009 Refunding Bonds due in annual installments of \$1,310,000 to \$1,515,000 through May 1, 2018; interest from 2.40% to 3.50%	10,160,000
\$6,575,000 2005 Refunding Bonds due in annual installments of \$25,000 to \$750,000 through May 1, 2022; interest from 3.00% to 5.00%	6,405,000
\$3,190,000 2006 Refunding Bonds due in annual installments of \$30,000 to \$775,000 through May 1, 2026; interest from 4.00% to 4.125%	3,190,000

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 9 - LONG-TERM DEBT - (Continued)

General obligation bonds consist of:

\$307,985 1998 School Improvement Bond (Durant Settlement) the annual principal and interest payments are to be paid directly by the State of Michigan	<u>72,324</u>
Total general obligation bonded debt	23,027,324
Less: deferred amount on bond refunding	(534,965)
Less: discount on bond refunding	(133,066)
Plus: premium on bond refunding	<u>222,445</u>
Total bonds payable, net	<u>\$ 22,581,738</u>

Notes payable consist of:

Energy Conservation Bonds payable to bank, semi-annual payments ranging between \$69,720, to \$137,750 through May 24, 2022 including interest at 4.02%	\$ 1,894,955
Land contract payable to real estate company, annual payments of \$20,000 through April 15, 2012, including interest at 4%	<u>11,520</u>
Total notes payable	<u>\$ 1,906,475</u>

Other governmental activity long-term obligations include:

Accumulated severance pay payable monthly through June 1, 2012	<u>\$ 273,916</u>
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NOTE 10- 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 property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFITS PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employee's Retirement System (MPSERS), as cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to the Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000 and 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any are refundable.

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 11 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFITS PLAN (Continued)

Funding Policy (Continued)- The 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 rate through September 30, 2010 was 16.94% of payroll and increased to 19.41% for the base plan and 17.91% for pension plus members effective October 1, 2010 through October 31, 2010 at which time it increased again due to the number of retirees associated with the early retirement incentive to 20.66% for basic plan members and 19.16% for pension plus members for the period November 1, 2010 through June 30, 2011. In addition, the district is required to match 50% up to 1% of the employees contribution in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District contributions to MPSERS for the year ended June 30, 2011, 2010 and 2009 were \$2,774,624, \$2,452,790 and \$2,428,698 respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school year and members who were hired on or after July 1, 2010, with a starting salary of less than \$18,000 are required to contribute 1.5% of the members' compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account. Effective April 1, 2011, a court order eliminated this requirement. The court order is being appealed by the State of Michigan.

Pension recipients are generally eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage.

The District is not responsible for the payment of retirement or post-retirement benefits which is the responsibility of the State of Michigan.

REQUIRED SUPPLEMENTAL INFORMATION

HASTINGS AREA SCHOOL SYSTEM

REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues:				
Local sources	\$ 3,256,636	\$ 3,227,950	\$ 3,248,648	\$ 20,698
State sources	18,607,861	18,407,951	18,369,484	(38,467)
Federal sources	791,745	1,833,946	1,798,599	(35,347)
Interdistrict	<u>450,000</u>	<u>444,161</u>	<u>444,161</u>	<u>-</u>
Total revenues	23,106,242	23,914,008	23,860,892	(53,116)
Expenditures:				
Instruction	15,629,227	15,918,059	16,093,495	175,436
Supporting services	6,658,352	7,362,406	7,247,160	(115,246)
Athletics	327,175	362,457	353,966	(8,491)
Community services	13,914	15,574	15,384	(190)
Debt service	<u>260,505</u>	<u>260,505</u>	<u>260,505</u>	<u>-</u>
Total expenditures	<u>22,889,173</u>	<u>23,919,001</u>	<u>23,970,510</u>	<u>51,509</u>
Excess (deficiency) of revenues over expenditures	217,069	(4,993)	(109,618)	(104,625)
Other financing sources (uses):				
Operating transfers out	<u>(131,000)</u>	<u>(131,000)</u>	<u>(105,000)</u>	<u>(26,000)</u>
Net change in fund balance	86,069	(135,993)	(214,618)	(78,625)
Fund balance, July 1	<u>555,398</u>	<u>555,398</u>	<u>555,398</u>	<u>-</u>
Fund balance, June 30	<u>\$ 641,467</u>	<u>\$ 419,405</u>	<u>\$ 340,780</u>	<u>\$ (78,625)</u>

OTHER SUPPLEMENTAL INFORMATION

HASTINGS AREA SCHOOL SYSTEM
 OTHER SUPPLEMENTAL INFORMATION
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

<u>ASSETS</u>	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Community Center</u>	<u>Total</u>
Cash and cash equivalents	\$ 69,943	\$ 14,307	\$ 84,250
Accounts receivable	16,846	12,974	29,820
Due from other funds	-	13,852	13,852
Inventory	<u>18,932</u>	<u>-</u>	<u>18,932</u>
Total assets	<u>\$ 105,721</u>	<u>\$ 41,133</u>	<u>\$ 146,854</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 19,312	\$ 31,937	\$ 51,249
Due to other funds	38,408	-	38,408
Deferred Revenue	<u>-</u>	<u>4,061</u>	<u>4,061</u>
Total liabilities	57,720	35,998	93,718
Fund balances:			
Nonspendable:			
Inventories	18,932	-	18,932
Restricted for:			
Food service	29,069	-	29,069
Committed for:			
Community services	<u>-</u>	<u>5,135</u>	<u>5,135</u>
Total fund balances	<u>48,001</u>	<u>5,135</u>	<u>53,136</u>
Total liabilities and fund balances	<u>\$ 105,721</u>	<u>\$ 41,133</u>	<u>\$ 146,854</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2011

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Community Center</u>	<u>Total</u>
Revenues:			
Local sources	\$ 308,424	\$ 460,948	\$ 769,372
State sources	35,685	-	35,685
Federal sources	<u>537,689</u>	<u>-</u>	<u>537,689</u>
Total revenues	881,798	460,948	1,342,746
Expenditures:			
Food services	945,438	-	945,438
Community services	<u>-</u>	<u>575,559</u>	<u>575,559</u>
Total expenditures	<u>945,438</u>	<u>575,559</u>	<u>1,520,997</u>
Excess (deficiency) of revenues over expenditures	(63,640)	(114,611)	(178,251)
Other financing sources:			
Operating transfers in	<u>-</u>	<u>105,000</u>	<u>105,000</u>
Net change in fund balances	(63,640)	(9,611)	(73,251)
Fund balances, July 1	<u>111,641</u>	<u>14,746</u>	<u>126,387</u>
Fund balances, June 30	<u>\$ 48,001</u>	<u>\$ 5,135</u>	<u>\$ 53,136</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION
FOOD SERVICE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
Revenues:			
Local sources	\$ 306,500	\$ 308,424	\$ 1,924
State sources	35,685	35,685	-
Federal sources	<u>532,843</u>	<u>537,689</u>	<u>4,846</u>
Total revenues	875,028	881,798	6,770
Expenditures:			
Salaries	224,950	230,088	5,138
Employee benefits	121,550	124,327	2,777
Purchased services	75,915	79,038	3,123
Supplies, material and other	496,585	507,731	11,146
Capital outlay	<u>4,254</u>	<u>4,254</u>	<u>-</u>
Total expenditures	<u>923,254</u>	<u>945,438</u>	<u>22,184</u>
Net change in fund balance	(48,226)	(63,640)	(15,414)
Fund balance - July 1	<u>111,641</u>	<u>111,641</u>	<u>-</u>
Fund balance - June 30	<u>\$ 63,415</u>	<u>\$ 48,001</u>	<u>\$ (15,414)</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION
COMMUNITY CENTER FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 460,849	\$ 460,948	\$ 99
Expenditures:			
Salaries	410,092	386,727	(23,365)
Employee benefits	121,292	114,383	(6,912)
Purchased services	42,949	42,949	-
Supplies, material and other	31,500	31,500	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>605,836</u>	<u>575,559</u>	<u>(30,277)</u>
Excess (deficiency) of revenues over expenditures	(144,987)	(114,611)	30,376
Other financing sources:			
Operating transfers in	<u>131,000</u>	<u>105,000</u>	<u>(26,000)</u>
Net change in fund balance	(13,987)	(9,611)	4,376
Fund balance - July 1	<u>14,746</u>	<u>14,746</u>	<u>-</u>
Fund balance - June 30	<u>\$ 759</u>	<u>\$ 5,135</u>	<u>\$ 4,376</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION
 AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 YEAR ENDED JUNE 30, 2011

	Balances <u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	Balances <u>June 30, 2011</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 231,154	\$ 517,724	\$ 490,005	\$ 258,873
Investments	<u>811,228</u>	<u>119,919</u>	<u>14,648</u>	<u>916,499</u>
Total assets	<u>\$ 1,042,382</u>	<u>\$ 637,643</u>	<u>\$ 504,653</u>	<u>\$ 1,175,372</u>
 <u>LIABILITIES</u>				
Due to school related organizations	<u>\$ 1,042,382</u>	<u>\$ 637,643</u>	<u>\$ 504,653</u>	<u>\$ 1,175,372</u>

HASTINGS AREA SCHOOL SYSTEM
 OTHER SUPPLEMENTAL INFORMATION
 STATEMENT OF BONDED INDEBTEDNESS
 YEAR ENDED JUNE 30, 2011

2010 SCHOOL BUILDING AND SITE BONDS \$ 3,200,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	5.00	\$ 163,000	\$ -	\$ 163,000
2013	5.00	163,000	-	163,000
2014	5.00	163,000	-	163,000
2015	5.00	163,000	-	163,000
2016	5.00	163,000	-	163,000
2017	5.00	163,000	-	163,000
2018	5.00	163,000	-	163,000
2019	5.00	163,000	400,000	563,000
2020	5.00	143,000	400,000	543,000
2021	5.00	123,000	400,000	523,000
2022	5.00	103,000	400,000	503,000
2023	5.00	83,000	400,000	483,000
2024	5.25	63,000	400,000	463,000
2025	5.25	42,000	400,000	442,000
2026	5.25	<u>21,000</u>	<u>400,000</u>	<u>421,000</u>
Total		<u>\$ 1,882,000</u>	<u>\$ 3,200,000</u>	<u>\$ 5,082,000</u>

Interest on the bonds of the above issue is payable semi annually on November 1, and May 1. Principal is payable annually on May 1. Non-Callable.

HASTINGS AREA SCHOOL SYSTEM
 OTHER SUPPLEMENTAL INFORMATION
 STATEMENT OF BONDED INDEBTEDNESS
 YEAR ENDED JUNE 30, 2011

2009 REFUNDING BONDS

\$ 12,125,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	2.50	\$ 310,150	\$ 1,350,000	\$ 1,660,150
2013	2.40	276,400	1,385,000	1,661,400
2014	2.75	243,160	1,435,000	1,678,160
2015	3.25	203,698	1,475,000	1,678,698
2016	3.50	155,760	1,515,000	1,670,760
2017	3.35	102,736	1,510,000	1,612,736
2018	3.50	<u>52,150</u>	<u>1,490,000</u>	<u>1,542,150</u>

Total \$ 1,344,054 \$10,160,000 \$11,504,054

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1. Non-Callable.

HASTINGS AREA SCHOOL SYSTEM
 OTHER SUPPLEMENTAL INFORMATION
 STATEMENT OF BONDED INDEBTEDNESS
 YEAR ENDED JUNE 30, 2011

2005 REFUNDING BONDS

\$ 6,575,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	5.00	\$ 276,476	\$ 405,000	\$ 681,476
2013	5.00	256,226	420,000	676,226
2014	5.00	235,226	430,000	665,226
2015	5.00	213,726	455,000	668,726
2016	4.00	190,976	490,000	680,976
2017	4.00	171,376	565,000	736,376
2018	4.00	148,776	655,000	803,776
2019	4.00	122,576	745,000	867,576
2020	4.10	92,776	745,000	837,776
2021	4.125	62,232	745,000	807,232
2022	4.20	<u>31,500</u>	<u>750,000</u>	<u>781,500</u>

Total \$ 1,801,866 \$ 6,405,000 \$ 8,206,866

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

HASTINGS AREA SCHOOL SYSTEM
 OTHER SUPPLEMENTAL INFORMATION
 STATEMENT OF BONDED INDEBTEDNESS
 YEAR ENDED JUNE 30, 2011

2006 REFUNDING BONDS \$ 3,190,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	4.000	\$ 129,512	\$ -	\$ 129,512
2013	4.000	129,512	-	129,512
2014	4.000	129,512	-	129,512
2015	4.000	129,512	-	129,512
2016	4.000	129,512	-	129,512
2017	4.000	129,512	-	129,512
2018	4.000	129,512	-	129,512
2019	4.000	129,512	30,000	159,512
2020	4.000	128,312	30,000	158,512
2021	4.000	127,112	30,000	157,512
2022	4.000	125,912	30,000	155,512
2023	4.000	124,712	775,000	899,712
2024	4.000	93,712	765,000	858,712
2025	4.125	63,112	755,000	818,112
2026	4.125	<u>31,968</u>	<u>775,000</u>	<u>806,968</u>
Total		<u>\$ 1,730,936</u>	<u>\$ 3,190,000</u>	<u>\$ 4,920,936</u>

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

HASTINGS AREA SCHOOL SYSTEM
 OTHER SUPPLEMENTAL INFORMATION
 STATEMENT OF BONDED INDEBTEDNESS
 YEAR ENDED JUNE 30, 2011

1998 SCHOOL IMPROVEMENT BONDS \$ 307,985

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	4.76	\$ 1,921	\$ 19,705	\$ 21,626
2013	4.76	<u>12,260</u>	<u>52,619</u>	<u>64,879</u>
Total		<u>\$ 14,181</u>	<u>\$ 72,324</u>	<u>\$ 86,505</u>

Interest and principal on the bonds of the above issue is payable annually on May 15. As part of the Durant Settlement the annual principal and interest payments are to be made directly by the State of Michigan.

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
Education Stabilization Fund	84.394	1125251011 1025250910	\$ 344,830 853,316
Title I - Educationally Deprived	84.010	1115301011 1015300910	356,746 354,816
ARRA Title I A	84.389	1015350910	193,540
Education Jobs Fund	84.410A	1125451011	657,750
Improving Teacher Quality	84.367	1115301011 1005200910	152,530 152,714
Passed Through Intermediate School District:			
IDEA Flow Through	84.027		200,500
ARRA IDEA Flow Through	84.391		100,608
Perkins CTE	84.048		28,994

TOTAL DEPARTMENT OF EDUCATION

(continued on next page)

Accrued (Deferred) Revenue <u>July 1, 2010</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued (Deferred) Revenue <u>June 30, 2011</u>
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\$ -		\$ 344,830	\$ 344,830	\$ -
<u>166,010</u>	853,316	<u>-</u>	<u>166,010</u>	<u>-</u>
166,010		344,830	510,840	-

-		306,399	288,232	18,167
<u>29,816</u>	354,816	<u>-</u>	<u>29,816</u>	<u>-</u>
29,816		306,399	318,048	18,167

26,095	193,540	-	26,095	-
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-		* 657,750	657,750	-
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-		152,530	152,530	-
<u>6,221</u>	152,714	<u>-</u>	<u>6,221</u>	<u>-</u>
<u>6,221</u>		<u>152,530</u>	<u>158,751</u>	<u>-</u>
228,142		1,461,509	1,671,484	18,167

-		200,500	200,500	-
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-		100,608	100,608	-
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<u>4,657</u>		<u>28,994</u>	<u>33,651</u>	<u>-</u>
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232,799		1,791,611	2,006,243	18,167
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HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
 YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Pass-Through Grantor/ Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
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U.S. DEPARTMENT OF AGRICULTURE

Nutrition Cluster

Passed Through State Department
of Education:

Summer Food Service Program	10.559	10-11	13,802
National School Lunch Program	10.555	09-10 10-11	398,041 359,619
National School Lunch Breakfast	10.553	09-10 10-11	78,612 71,500
Direct Programs - non-cash assistance			
Entitlement Commodities	10.555	10-11	55,028
Bonus Commodities	10.555	10-11	-

TOTAL DEPARTMENT OF AGRICULTURE

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed Through Intermediate
School District:

Medicaid Outreach	93.778		6,988
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TOTAL FEDERAL FINANCIAL ASSISTANCE

Notes:

- 1.*Designates Major Program.
2. Dollar threshold used to distinguish between Type A and Type B programs - \$300,000.
3. Expenditures in this schedule are in agreement with amounts reported in the financial statements.
4. The amounts reported on the R7120 reconcile with this schedule.
5. This schedule has been prepared under the modified accrual basis of accounting

Accrued (Deferred) Revenue <u>July 1, 2010</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued (Deferred) Revenue <u>June 30, 2011</u>
-		* 2,795	-	2,795
-	355,728	42,313	42,313	-
-		<u>359,619</u>	<u>359,619</u>	-
-		* 401,932	401,932	-
-	72,178	6,434	6,434	-
-		<u>71,500</u>	<u>71,500</u>	-
-		* 77,934	77,934	-
-		55,028	55,028	-
-		<u>-</u>	<u>-</u>	-
-		* 55,028	55,028	-
-		537,689	534,894	2,795
-		<u>6,988</u>	<u>6,988</u>	-
<u>\$ 232,799</u>		<u>\$ 2,336,288</u>	<u>\$2,548,125</u>	<u>\$ 20,962</u>



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

To the Board of Education
Hastings Area School System, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System as of and for the year ended June 30, 2011, which collectively comprise Hastings Area School System basic financial statements and have issued our report thereon dated November 9, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Hastings Area School System's 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 on the Hastings Area School System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hastings Area School System's 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 School District'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.

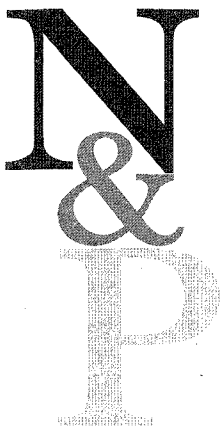
Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA/ABV, CVA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Hastings Area School System'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 with 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, 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.

November 9, 2011

Norman & Paulsen, P.C.



Norman & Paulsen, P.C.

Certified Public Accountants

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

To the Board of Education
Hastings Area School System, Michigan

Compliance - We have audited the compliance of Hastings Area School System 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 each of its major federal programs for the year ended June 30, 2011. Hastings Area School System's major federal programs are identified in the summary of auditor's 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 Hastings Area School System's management. Our responsibility is to express an opinion on Hastings Area School System's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Hastings Area School System's compliance with those requirements and performing such other 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 Hastings Area School System's compliance with those requirements.

In our opinion, Hastings Area School System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA/ABV, CVA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Internal Control over Compliance - The management of Hastings Area School System 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 Hastings Area School System 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Hastings Area School System's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance requirements of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control or compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliances that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management 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.

Norman & Paulson, P.C.

November 9, 2011

HASTINGS AREA SCHOOL SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

1. Summary of auditor's results:

- (I) An unqualified opinion was issued on the financial statements.
- (ii) No material weakness or significant deficiency in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No material weakness or significant deficiency in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs.
- (vi) No audit findings were disclosed.
- (vii) Major programs: U.S. Department of Education
84.410A Education Jobs Funds
U.S. Department of Agriculture
10.553, 10.555 & 10.559 Nutrition Cluster
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) Hastings Area School System qualified as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

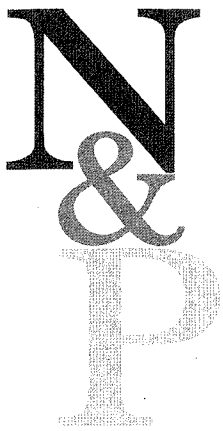
NONE

3. Findings and questioned costs for Federal awards.

NONE

4. Prior year findings:

NONE



Norman & Paulsen, P.C.

Certified Public Accountants

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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Hastings Area Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hastings Area Schools (the "School District") for the year ended June 30, 2011, and have issued our report thereon dated November 9, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 11, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the School District. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you and management of your responsibilities.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA/ABV, CVA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the School District's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated November 9, 2011 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsibilities for the governance of the School District, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosure regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 15, 2011.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hastings Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Hastings Area Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 9, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Hastings Area Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

As required by OMB Circular A-133, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 dated November 9, 2011

This information is intended solely for the information and use of the Board of Education and management of Hastings Area Schools and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Sincerely,

Norman & Paulson, P.C.

November 9, 2011