

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

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillman Community Schools as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To The Board of Education
Hillman Community Schools

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 the Hillman Community Schools, as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

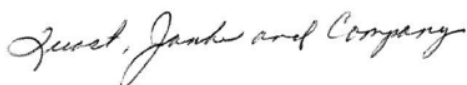
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillman Community Schools' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

QUAST, JANKE AND COMPANY



Certified Public Accountants, P.C.
Bay City, Michigan 48708
September 27, 2013

Hillman Community Schools Management's Discussion and Analysis

This section of Hillman Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the years ended June 30, 2013 and 2012. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

Using this Annual Report

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

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

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Other Supplemental Information

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

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

Hillman Community Schools Management's Discussion and Analysis

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

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

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

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

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

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

Hillman Community Schools
Management's Discussion and Analysis

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

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

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2013 and 2012.

TABLE 1:

	<u>Governmental Activities</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Assets		
Current and other assets	\$ 1,673,895	\$ 1,718,023
Capital assets – Net of accumulated depreciation	<u>6,840,617</u>	<u>7,093,415</u>
Total assets	8,514,512	8,811,438
Liabilities		
Current liabilities	913,539	818,389
Long-term liabilities	<u>4,563,702</u>	<u>4,978,190</u>
Total liabilities	<u>5,477,241</u>	<u>5,796,579</u>
Net Assets		
Invested in property and equipment – Net of related debt	1,979,954	1,839,068
Restricted	3,850	4,219
Unrestricted	<u>1,053,467</u>	<u>1,171,572</u>
Total net assets	<u>\$ 3,037,271</u>	<u>\$ 3,014,859</u>

Hillman Community Schools
Management's Discussion and Analysis

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$3,037,271 at June 30, 2013. Capital assets, net of related debt compares the original cost, less depreciation of the School District's capital assets to long-term debt. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$1,053,467 was unrestricted.

The \$1,053,467 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, 2013 and 2012.

TABLE 2:

	<u>Governmental Activities</u>	
	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Program revenue:		
Charges for services	\$ 131,636	\$ 107,048
Grants and categoricals	958,683	1,006,357
General revenue:		
Property taxes	2,432,330	2,419,202
State PILT	23,150	76
State unrestricted aid	1,726,650	1,722,578
Investment earnings	13,113	14,988
Other	<u>31,574</u>	<u>44,352</u>
Total revenue	5,317,136	5,314,601
Function/Program Expenses		
Instruction	2,777,436	2,673,386
Support services	1,705,471	1,689,768
Community services	0	350
Food services	317,521	338,303
Interest on long-term debt	236,507	250,251
Depreciation (unallocated)	<u>257,789</u>	<u>246,491</u>
Total expenses	<u>5,294,724</u>	<u>5,198,549</u>
Increase (Decrease) in Net Assets	<u>\$ 22,412</u>	<u>\$ 116,052</u>

Hillman Community Schools Management's Discussion and Analysis

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5,294,724. Certain activities were partially funded from those who benefited from the program or by other governments and organizations that subsidized certain programs with grants and categoricals. We paid for the remaining "public benefit" portion of our governmental activities with \$2,432,330 in taxes, \$1,726,650 in State Unrestricted Aid, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$22,412. Key reasons for the change in net assets were continued fiscal management. The increase in net assets differs from the change in fund balance and reconciliation appears on page 15.

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

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$996,701, which is a decrease of \$110,964 from last year. The primary reason for this decrease is increasing health care and retirement costs. Also, in the General Fund, our principal operating fund, the balance decreased \$108,479 to \$887,198. Overall, actual General Fund revenue and expenses were within 98 and 95 percent of budgeted amounts, respectively.

The 2005 Debt Retirement Fund fund balance decreased by \$8,677.
The Food Service Fund Balance increased by \$6,192.

General Fund Budgetary Highlights

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

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

Hillman Community Schools
Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At June 30, 2013, the School District had \$13,279,782 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net increase (including additions and disposals) of \$80,712.

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 592,185	\$ 592,185
Buildings and improvements	9,829,091	9,795,961
Buses and Other Vehicles	714,622	707,304
Equipment	<u>2,143,884</u>	<u>2,103,620</u>
Total capital assets	13,279,782	13,199,070
Less accumulated depreciation	<u>6,439,165</u>	<u>6,105,655</u>
Net capital assets	<u>\$ 6,840,617</u>	<u>\$ 7,093,415</u>

This year's additions of \$80,712 consisted of technology and shop equipment.

Debt

At the end of this year, the School District had \$4,860,663 in bonds outstanding versus \$5,254,347 in the previous year. These bonds consisted of the following:

2005 Refunding Bonds	\$ 4,815,000
Bus notes	<u>45,663</u>
	<u>\$ 4,860,663</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this limit. The School District's outstanding unqualified general obligation debt of \$4,860,663 is significantly below the statutorily imposed limit.

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

Hillman Community Schools Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2014 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2014 fiscal year is 90 percent and 10 percent of the September 2013 and February 2014 student counts, respectively. The 2014 fiscal year budget was adopted in June 2013, based on an estimate of students that will be enrolled in September of 2013. Approximately 46 percent of total General Fund revenues is from state funding. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operation. Based on early enrollment data at the start of the 2013-2014 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2014 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations.

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

Contacting the School District's Financial Management

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

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

STATEMENT OF NET ASSETS
June 30, 2013 and 2012

	June 30,	
	2013	2012
ASSETS:		
Cash & equivalents	\$ 999,167	\$ 1,074,044
Accounts receivable	12,313	1,537
Taxes receivable	13,288	0
Due from other governmental units	442,177	414,468
Inventories	3,850	4,219
Dererred bond costs	361,450	361,450
Accumulated amortization	(158,350)	(137,695)
Capital assets	13,279,782	13,199,070
Accumulated depreciation	(6,439,165)	(6,105,655)
Total Assets	8,514,512	8,811,438
LIABILITIES:		
Accounts payable	45,736	2,246
Accrued payroll and other liabilities	395,185	377,740
Accrued interest	34,859	37,852
Deferred revenue	33,173	6,619
Compensated absences	107,625	117,775
Current portion of long term liabilities	404,586	393,932
Non current portion of long term liabilities	4,456,077	4,860,415
Total Liabilities	5,477,241	5,795,579
NET ASSETS:		
Investment in capital assets - net of related debt	1,979,954	1,839,068
Restricted	3,850	4,219
Unrestricted	1,053,467	1,171,572
Total Net Assets	\$ 3,037,271	\$ 3,014,859

See Notes to Financial Statements

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

STATEMENT OF ACTIVITIES
Years Ended June 30, 2013 and 2012

	Program Revenues				Governmental Activities	
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expenses) Revenues And Changes in Net Assets Years Ended June 30, 2013	2012
GOVERNMENTAL ACTIVITIES:						
Instruction	\$ 2,777,436	\$ 25,845	\$ 486,973	\$ 4,336	\$ (2,260,282)	\$ (2,269,642)
Supporting Services	1,705,471	47,781	209,170	16,926	(1,431,594)	(1,209,506)
Community Services	0	0	0	0	0	0
Food Services	317,521	58,010	241,278	0	(18,233)	(109,254)
Interest on long term debt	236,507	0	0	0	(236,507)	(250,251)
Depreciation (Unallocated)	257,789	0	0	0	(257,789)	(246,491)
Total Governmental Activities	\$ <u>5,294,724</u>	\$ <u>131,636</u>	\$ <u>937,421</u>	\$ <u>21,262</u>	(4,204,405)	(4,085,144)
GENERAL PURPOSE REVENUES:						
Property taxes, levied for general purposes					1,868,142	1,853,399
Property taxes, levied for debt retirement					564,188	565,863
State school aid - Unrestricted					1,726,650	1,825,578
State PILT					23,150	76
Investment earnings					13,113	14,988
Other					31,574	44,352
Total General Purpose Revenues					<u>4,226,817</u>	<u>4,201,196</u>
Change in Net Assets					22,412	116,052
Net Assets - Beginning of Year					<u>3,014,859</u>	<u>2,898,807</u>
Net Assets - End of Year					\$ <u>3,037,271</u>	\$ <u>3,014,859</u>

See Notes to Financial Statements

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

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2013 and 2012

<u>ASSETS</u>	<u>GENERAL</u>	<u>FOOD SERVICE</u>	<u>2005 DEBT RETIREMENT</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>Totals June 30</u>	
					<u>2013</u>	<u>2012</u>
Cash	\$ 901,844	\$ 20,353	\$ 76,969	\$ 0	\$ 999,166	\$ 1,074,044
Taxes receivable	0	0	13,288	0	13,288	0
Accounts receivable	9,164	3,149	0	0	12,313	1,537
Grants receivable	26,499	0	0	0	26,499	21,220
Due from State of Michigan	407,629	0	0	0	407,629	370,989
Due from ESD	8,049	0	0	0	8,049	22,260
Due from other funds	0	0	0	0	0	76
Inventory	0	3,850	0	0	3,850	4,219
	<u>\$ 1,353,185</u>	<u>\$ 27,352</u>	<u>\$ 90,257</u>	<u>\$ 0</u>	<u>\$ 1,470,794</u>	<u>\$ 1,494,345</u>
 <u>LIABILITIES AND FUND EQUITY</u>						
LIABILITIES:						
Accounts payable	\$ 45,698	\$ 38	\$ 0	\$ 0	\$ 45,736	\$ 2,246
Salaries payable	271,395	4,648	0	0	276,043	258,750
Retirement	66,626	1,130	0	0	67,756	63,262
Payroll taxes	19,916	310	0	0	20,226	19,113
Employee benefits	29,719	1,440	0	0	31,159	36,615
Due to other funds	0	0	0	0	0	76
Deferred revenue	32,633	540	0	0	33,173	6,618
Total Liabilities	465,987	8,106	0	0	474,093	386,680
Fund Equity:						
Nonspendable	0	3,850	0	0	3,850	3,053
Restricted	0	15,396	90,257	0	105,653	108,935
Assigned	269,696	0	0	0	269,696	463,728
Unassigned	617,502	0	0	0	617,502	531,949
Total Fund Equity	887,198	19,246	90,257	0	996,701	1,107,665
	<u>\$ 1,353,185</u>	<u>\$ 27,352</u>	<u>\$ 90,257</u>	<u>\$ 0</u>	<u>\$ 1,470,794</u>	<u>\$ 1,494,345</u>

See Notes to Financial Statements

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

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
June 30, 2013

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	996,701
Amounts reported for governmental activities in the statement of net assets are different because -		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Capital assets at cost		13,279,782
Accumulated depreciation		(6,439,165)
Long term liabilities not due and payable in the current period and therefore not reported in the funds -		
Bonds payable		(4,860,663)
Compensated balances		(107,625)
Bond issuance costs including premiums reported as an expenditure in governmental funds and are reported as a deferred expense and amortized over the life of the bond issue in the statement of activities		
Bond issuance costs and premiums		361,450
Accumulated amortization		(158,350)
Accrued interest payable not included as a liability in governmental activities		<u>(34,859)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u><u>3,037,271</u></u>

See Notes to Financial Statements

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

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
Years Ended June 30, 2013 and 2012

	GENERAL		FOOD SERVICE		2005 DEBT RETIREMENT		OTHER NONMAJOR GOVERNMENTAL FUNDS		TOTALS JUNE 30,			
									2013	2012		
REVENUES:												
Local Sources	\$	1,982,741	\$	58,010	\$	564,228	\$	0	\$	2,604,979	\$	2,600,626
State Sources -		2,045,570		15,929		23,151		3,145		2,087,795		2,138,005
Federal Sources		231,195		225,349		0		0		456,544		393,280
Interdistrict and Other Sources		170,964		0		0		0		170,964		185,870
Total Revenues		4,430,470		299,288		587,379		3,145		5,320,282		5,317,781
EXPENDITURES:												
Instruction		2,774,651		0		0		0		2,774,651		2,667,953
Supporting Services		1,735,279		0		0		0		1,735,279		1,650,423
Community Services		0		0		0		0		0		350
Food Service		0		305,394		0		0		305,394		325,810
Debt Service -												
Principal Repayment		0		0		380,000		3,002		383,002		367,865
Interest and Fiscal Charges		0		0		216,056		143		216,199		233,456
Total Expenditures		4,509,930		305,394		596,056		3,145		5,414,525		5,245,857
OTHER FINANCING SOURCES (USES):												
Operating transfer in		0		27,298		0		0		27,298		38,000
Operating transfer (out)		(27,298)		0		0		0		(27,298)		(38,000)
Indirect costs		(8,019)		(15,000)		0		0		(23,019)		0
Indirect cost recovery		23,019		0		0		0		23,019		0
Redemption of school bus loans		(13,684)		0		0		0		(13,684)		(27,522)
Interest on school bus loans		(3,037)		0		0		0		(3,037)		(3,118)
Net Other Financing Sources (Uses)		(29,019)		12,298		0		0		(16,721)		(30,640)
NET CHANGE IN FUND BALANCES		(108,479)		6,192		(8,677)		0		(110,964)		41,284
FUND BALANCE - BEGINNING OF YEAR		995,677		13,054		98,934		0		1,107,665		1,066,381
FUND BALANCE - END OF YEAR	\$	887,198	\$	19,246	\$	90,257	\$	0	\$	996,701	\$	1,107,665

See Notes to Financial Statements

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

GOVERNMENTAL FUNDS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2013

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$		\$ (110,964)
Amounts reported for governmental activities in the statement of activities are different because -			
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:			
Depreciation expense		(333,510)	
Capital outlay		<u>80,713</u>	
Net			(252,797)
Accrued interest recorded in the statement of activities when incurred and reported in governmental funds when paid			2,994
Bond principal repayment reported as an expenditure in governmental funds and as a reduction of long term debt in the statement of activities			393,684
Amortization of bond issuance costs and premiums previously reported as expenditures in governmental funds and currently reported as deferred expenses and amortized in the statement of activities			(20,654)
Decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6			10,150
Rounding			<u>(1)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u><u>22,412</u></u>

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

FIDUCIARY FUND
BALANCE SHEET
June 30, 2013 and 2012

	June 30,	
	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash in bank	\$ <u>71,070</u>	\$ <u>59,335</u>
 <u>LIABILITIES</u>		
Due to school organizations	\$ <u>71,070</u>	\$ <u>59,335</u>

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Reporting Entity

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

District-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

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

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

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

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

The School District reports the following major governmental funds:

General Fund -

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

Food Service Fund –

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

2005 Debt Retirement Fund -

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

Assets, Liabilities, and Net Assets or Equity -

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

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

Fund Equity – Beginning with the year ended June 30, 2012 the District implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The Statement provided more clearly defined fund balance categories to make the nature and extent of the constraints placed upon a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

- Nonspendable – amounts that are not in a spendable form such as inventory;
- Restricted – amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation;
- Committed – amounts constrained to specific purposes by a government itself.
- Assigned – amounts a government intends to use for a specific purpose.
- Unassigned – amounts that are available for any purpose, positive amounts are only reported in general fund.

The provisions of GASB 54 have been retroactively applied to the prior year and the financial statements have been restated to reflect these changes. These changes had no effect on net income.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS:

Deposits of the School District are carried at cost and maintained at Independent Bank, a federally insured bank, various federally insured credit unions, and the Michigan Liquid Asset Fund.

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

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

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and			
Investments	\$ 999,167	\$ 71,070	\$ 1,070,237

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

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

Category 1.	\$ 1,070,237
Category 2.	0
Category 3.	<u>0</u>
Total Bank Balances	<u>\$ 1,070,237</u>
Carrying Amount	<u>\$ 1,070,237</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 4. CAPITAL ASSETS:

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

	Balance July 1, 2012	Additions	Disposal	Balance June 30, 2013
Land and improvements	\$ 592,185	\$ -	\$ -	\$ 592,185
Buildings and improvements	9,795,961	33,130	-	9,829,091
Buses and other vehicles	707,304	7,318	-	714,622
Furniture and equipment	<u>2,103,620</u>	<u>40,264</u>	-	<u>2,143,884</u>
Total Capital Assets	13,199,070	80,712	-	13,279,782
Accumulated Depreciation				
Land and improvements	206,027	17,785	-	223,812
Buildings and improvements	3,633,454	189,280	-	3,822,734
Buses and other vehicles	556,779	36,200	-	592,979
Furniture and equipment	<u>1,709,395</u>	<u>90,245</u>	-	<u>1,799,640</u>
Total Accumulated Depreciation	<u>6,105,655</u>	<u>333,510</u>	-	<u>6,439,165</u>
Capital Assets	<u>\$ 7,093,415</u>	<u>\$(252,798)</u>	<u>\$ -</u>	<u>\$ 6,840,617</u>

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

Governmental activities:	
Instruction	\$ 12,934
Support services	50,660
Food services	12,127
Unallocated	<u>257,789</u>
Total governmental activities	<u>\$ 333,510</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

There are no interfund receivables or payables.

Operating transfers out from the General Fund are as follows:

Food Service Fund	\$ 27,298
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HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

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

Bonds. As a result, that portion of the 1997 Building and Site Bonds is considered defeased, and the School District has removed the liability from its accounts.

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

NOTE 7. LONG-TERM DEBT:

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

The following is a summary of the long-term debt transactions of the District for the year ended June 31, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>
Bonds Payable-				
Bus Notes	\$ 59,347	\$ -	\$ 13,684	\$ 45,663
2005 Refunding	<u>5,195,000</u>	<u>-</u>	<u>380,000</u>	<u>4,815,000</u>
	5,254,347	-	393,684	4,860,663
Other Obligations-				
Compensated Absences	<u>117,775</u>	<u>-</u>	<u>10,150</u>	<u>107,625</u>
	<u>\$ 5,372,122</u>	<u>\$ -</u>	<u>\$ 403,834</u>	<u>\$ 4,968,288</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 409,586	\$ 202,759	\$ 612,345
2015	430,273	186,273	616,546
2016	445,804	168,955	614,759
2017	450,000	148,862	598,862
2018	470,000	128,612	598,612
2019-2023	<u>2,655,000</u>	<u>332,154</u>	<u>2,987,154</u>
	<u>\$ 4,860,663</u>	<u>\$ 1,167,615</u>	<u>\$ 6,028,278</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 7. LONG-TERM DEBT (continued):

Bonds and other obligations payable consist of the following:

2005 Refunding Bonds, dated November 1, 2005, with interest of 4.015% payable May 1 and November 1.	\$ 4,815,000
Bus Notes payable	45,663
Accrued sick pay	<u>107,625</u>
	<u>\$ 4,968,288</u>

Other Obligations –

Compensated Absences:

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

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

All teaching staff, after twelve years of employment with the district, are eligible to be reimbursed for accumulated sick days, up to a maximum of 188 days, upon retirement from teaching. They will be reimbursed at the then daily substitute teaching pay rate, which was \$75 for the year ended June 30, 2013. As of June 30, 2013 the amount which would be due upon retirement for eligible staff is \$107,625.

NOTE 8. RISK MANAGEMENT:

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

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9. ECONOMIC DEPENDENCY:

Approximately 46% of the District's General Fund revenues are received from the State of Michigan through the Michigan Department of Education. This District is considered to be economically dependent on this revenue source.

NOTE 10. PENSION PLAN:

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

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

Pension benefit rates run from 25.52% to 31.52% of the covered payroll. The majority of the District's employees are covered at a rate 28.88% of covered payroll. The District's contributions to the MSPERS system for the year ended June 30, 2013 approximated \$ 474,750.

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

REQUIRED SUPPLEMENTAL INFORMATION

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

BUDGET COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
REVENUES:			
Local Sources	\$ 1,866,654	\$ 1,972,168	\$ 1,982,741
State Sources	2,050,590	2,083,753	2,045,570
Federal Sources	196,468	233,195	231,195
Interdistrict and other sources	<u>120,000</u>	<u>234,389</u>	<u>170,964</u>
Total Revenues	4,233,712	4,523,505	4,430,470
EXPENDITURES:			
Instruction-			
Basic Programs	2,217,860	2,289,623	2,202,283
Added Needs	603,632	604,249	572,368
Supporting Services -			
Pupil	71,532	72,790	72,766
Instructional Staff	11,731	24,860	23,481
General Administration	93,049	95,997	84,715
School Administration	312,913	315,682	308,766
Business Services	168,929	134,321	125,262
Operation & Maintenance	612,906	629,384	587,146
Transportation	346,374	356,743	328,154
Support Services - Central	99,780	99,926	97,055
Support Services - Other	108,734	114,867	107,934
Community Services -			
Community Activities	<u>350</u>	<u>0</u>	<u>0</u>
Total Expenditures	4,647,790	4,738,442	4,509,930
OTHER FINANCING SOURCES (USES)			
Operating transfers out	(30,000)	(30,000)	(27,298)
Indirect Costs	0	0	
Indirect Costs	0	(8,019)	
Redemption of school bus loans	(16,800)	(13,690)	(13,684)
Interest on school bus loans	<u>(2,850)</u>	<u>(3,050)</u>	<u>(3,037)</u>
Net Other Financing Sources (Uses)	<u>(49,650)</u>	<u>(54,759)</u>	<u>(44,019)</u>
NET CHANGE IN FUND BALANCE	(463,728)	(269,696)	(123,479)
FUND BALANCE - BEGINNING OF YEAR	<u>802,771</u>	<u>995,677</u>	<u>919,050</u>
FUND BALANCE - END OF YEAR	\$ <u><u>339,043</u></u>	\$ <u><u>725,981</u></u>	\$ <u><u>795,571</u></u>

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

BUDGET COMPARISON SCHEDULE - FOOD SERVICE FUND
Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
REVENUES:			
Local Sources	\$ 53,500	\$ 54,349	\$ 58,010
State Sources	10,670	15,139	15,929
Federal Sources	<u>209,585</u>	<u>227,884</u>	<u>225,349</u>
Total Revenues	273,755	297,372	299,288
EXPENDITURES:			
Supporting Services - Food Service	302,526	314,366	305,394
OTHER FINANCING SOURCES (USES):			
Indirect Costs	0	(15,000)	(15,000)
Operating Transfer In	<u>30,000</u>	<u>30,000</u>	<u>27,298</u>
Net Other Financing Sources (Uses)	<u>30,000</u>	<u>15,000</u>	<u>12,298</u>
NET CHANGE IN FUND BALANCE	1,229	(1,994)	6,192
FUND BALANCE - BEGINNING OF YEAR	<u>5,919</u>	<u>13,054</u>	<u>13,054</u>
FUND BALANCE - END OF YEAR	\$ <u><u>7,148</u></u>	\$ <u><u>11,060</u></u>	\$ <u><u>19,246</u></u>

OTHER SUPPLEMENTAL INFORMATION

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

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Years Ended June 30, 2013 and 2012

REVENUES:	Years Ended June 30,	
	2013	2012
Local Sources -		
Current tax levy	\$ 1,827,167	\$ 1,832,380
Other taxes	21,112	5,920
Revenue in lieu of taxes	6,646	0
Interest on delinquent taxes	13,216	15,038
Gate receipts	24,362	28,886
Participation fees	19,349	16,480
Transportation fees	4,070	6,101
Interest on investments	3,761	5,477
Rentals	7,200	7,200
Royalties	2,112	2,270
Local grants and donations	22,172	15,037
Other	31,574	44,353
Total Local Sources	1,982,741	1,979,142
State Sources -		
State Foundation Grant	1,645,421	1,654,842
Isolated Districts	17,196	17,229
Best Financial Practices	28,281	51,760
Performance Based Funding	20,737	0
MPSERS 147a	45,973	44,733
MPSERS 147c	43,545	0
Court Placed Children	14,737	(1,252)
Special Education	101,312	107,661
At Risk - Section 31a	105,590	143,638
G.S.R.P.	3,984	91,918
Headlee Data Collection	12,717	11,264
Technology infrastructure	5,200	0
Principal Educator Evaluation	600	0
Other	277	0
Total State Sources	2,045,570	2,121,793
Federal Sources -		
Title 1	168,625	113,859
Education Jobs	0	8,772
Title II A	42,308	38,839
Small Rural Schools	18,959	14,307
Medicaid Outreach	1,303	1,411
Total Federal Sources	231,195	177,188

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

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE (CONTINUED)
Years Ended June 30, 2013 and 2012

	Years Ended June 30,	
	2013	2012
REVENUES (Continued):		
Interdistrict and Other Sources		
Transfers from other governmental units:		
Special Education	\$ 121,908	\$ 185,870
Medicaid Fee for Service	25,845	0
Great Start Readiness Program	23,211	0
Total Interdistrict and Other Sources	170,964	185,870
Total Revenues	4,430,470	4,463,993
EXPENDITURES:		
Instruction	2,774,651	2,667,953
Supporting Services	1,735,279	1,650,423
Community Services	0	350
Total Expenditures	4,509,930	4,318,726
OTHER FINANCING SOURCES (USES):		
Operating transfers out	(27,298)	(38,000)
Redemption of school bus loans	(13,684)	(27,522)
Indirect costs	(8,019)	0
Indirect cost recovery	23,019	0
Interest on school bus loans	(3,037)	(3,118)
Net Other Financing Sources (Uses)	(29,019)	(68,640)
NET CHANGE IN FUND BALANCE	(108,479)	76,627
FUND BALANCE - BEGINNING OF YEAR	995,677	919,050
FUND BALANCE - END OF YEAR	\$ 887,198	\$ 995,677

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

GENERAL FUND
 DETAIL OF EXPENDITURES
Years Ended June 30, 2013 and 2012

INSTRUCTION:	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30,	
							2013	2012
Basic Programs -								
Elementary	\$ 676,837	\$ 469,425	\$ 17,477	\$ 17,675	\$ 984	\$ 0	\$ 1,182,398	\$ 1,053,279
Secondary	563,653	291,451	73,076	49,872	984	19,276	998,312	958,315
Pre School	11,465	3,769	1,668	4,671	0	0	21,573	83,392
Total Basic Programs	1,251,955	764,645	92,221	72,218	1,968	19,276	2,202,283	2,094,986
Added Needs -								
Special Education	211,979	110,330	2,423	1,347	0	0	326,079	325,638
Compensatory Education	150,753	85,345	647	9,544	0	0	246,289	247,329
Total Added Needs	362,732	195,675	3,070	10,891	0	0	572,368	572,967
Total Instruction	1,614,687	960,320	95,291	83,109	1,968	19,276	2,774,651	2,667,953
SUPPORTING SERVICES:								
Pupil-								
Guidance Services	17,000	5,617	48,653	1,496	0	0	72,766	49,989
Instructional Staff Services -								
Improvement of Instruction	0	0	1,452	0	0	0	1,452	1,906
Instructional Related Technology	0	0	11,224	0	0	2,338	13,562	0
Supervision and Direction	3,332	2,290	0	0	0	0	5,622	8,526
Academic Student Assessment	0	0	0	2,845	0	0	2,845	783
Total Instructional Staff	3,332	2,290	12,676	2,845	0	2,338	23,481	11,215

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

GENERAL FUND
DETAIL OF EXPENDITURES (CONTINUED)
Years Ended June 30, 2013 and 2012

SUPPORTING SERVICE (CONTINUED):	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30, 2013	2012
General Administration Services -								
Board of Education	\$ 1,095	\$ 84	\$ 25,360	\$ 0	\$ 4,399	\$ 0	\$ 30,938	\$ 33,932
Executive Administration	27,959	18,650	2,454	0	4,714	0	53,777	50,109
Total General Administrative Services	29,054	18,734	27,814	0	9,113	0	84,715	84,041
School Administrative Services -								
Office of the Principal	182,775	122,249	1,596	2,146	0	0	308,766	304,177
Business Services -								
Fiscal Services	53,705	40,332	680	915	360	0	95,992	95,103
Other Business Services	0	0	23,997	0	5,273	0	29,270	45,785
Total Business Services	53,705	40,332	24,677	915	5,633	0	125,262	140,888
Operations and Maintenance -								
Operations of Buildings Services	148,060	121,893	105,609	164,889	1,094	44,294	585,839	564,555
Security Services	0	0	1,307	0	0	0	1,307	928
Total Operations and Maintenance	148,060	121,893	106,916	164,889	1,094	44,294	587,146	565,483
Pupil Transportation Services -								
Pupil Transportation Services	154,406	75,932	10,425	79,144	928	7,319	328,154	302,025
Support Services - Central -								
Staff/Personnel Services	12,729	9,024	0	0	0	0	21,753	21,370
Non Instructional Technology	0	0	48,000	24,916	0	2,386	75,302	74,581
Total Support Services - Central	12,729	9,024	48,000	24,916	0	2,386	97,055	95,951
Support Services - Other -								
Athletics	23,585	8,241	52,103	16,543	2,362	5,100	107,934	96,654
Total Supporting Services	624,646	404,312	332,860	292,894	19,130	61,437	1,735,279	1,650,423
COMMUNITY SERVICES:								
Community Activities	0	0	0	0	0	0	0	350
Total Expenditures	\$ 2,239,333	\$ 1,364,632	\$ 428,151	\$ 376,003	\$ 21,098	\$ 80,713	\$ 4,509,930	\$ 4,318,726

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

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Years Ended June 30, 2013 and 2012

REVENUES:	Years Ended June 30,	
	2013	2012
Local Sources -		
Cafeteria sales	\$ 48,314	\$ 50,436
Milk machine	1,280	95
Earnings on investments	15	0
Headstart sales	4,520	4,967
GSRP lunches	1,407	2,434
Other	2,474	2,052
Total Local Sources	58,010	55,581
State Sources -		
Section 31a At Risk	2,760	2,820
Section 31d School Lunch	13,169	10,171
Total State Sources	15,929	12,991
Federal Sources -		
National School Lunch Program	152,175	140,181
National School Breakfast Program	58,088	56,583
Donated commodities - Entitlement	15,086	17,547
Donated commodities - Bonus	0	1,781
Total Federal Sources	225,349	216,092
Total Revenues	299,288	284,664
EXPENDITURES:		
Supporting Services -		
Food Service -		
Salaries and wages	81,994	82,122
Employee benefits	66,146	67,668
Purchased services	4,291	6,876
Food and milk	124,339	116,424
USDA Delivery charge	21,234	21,966
Sales tax	422	737
Supplies and other costs	6,968	7,017
Total Expenditures	305,394	302,810
OTHER FINANCING SOURCES (Uses):		
Operating Transfers in	27,298	38,000
Indirect costs	(15,000)	(23,000)
Total Other Financing Sources (Uses)	12,298	15,000
NET CHANGE IN FUND BALANCES	6,192	(3,146)
FUND BALANCE - BEGINNING OF YEAR	13,054	16,200
FUND BALANCE - END OF YEAR	\$ 19,246	\$ 13,054

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

2005 DEBT RETIREMENT FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
Years Ended June 30, 2013 and 2012

REVENUES:	Years Ended June 30,	
	2013	2012
Local Sources -		
Current tax levy	\$ 560,491	\$ 559,349
Other taxes	64	1,171
Interest on delinquent taxes	3,331	5,343
Earnings on investments	342	40
Total Local Sources	564,228	565,903
State Sources -		
Payment in lieu of taxes	23,151	76
Total Revenues	587,379	565,979
EXPENDITURES:		
Debt Service -		
Bond principal	380,000	365,000
interest on bonded debt	215,809	229,499
Paying agent fees	225	225
Taxes paid back	22	3,452
Total Expenditures	596,056	598,176
NET CHANGE IN FUND BALANCES	(8,677)	(32,197)
FUND BALANCE - BEGINNING OF YEAR	98,934	131,131
FUND BALANCE - END OF YEAR	\$ 90,257	\$ 98,934

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

FIDUCIARY FUND
 STATEMENT OF DUE SCHOOL ORGANIZATIONS
Years Ended June 30, 2013 and 2012

	June 30,	
	2013	2012
ELEMENTARY -		
Camp	\$ 0	\$ 556
Fines	652	510
General Purpose	80	702
Library	244	243
MiBLSi	26	35
Physical Education	21	1
Playground	892	892
School Spirit Store	618	584
Student Improvement	672	383
	3,205	3,906
TOTAL ELEMENTARY		
HIGH SCHOOL -		
Class of 2012	0	2,094
Class of 2013	547	2,937
Class of 2014	1,675	3,569
Class of 2015	6,774	3,367
Class of 2016	4,539	2,381
Class of 2017	1,562	0
Class of 2018	1,093	0
Band	2,565	3,449
Baseball	3,904	1,374
Basketball - Girls	1,538	7,651
Basketball - Boys	569	1
Basketball - Jr High	0	178
Broadcasting	1,176	163
Cheerleading	48	59
Corn Maze	253	1,205
Drama	418	418
Fines & Supplies	0	167
Football	2,333	792
Golf	263	263
Honor Society	822	754
Interest	4	0

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

FIDUCIARY FUND
 STATEMENT OF DUE TO SCHOOL ORGANIZATIONS (CONTINUED)
Years Ended June 30, 2013 and 2012

	June 30,	
	2013	2012
HIGH SCHOOL (Continued) -		
Library	\$ 431	\$ 431
News Writing	135	0
No Detention	5	5
Physics	754	990
Pizza Club	188	366
Rentals	869	824
Revolving Account	180	315
Scholarship	21,000	9,500
Shop	514	883
Softball	372	403
Spanish	186	70
Special Ed	1,578	764
Student	309	326
Student Council	1,744	1,654
Student Improvement	1,292	239
Track	450	550
Track - Junior High	101	125
Volleyball	1,537	1,095
Youth Community Service	689	689
Yearbook	5,448	5,378
Total High School	67,865	55,429
	\$ 71,070	\$ 59,335

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

DETAIL OF BONDED DEBT
 2005 REFUNDING BONDS
June 30, 2013

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

<u>Date</u>	<u>May, 1</u>		<u>November, 1</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
2013	\$	\$	\$ 100,306	\$ 100,306
2014	395,000	100,306	92,406	587,712
2015	415,000	92,406	84,106	591,512
2016	430,000	84,106	74,431	588,537
2017	450,000	74,431	64,306	588,737
2018	470,000	64,306	53,731	588,037
2019	490,000	53,731	43,931	587,662
2020	510,000	43,931	33,731	587,662
2021	535,000	33,731	23,031	591,762
2022	555,000	23,031	11,653	589,684
2023	565,000	11,653	0	576,653
	\$ <u>4,815,000</u>	\$ <u>581,632</u>	\$ <u>581,632</u>	\$ <u>5,978,264</u>

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

DETAIL OF BUS NOTE PAYABLE
June 30, 2013

Security: 2010 77 passenger bus
 Date of Loan: Novemebr 12, 2010
 Interest Rate: 4.70%

Date	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>
November 01,2013	\$ 16,733	\$ 14,586	\$ 2,147
November 01,2014	16,734	15,273	1,461
November 01,2015	<u>16,547</u>	<u>15,804</u>	<u>743</u>
	\$ <u>50,014</u>	\$ <u>45,663</u>	\$ <u>4,351</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 OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillman Community Schools', as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Hillman Community Schools' basic financial statements, and have issued our report thereon dated September 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hillman Community Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hillman Community Schools' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Education
Hillman Community Schools

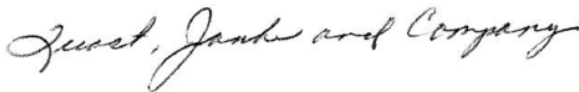
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillman Community Schools’ financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

QUAST, JANKE & CO.



Certified Public Accountants, P.C.
Bay City, Michigan 48708
September 27, 2013