

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

FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
June 30, 2014 and 2013

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**INDEPENDENT AUDITORS' 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, 2014 and 2013, 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.

**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, 2014 and 2013, 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*

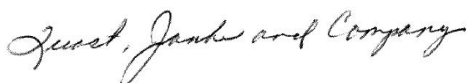
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillman Community Schools' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for 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.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2014 on our consideration of the Hillman Community Schools' internal control over financial reporting and on our tests of its 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hillman Community Schools' internal control over financial reporting and compliance.

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C.  
Bay City, Michigan 48708  
August 28, 2014

## **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, 2014 and 2013. 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 position, 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 position 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 position – the difference between assets and liabilities, as reported in the statement of net position – 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 position – 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 position 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 position 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 position. 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 position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2014 and 2013.

TABLE 1:

	<u>Governmental Activities</u>	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<b>Assets</b>		
Current and other assets	\$ 1,332,043	\$ 1,470,795
Capital assets – Net of accumulated depreciation	<u>6,564,665</u>	<u>6,840,617</u>
Total Assets	7,896,708	8,311,412
Deferred Outflows of Resources	182,446	203,100
<b>Liabilities</b>		
Current liabilities	867,416	880,366
Long-term liabilities	<u>4,126,655</u>	<u>4,563,702</u>
Total Liabilities	<u>4,994,071</u>	<u>5,444,068</u>
Deferred Inflows of Resources	32,288	33,173
<b>Net Position</b>		
Invested in property and equipment – Net of related debt	2,113,637	1,979,954
Restricted	6,467	3,850
Unrestricted	<u>932,691</u>	<u>1,053,467</u>
Total Net Position	<u>\$ 3,052,795</u>	<u>\$ 3,037,271</u>

## Hillman Community Schools Management's Discussion and Analysis

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was \$3,052,795 at June 30, 2014. 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 position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use the net position for day-to-day operations. The remaining amount of net position, \$932,691 was unrestricted.

The \$932,691 in unrestricted net position 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 position 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 position for fiscal years ended June 30, 2014 and 2013.

TABLE 2:

	<u>Governmental Activities</u>	
	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
<b>Program revenue:</b>		
Charges for services	\$ 139,963	\$ 131,636
Grants and categoricals	1,015,047	958,683
General revenue:		
Property taxes	2,570,799	2,432,330
State PILT	15,741	23,150
State unrestricted aid	1,616,542	1,726,650
Investment earnings	14,115	13,113
Other	<u>23,622</u>	<u>31,574</u>
Total revenue	5,395,829	5,317,136
<b>Function/Program Expenses</b>		
Instruction	2,906,223	2,777,436
Support services	1,705,827	1,705,471
Community services	393	0
Food services	311,747	317,521
Interest on long-term debt	220,530	236,507
Depreciation (unallocated)	<u>228,216</u>	<u>257,789</u>
Total expenses	<u>5,372,936</u>	<u>5,294,724</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 22,893</u>	<u>\$ 22,412</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 \$5,372,936. 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 \$2,570,799 in taxes, \$1,616,542 in State Unrestricted Aid, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position of \$22,893. Key reasons for the change in net position were continued fiscal management. The increase in net position 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 \$894,385, which is a decrease of \$102,316 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 \$97,510 to \$789,688. Overall, actual General Fund revenue and expenses were within 99 and 96 percent of budgeted amounts, respectively.

The 2005 Debt Retirement Fund fund balance increased by \$3,470.  
The Food Service Fund Balance decreased by \$8,276.

### **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, 2014, the School District had \$13,255,691 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 \$24,091.

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 592,185	\$ 592,185
Buildings and improvements	9,829,091	9,829,091
Buses and Other Vehicles	654,410	714,622
Equipment	<u>2,180,005</u>	<u>2,143,884</u>
Total capital assets	13,255,691	13,279,782
Less accumulated depreciation	<u>6,691,026</u>	<u>6,439,165</u>
Net capital assets	<u>\$ 6,564,665</u>	<u>\$ 6,840,617</u>

This year's additions of \$36,121 consisted of technology and shop equipment.

##### **Debt**

At the end of this year, the School District had \$4,451,028 in bonds outstanding versus \$4,860,663 in the previous year. These bonds consisted of the following:

2005 Refunding Bonds	\$ 4,420,000
Bus notes	<u>31,028</u>
	<u>\$ 4,451,028</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 \$4,451,028 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 2015 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 2015 fiscal year is 90 percent and 10 percent of the September 2014 and February 2015 student counts, respectively. The 2015 fiscal year budget was adopted in June 2014, based on an estimate of students that will be enrolled in September of 2014. Approximately 45 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 2014-2015 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2015 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 \_\_crease 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 POSITION  
June 30, 2014 and 2013

	June 30,	
	2014	2013
ASSETS:		
Cash & equivalents	\$ 893,074	\$ 999,167
Accounts receivable	13,950	12,313
Taxes receivable	0	13,288
Due from other governmental units	418,552	442,177
Prepaid items	175	0
Inventories	6,292	3,850
Capital assets	13,255,691	13,279,782
Accumulated depreciation	(6,691,026)	(6,439,165)
Total Assets	7,896,708	8,311,412
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred bond costs	182,446	203,100
LIABILITIES:		
Accounts payable	11,610	45,736
Accrued payroll and other liabilities	393,759	395,185
Accrued interest	31,774	34,859
Compensated absences	105,900	107,625
Current portion of long term liabilities	430,273	404,586
Non current portion of long term liabilities	4,020,755	4,456,077
Total Liabilities	4,994,071	5,444,068
DEFERRED INFLOWS OF RESOURCES:		
Unavailable revenue	32,288	33,173
NET POSITION:		
Investment in capital assets - net of related debt	2,113,637	1,979,954
Restricted	6,467	3,850
Unrestricted	932,691	1,053,467
Total Net Position	\$ 3,052,795	\$ 3,037,271

See Notes to Financial Statements

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

STATEMENT OF ACTIVITIES  
Years Ended June 30, 2014 and 2013

	Expenses	Program Revenues		Governmental Activities	
		Charges for Services	Operating Grants/Contributions	Capital Grants/Contributions	Net (Expenses) Revenues And Changes in Net Assets Years Ended June 30, 2014 2013
GOVERNMENTAL ACTIVITIES:					
Instruction	\$ 2,906,223	\$ 23,777	\$ 417,532	\$ 19,784	\$ (2,445,130) \$ (2,260,282)
Supporting Services	1,705,827	50,199	356,259	0	(1,299,369) (1,431,594)
Community Services	393	0	0	0	(393) 0
Food Services	311,747	65,987	221,472	0	(24,288) (18,233)
Interest on long term debt	220,530	0	0	0	(220,530) (236,507)
Depreciation (Unallocated)	228,216	0	0	0	(228,216) (257,789)
Total Governmental Activities	\$ <u>5,372,936</u>	\$ <u>139,963</u>	\$ <u>995,263</u>	\$ <u>19,784</u>	(4,217,926) (4,204,405)
GENERAL PURPOSE REVENUES:					
Property taxes, levied for operating purposes					1,987,122 1,868,142
Property taxes, levied for debt retirement					583,677 564,188
State school aid - Unrestricted					1,616,542 1,726,650
State PILT					15,741 23,150
Investment earnings					14,115 13,113
Other					<u>23,622</u> <u>31,574</u>
Total General Purpose Revenues					<u>4,240,819</u> <u>4,226,817</u>
Change in Net Assets					22,893 22,412
Prior Period Adjustment - State Aid					(7,369) 0
Net Assets - Beginning of Year					<u>3,037,271</u> <u>3,014,859</u>
Net Assets - End of Year					\$ <u><u>3,052,795</u></u> \$ <u><u>3,037,271</u></u>

See Notes to Financial Statements

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

GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2014 and 2013

ASSETS	GENERAL	FOOD SERVICE	2005 DEBT RETIREMENT	Totals June 30	
				2014	2013
Cash	\$ 786,120	\$ 13,227	\$ 93,727	\$ 893,074	\$ 999,166
Taxes receivable	0	0	0	0	13,288
Accounts receivable	13,950	389	0	14,339	12,313
Grants receivable	35,318	0	0	35,318	26,499
Due from State of Michigan	382,845	0	0	382,845	407,629
Due from ESD	0	0	0	0	8,049
Prepaid items	175	0	0	175	0
Inventory	0	6,292	0	6,292	3,850
	<u>\$ 1,218,408</u>	<u>\$ 19,908</u>	<u>\$ 93,727</u>	<u>\$ 1,332,043</u>	<u>\$ 1,470,794</u>
<u>LIABILITIES AND FUND EQUITY</u>					
LIABILITIES:					
Accounts payable	\$ 11,610	\$ 0	\$ 0	\$ 11,610	\$ 45,736
Salaries payable	260,710	4,957	0	265,667	276,043
Retirement	77,070	1,455	0	78,525	67,756
Payroll taxes	18,596	320	0	18,916	20,226
Employee benefits	29,182	1,470	0	30,652	31,159
Total Liabilities	397,168	8,202	0	405,370	440,920
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue	31,552	736	0	32,288	33,173
FUND BALANCES:					
Nonspendable	175	5,557	0	5,732	3,850
Restricted	0	5,413	93,727	99,140	105,653
Assigned	290,076	0	0	290,076	269,696
Unassigned	499,437	0	0	499,437	617,502
Total Fund Balances	789,688	10,970	93,727	894,385	996,701
Total Liabilities, Deferred Inflows of Resources , and Fund Balances	<u>\$ 1,218,408</u>	<u>\$ 19,908</u>	<u>\$ 93,727</u>	<u>\$ 1,332,043</u>	<u>\$ 1,470,794</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 POSITION  
June 30, 2014

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 894,385
Amounts reported for governmental activities in the statement of net position are different because -	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Capital assets at cost	13,255,691
Accumulated depreciation	(6,691,026)
Long term liabilities not due and payable in the current period and therefore not reported in the funds -	
Bonds payable	(4,451,028)
Compensated balances	(105,900)
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 net of accumulated amortization	182,446
Accrued interest payable not included as a liability in governmental activities	(31,774)
Rounding	<u>1</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u><u>3,052,795</u></u>

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

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE  
Years Ended June 30, 2014 and 2013

	GENERAL	FOOD SERVICE	2005 DEBT RETIREMENT	TOTALS JUNE 30, 2014	2013
REVENUES:					
Local Sources	\$ 2,119,621	\$ 65,987	\$ 583,676	\$ 2,769,284	\$ 2,604,979
State Sources -	2,044,375	15,610	15,741	2,075,726	2,087,795
Federal Sources	188,911	205,862	0	394,773	456,544
Interdistrict and Other Sources	154,166	0	0	154,166	170,964
Total Revenues	4,507,073	287,459	599,417	5,393,949	5,320,282
EXPENDITURES:					
Instruction	2,915,811	0	0	2,915,811	2,774,651
Supporting Services	1,662,281	0	0	1,662,281	1,735,279
Community Services	393	0	0	393	0
Food Service	0	299,620	0	299,620	305,394
Debt Service -					
Principal Repayment	0	0	395,000	395,000	383,002
Interest and Fiscal Charges	0	0	200,947	200,947	216,199
Total Expenditures	4,578,485	299,620	595,947	5,474,052	5,414,525
OTHER FINANCING SOURCES (USES):					
Operating transfer in	0	26,849	0	26,849	27,298
Operating transfer (out)	(26,849)	0	0	(26,849)	(27,298)
Sale of assets	1,877	0	0	1,877	0
Indirect costs	0	(22,964)	0	(22,964)	(23,019)
Indirect cost recovery	22,964	0	0	22,964	23,019
Redemption of school bus loans	(14,635)	0	0	(14,635)	(13,684)
Interest on school bus loans	(2,086)	0	0	(2,086)	(3,037)
Net Other Financing Sources (Uses)	(18,729)	3,885	0	(14,844)	(16,721)
NET CHANGE IN FUND BALANCES	(90,141)	(8,276)	3,470	(94,947)	(110,964)
Prior Period Adjustment - State Aid	(7,369)	0	0	(7,369)	0
FUND BALANCE - BEGINNING OF YEAR	887,198	19,246	90,257	996,701	1,107,665
FUND BALANCE - END OF YEAR	\$ 789,688	\$ 10,970	\$ 93,727	\$ 894,385	\$ 996,701

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, 2014

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	\$	(94,947)
--	----	----	----------

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	(312,073)	
Capital outlay	<u>36,121</u>	

Net		(275,952)
-----	--	-----------

Accrued interest recorded in the statement of activities when incurred and reported in governmental funds when paid	3,085
--	-------

Bond principal repayment reported as an expenditure in governmental funds and as a reduction of long term debt in the statement of activities	409,635
---	---------

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	1,725
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Rounding	<u>1</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>22,893</u></u>
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HILLMAN COMMUNITY SCHOOLS  
Alpena, Montmorency and Presque Isle Counties, Michigan

FIDUCIARY FUND  
BALANCE SHEET  
June 30, 2014 and 2013

	June 30,	
	2014	2013
<u>ASSETS</u>		
Cash in bank	\$ <u>77,534</u>	\$ <u>70,944</u>
<u>LIABILITIES</u>		
Due to school organizations	\$ <u>77,534</u>	\$ <u>70,944</u>

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

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 position 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, 2014

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, 2014

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

**Assets, Liabilities, and Net Position 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, 2014

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, 2014

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	\$ 893,074	\$ 77,534	\$ 970,608

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.	\$ 970,608
Category 2.	0
Category 3.	0
Total Bank Balances	<u>\$ 970,608</u>
Carrying Amount	<u>\$ 970,608</u>

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE 4. CAPITAL ASSETS:

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

	Balance July 1, 2013	Additions	Disposal	Balance June 30, 2014
Land and improvements	\$ 592,185	\$ -	\$ -	\$ 592,185
Buildings and improvements	9,829,091	-	-	9,829,091
Buses and other vehicles	714,622	-	60,212	654,410
Furniture and equipment	<u>2,143,884</u>	<u>36,121</u>	<u>-</u>	<u>2,180,005</u>
Total Capital Assets	13,279,782	36,121	60,212	13,255,691
Accumulated Depreciation				
Land and improvements	223,812	17,785	-	241,597
Buildings and improvements	3,822,734	187,262	-	4,009,996
Buses and other vehicles	592,979	32,817	60,212	565,584
Furniture and equipment	<u>1,799,640</u>	<u>74,209</u>	<u>-</u>	<u>1,873,849</u>
Total Accumulated Depreciation	<u>6,439,165</u>	<u>312,073</u>	<u>60,212</u>	<u>6,691,026</u>
Capital Assets	<u>\$ 6,840,617</u>	<u>\$ (275,952)</u>	<u>\$ -</u>	<u>\$ 6,564,665</u>

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

Governmental activities:	
Instruction	\$ 14,038
Support services	57,692
Food services	12,127
Unallocated	<u>228,216</u>
Total governmental activities	<u>\$ 312,073</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	\$ 26,849
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HILLMAN COMMUNITY SCHOOLS  
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE 6. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunded debt results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE 7. LONG-TERM DEBT (continued):

The following is a summary of the long-term debt transactions of the District for the year ended June 31, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>
Bonds Payable-				
Bus Notes	\$ 45,663	\$ -	\$ 14,635	\$ 31,028
2005 Refunding	<u>4,815,000</u>	<u>-</u>	<u>395,000</u>	<u>4,420,000</u>
	4,860,663	-	409,635	4,451,028
Other Obligations-				
Compensated Absences	<u>107,625</u>	<u>-</u>	<u>1,725</u>	<u>105,900</u>
	<u>\$ 4,968,288</u>	<u>\$ -</u>	<u>\$ 411,360</u>	<u>\$ 4,556,928</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>
2015	\$ 430,273	\$ 186,270	\$ 616,543
2016	445,755	168,952	614,707
2017	450,000	148,862	598,862
2018	470,000	128,612	598,612
2019	490,000	107,462	597,462
2020-2023	<u>2,165,000</u>	<u>224,692</u>	<u>2,389,692</u>
	<u>\$ 4,451,028</u>	<u>\$ 964,850</u>	<u>\$ 5,415,878</u>

Bonds and other obligations payable consist of the following:

2005 Refunding Bonds, dated November 1, 2005, with interest of 4.015% payable May 1 and November 1.	\$ 4,420,000
Bus Notes payable	31,028
Accrued sick pay	<u>105,900</u>
	<u>\$ 4,556,928</u>

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE 7. LONG-TERM DEBT (continued):

Other Obligations –

Compensated Absences:

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

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

All teaching staff, after twelve years of employment with the district, are eligible to be reimbursed for accumulated sick days, up to a maximum of 188 days, upon retirement from teaching. They will be reimbursed at the then daily substitute teaching pay rate, which was \$75 for the year ended June 30, 2014. As of June 30, 2014 the amount which would be due upon retirement for eligible staff is \$105,900.

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, 2014

NOTE 9. ECONOMIC DEPENDENCY:

Approximately 45% 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 available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

**Pension Benefits** – Employer contributions to the pension 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. The employer contribution rate for basic plan members was 15.96% of covered payroll for the period from July 1, 2013 through September 30, 2013. The employer contribution rate for pension plus plan members was 14.73% for the period July 1, 2013 through September 30, 2013. Beginning October 1, 2013 through January 31, 2014, employees were given the following plan options with the corresponding employer contribution rates:

	First Worked Before July 1, 2010*	First Worked on or After July 1, 2010, Through September 2012**	First Worked on or After September 4, 2012 and Remain Pension Plus	First Worked on or After September 4, 2012 and Elect DC
Pension contributions	16.25%	15.02%	15.02%	12.78%
Health contributions	9.11%	9.11%	8.18%	8.18%

\* Basic, MIP Fixed MIP Graded, MIP Plus

\*\* Pension Plus

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE 10. PENSION PLAN (continued):

For the period from February 1, 2014 through June 30, 2014 employees could transition to a defined contribution plan (DC) and could also elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election. Employees had the following plan options with the corresponding employer contribution rates:

	<u>Basic MIP</u>	<u>Pension Plus</u>	<u>Pension Plus PHF*</u>	<u>Pension Plus to DC with PHF*</u>	<u>Basic MIP DB to DC With DB Health</u>	<u>Basic MIP DB to DC with PHF</u>	<u>Basic MIP with PHF</u>
Pension contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Defined contribution plan							
Employer contributions:							
DC employer contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

\*First worked September 4, 2012  
or later

Depending on the plan selected, plan member contributions range from 0% up to 7.0% of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

NOTE 11. UPCOMING ACCOUNTING PRONOUNCEMENTS:

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability, that will be recorded on the government-wide, proprietary, and discretely presented component units statements, will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted; however, the impact is expected to be material. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

## REQUIRED SUPPLEMENTAL INFORMATION

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

BUDGET COMPARISON SCHEDULE - GENERAL FUND  
Year Ended June 30, 2014

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Local Sources	\$ 1,922,081	\$ 2,099,783	\$ 2,119,621
State Sources	2,069,475	2,062,456	2,044,375
Federal Sources	167,402	188,911	188,911
Interdistrict and other sources	120,000	156,041	154,166
Total Revenues	4,278,958	4,507,191	4,507,073
EXPENDITURES:			
Instruction-			
Basic Programs	2,253,947	2,419,364	2,379,262
Added Needs	546,463	560,887	536,549
Supporting Services -			
Pupil	55,820	55,820	55,172
Instructional Staff	3,400	4,840	3,464
General Administration	93,174	101,975	89,297
School Administration	332,669	294,699	286,423
Business Services	170,414	144,190	131,045
Operation & Maintenance	584,547	574,079	537,216
Transportation	360,152	350,751	334,216
Support Services - Central	117,861	131,694	126,239
Support Services - Other	130,139	125,359	99,209
Community Services -			
Community Activities	0	393	393
Total Expenditures	4,648,586	4,764,051	4,578,485
OTHER FINANCING SOURCES (USES)			
Operating transfers out	(50,000)	(38,369)	(26,849)
Indirect costs	0	(1,500)	0
Indirect costs recovery	15,000	23,000	22,964
Sale of assets	0	0	1,877
Redemption of school bus loans	(14,600)	(14,640)	(14,635)
Interest on school bus loans	(2,200)	(2,100)	(2,086)
Net Other Financing Sources (Uses)	(51,800)	(33,609)	(18,729)
NET CHANGE IN FUND BALANCE	(421,428)	(290,469)	(90,141)
Prior Year Adjustment - State Aid	0	0	(7,369)
FUND BALANCE - BEGINNING OF YEAR	725,981	887,198	887,198
FUND BALANCE - END OF YEAR	\$ 304,553	\$ 596,729	\$ 789,688

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

BUDGET COMPARISON SCHEDULE - FOOD SERVICE FUND  
Year Ended June 30, 2014

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Local Sources	\$ 52,000	\$ 63,884	\$ 65,987
State Sources	14,760	15,610	15,610
Federal Sources	<u>214,070</u>	<u>208,453</u>	<u>205,862</u>
Total Revenues	280,830	287,947	287,459
EXPENDITURES:			
Supporting Services - Food Service	324,363	312,670	299,620
OTHER FINANCING SOURCES (USES):			
Indirect Costs	(15,000)	(23,000)	(22,964)
Operating Transfer In	<u>50,000</u>	<u>31,000</u>	<u>26,849</u>
Net Other Financing Sources (Uses)	<u>35,000</u>	<u>8,000</u>	<u>3,885</u>
NET CHANGE IN FUND BALANCE	(8,533)	(16,723)	(8,276)
FUND BALANCE - BEGINNING OF YEAR	<u>11,060</u>	<u>19,245</u>	<u>19,246</u>
FUND BALANCE - END OF YEAR	\$ <u><u>2,527</u></u>	\$ <u><u>2,522</u></u>	\$ <u><u>10,970</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, 2014 and 2013

REVENUES:	Years Ended June 30,	
	2014	2013
Local Sources -		
Current tax levy	\$ 1,923,445	\$ 1,827,167
Other taxes	42,131	21,112
Revenue in lieu of taxes	0	6,646
Interest on delinquent taxes	21,546	13,216
Gate receipts	27,367	24,362
Participation fees	19,445	19,349
Transportation fees	3,387	4,070
Interest on investments	3,841	3,761
Rentals	7,200	7,200
Royalties	3,074	2,112
Local grants and donations	46,442	22,172
Other	21,743	31,574
Total Local Sources	2,119,621	1,982,741
State Sources -		
State Foundation Grant	1,546,564	1,645,421
Isolated Districts	22,007	17,196
Best Financial Practices	27,756	28,281
Performance Based Funding	20,215	20,737
MPSERS 147a	31,625	45,973
MPSERS 147c	117,011	43,545
Court Placed Children	0	14,737
Special Education	108,380	101,312
At Risk - Section 31a	142,811	105,590
G.S.R.P.	0	3,984
Headlee Data Collection	12,521	12,717
First Robotics	7,884	0
Technology infrastructure	4,901	5,200
Principal Educator Evaluation	0	600
Trig Stipend	2,700	0
Other	0	277
Total State Sources	2,044,375	2,045,570
Federal Sources -		
Title 1	129,031	168,625
Title II A	39,009	42,308
Small Rural Schools	19,894	18,959
Medicaid Outreach	977	1,303
Total Federal Sources	188,911	231,195

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, 2014 and 2013

	Years Ended June 30,	
	2014	2013
REVENUES (Continued):		
Interdistrict and Other Sources		
Transfers from other governmental units:		
Special Education	\$ 130,389	\$ 121,908
Medicaid Fee for Service	23,777	25,845
Great Start Readiness Program	0	23,211
Total Interdistrict and Other Sources	154,166	170,964
Total Revenues	4,507,073	4,430,470
EXPENDITURES:		
Instruction	2,915,811	2,774,651
Supporting Services	1,662,281	1,735,279
Community Services	393	0
Total Expenditures	4,578,485	4,509,930
OTHER FINANCING SOURCES (USES):		
Operating transfers out	(26,849)	(27,298)
Sale of assets	1,877	0
Redemption of school bus loans	(14,635)	(13,684)
Indirect costs	0	(8,019)
Indirect cost recovery	22,964	23,019
Interest on school bus loans	(2,086)	(3,037)
Net Other Financing Sources (Uses)	(18,729)	(29,019)
NET CHANGE IN FUND BALANCE	(90,141)	(108,479)
FUND BALANCE - BEGINNING OF YEAR	887,198	995,677
Prior Year Adjustment - State Aid	(7,369)	0
FUND BALANCE - END OF YEAR	\$ 789,688	\$ 887,198

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

GENERAL FUND  
 DETAIL OF EXPENDITURES  
Years Ended June 30, 2014 and 2013

INSTRUCTION:	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30,	
							2014	2013
Basic Programs -								
Elementary	\$ 672,714	\$ 457,647	\$ 21,635	\$ 86,111	\$ 1,055	\$ 0	\$ 1,239,162	\$ 1,182,398
Secondary	586,420	347,056	108,656	62,912	14,450	20,606	1,140,100	998,312
Pre School	0	0	0	0	0	0	0	21,573
Total Basic Programs	1,259,134	804,703	130,291	149,023	15,505	20,606	2,379,262	2,202,283
Added Needs -								
Special Education	176,374	102,109	2,469	958	0	0	281,910	326,079
Compensatory Education	153,567	93,504	418	5,855	0	1,295	254,639	246,289
Total Added Needs	329,941	195,613	2,887	6,813	0	1,295	536,549	572,368
Total Instruction	1,589,075	1,000,316	133,178	155,836	15,505	21,901	2,915,811	2,774,651
SUPPORTING SERVICES:								
Pupil -								
Guidance Services	0	0	54,320	852	0	0	55,172	72,766
Instructional Staff Services -								
Improvement of Instruction	0	0	1,916	0	0	0	1,916	1,452
Instructional Related Technology	0	0	0	0	0		0	13,562
Supervision and Direction	0	0	0	0	0	0	0	5,622
Academic Student Assessment	0	0	0	1,548	0	0	1,548	2,845
Total Instructional Staff	0	0	1,916	1,548	0	0	3,464	23,481

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

GENERAL FUND  
 DETAIL OF EXPENDITURES (CONTINUED)  
Years Ended June 30, 2014 and 2013

SUPPORTING SERVICE (CONTINUED):	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30, 2014	2013
General Administration Services -								
Board of Education	\$ 1,820	\$ 151	\$ 17,007	\$ 0	\$ 4,826	\$ 0	\$ 23,804	\$ 30,938
Executive Administration	33,431	21,803	5,284	0	4,975	0	65,493	53,777
Total General Administrative Services	35,251	21,954	22,291	0	9,801	0	89,297	84,715
School Administrative Services -								
Office of the Principal	175,691	106,832	2,062	1,838	0	0	286,423	308,766
Business Services -								
Fiscal Services	62,128	40,307	529	661	1,029	0	104,654	95,992
Other Business Services	0	0	24,105	0	2,286	0	26,391	29,270
Total Business Services	62,128	40,307	24,634	661	3,315	0	131,045	125,262
Operations and Maintenance -								
Operations of Buildings Services	155,400	113,628	95,755	170,203	857	0	535,843	585,839
Security Services	0	0	1,373	0	0	0	1,373	1,307
Total Operations and Maintenance	155,400	113,628	97,128	170,203	857	0	537,216	587,146
Pupil Transportation Services -								
Pupil Transportation Services	169,307	80,788	12,134	68,404	1,783	1,800	334,216	328,154
Support Services - Central -								
Staff/Personnel Services	19,718	11,527	0	0	0	0	31,245	21,753
Non Instructional Technology	0	0	41,000	41,574	0	12,420	94,994	75,302
Total Support Services - Central	19,718	11,527	41,000	41,574	0	12,420	126,239	97,055
Support Services - Other -								
Athletics	14,521	3,687	65,132	13,222	2,647	0	99,209	107,934
Total Supporting Services	632,016	378,723	320,617	298,302	18,403	14,220	1,662,281	1,735,279
COMMUNITY SERVICES:								
Community Activities	0	0	0	393	0	0	393	0
Total Expenditures	\$ 2,221,091	\$ 1,379,039	\$ 453,795	\$ 454,531	\$ 33,908	\$ 36,121	\$ 4,578,485	\$ 4,509,930

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, 2014 and 2013

REVENUES:	Years Ended June 30,	
	2014	2013
Local Sources -		
Cafeteria sales	\$ 47,428	\$ 48,314
Milk machine	2,829	1,280
Earnings on investments	46	15
Headstart sales	5,178	4,520
GSRP lunches	8,981	1,407
Other	1,525	2,474
Total Local Sources	65,987	58,010
State Sources -		
Section 31a At Risk	2,810	2,760
Section 31d School Lunch	12,800	13,169
Total State Sources	15,610	15,929
Federal Sources -		
National School Lunch Program	136,988	152,175
National School Breakfast Program	50,396	58,088
Donated commodities - Entitlement	18,478	15,086
Total Federal Sources	205,862	225,349
Total Revenues	287,459	299,288
EXPENDITURES:		
Supporting Services -		
Food Service -		
Salaries and wages	87,127	81,994
Employee benefits	60,915	66,146
Purchased services	4,156	4,291
Food and milk	113,503	124,339
USDA Delivery charge	26,367	21,234
Sales tax	892	422
Supplies and other costs	6,660	6,968
Total Expenditures	299,620	305,394
OTHER FINANCING SOURCES (Uses):		
Operating Transfers in	26,849	27,298
Indirect costs	(22,964)	(15,000)
Total Other Financing Sources (Uses)	3,885	12,298
NET CHANGE IN FUND BALANCES	(8,276)	6,192
FUND BALANCE - BEGINNING OF YEAR	19,246	13,054
FUND BALANCE - END OF YEAR	\$ 10,970	\$ 19,246

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, 2014 and 2013

	Years Ended June 30,	
	2014	2013
REVENUES:		
Local Sources -		
Current tax levy	\$ 567,566	\$ 560,491
Other taxes	8,597	64
Interest on delinquent taxes	6,309	3,331
Earnings on investments	1,204	342
Total Local Sources	583,676	564,228
State Sources -		
Payment in lieu of taxes	15,741	23,151
Total Revenues	599,417	587,379
EXPENDITURES:		
Debt Service -		
Bond principal	395,000	380,000
interest on bonded debt	200,611	215,809
Paying agent fees	263	225
Taxes paid back	73	22
Total Expenditures	595,947	596,056
NET CHANGE IN FUND BALANCES	3,470	(8,677)
FUND BALANCE - BEGINNING OF YEAR	90,257	98,934
FUND BALANCE - END OF YEAR	\$ 93,727	\$ 90,257

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

FIDUCIARY FUND  
STATEMENT OF DUE TO SCHOOL ORGANIZATIONS  
Years Ended June 30, 2014 and 2013

	June 30,	
	2014	2013
ELEMENTARY -		
Fines	\$ 567	\$ 652
General Purpose	9	80
Library	251	244
MiBLSi	26	26
Physical Education	21	21
Playground	80	892
School Spirit Store	618	618
Student Improvement	532	672
Total Elementary	2,104	3,205
HIGH SCHOOL -		
Class of 2013	21	547
Class of 2014	424	1,675
Class of 2015	2,483	6,774
Class of 2016	7,347	4,539
Class of 2017	3,470	1,562
Class of 2018	2,270	1,093
Class of 2019	1,104	0
Band	2,066	2,565
Baseball	3,152	3,904
Basketball - Girls	3,302	1,538
Basketball - Boys	914	569
Broadcasting	442	1,176
Cheerleading	173	48
Corn Maze	177	253
Drama	418	418
Fines & Supplies	28	0
Football	461	2,333
Golf	263	263
Hall of Fame	550	0
Honor Society	672	822
Interest	0	4



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

FIDUCIARY FUND  
STATEMENT OF DUE TO SCHOOL ORGANIZATIONS (CONTINUED)  
Years Ended June 30, 2014 and 2013

	June 30,	
	2014	2013
HIGH SCHOOL (Continued) -		
Library	\$ 431	\$ 431
News Writing	23	135
No Detention	5	5
Physics	589	754
Pizza Club	243	188
Rentals	869	869
Revolving Account	180	180
Robotics	190	0
Scholarship	18,500	21,000
Scholarship	7,000	0
Shop	3,514	514
Softball	555	372
Spanish	309	186
Special Ed	1,198	1,578
Student	109	111
Student Council	970	972
Student Improvement	2,134	2,136
Track	600	450
Track - Junior High	101	101
Volleyball	1,349	1,537
Youth Community Service	689	689
Yearbook	6,135	5,448
	<hr/>	<hr/>
Total High School	75,430	67,739
	<hr/>	<hr/>
	\$ 77,534	\$ 70,944
	<hr/>	<hr/>

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

DETAIL OF BONDED DEBT  
 2005 REFUNDING BONDS  
June 30, 2014

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>
2014	\$	\$	\$	\$
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>4,420,000</u>	<u>481,326</u>	<u>481,326</u>	<u>5,382,652</u>

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

DETAIL OF BUS NOTE PAYABLE  
June 30, 2014

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 01,2014	\$ 16,731	\$ 15,273	\$ 1,458
November 01,2015	<u>16,495</u>	<u>15,755</u>	<u>740</u>
	\$ <u>33,226</u>	\$ <u>31,028</u>	\$ <u>2,198</u>

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**INDEPENDENT AUDITORS' 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Hillman Community Schools' basic financial statements, and have issued our report thereon dated August 28, 2014.

**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.



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Certified Public Accountants, P.C.  
Bay City, Michigan 48708  
August 28, 2014