

**Hastings Area School System
Hastings, Michigan**

FINANCIAL STATEMENTS

June 30, 2012

Hastings Area School System

Hastings, Michigan

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June 30, 2012

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Hastings Area School System

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hastings Area School System
Hastings, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hastings Area School System (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hastings Area School System's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Hastings Area School System as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2012, on our consideration of Hastings Area School System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, 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.

As described in Note M, the District has a deficit in the General Fund of \$622,607 at June 30, 2012. State law requires the District to continue to implement cost-cutting initiatives and other steps that will enable the District to bring expenditures in line with expected current revenue and eliminate the deficit in the General Fund. A contingent Deficit Elimination Plan was approved by the Michigan Department of Education subsequent to year end.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 21, 2012

Hastings Area School System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

This section of Hastings Area School System's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2012. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hastings Area School System financially as a whole. The **district-wide** financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The **fund** financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant (major) fund, (the General Fund) with all other funds presented in one column as nonmajor funds. There are also separate enterprise fund statements for the Districts Internal Service Fund that gets combined with the other funds at the district-wide level. The remaining statement, the statement of fiduciary (Student Activities Agency) assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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 non-financial factors, such as the quality of the education provided, the condition of the district's assets and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support 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.

Fund Financial Statements

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

Hastings Area School System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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.

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 a separate statement 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, 2012, with comparative information as of June 30, 2011:

Table 1

	<u>Statement of Net Assets</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Assets		
Current and other assets	\$ 7,620,166	\$ 11,417,606
Capital Assets	<u>30,196,107</u>	<u>29,611,369</u>
Total Assets	37,816,273	41,028,975
Liabilities		
Current Liabilities	9,801,884	10,803,664
Noncurrent Liabilities	<u>20,877,316</u>	<u>22,659,189</u>
Total Liabilities	30,679,200	33,462,853
Net Assets		
Invested in capital assets, net of related debt	7,542,701	6,850,859
Restricted	394,224	538,545
Unrestricted	<u>(799,852)</u>	<u>176,718</u>
	<u>\$ 7,137,073</u>	<u>\$ 7,566,122</u>

The analysis in Table 1 focuses on the net assets of the district. The effect on net assets as a result of the fiscal year activities is reflected in Table 2.

The School District's net assets were \$7,137,073 on at June 30, 2012, and \$7,566,122 at June 30, 2011, (Table 1). The \$429,049 decrease in net assets is mainly due to excess capital expenditures over asset depreciation of \$376,826.

Hastings Area School System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Net assets invested in capital assets, net of related debt totaling \$7,542,701, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Capital assets also reflect investments in capital assets from operating funds. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Durant loan obligations of the State are included in Long-Term obligations of the School District. 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. Restricted Net Assets reflect amounts that are restricted outside sources including for food and nutrition, the community center, capital projects and the Debt Service Fund balances less accrued interest on long-term debt as of June 30, 2012. Unrestricted Net Assets reflect those assets available to the school district for use in its operation.

The \$(799,852) in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. A positive unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties; unfortunately unrestricted net assets are negative. 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 condensed statement of activities (Table 2), which shows the changes in net assets for fiscal year 2011/2012. Depreciation costs are not allocated to areas of activities but reflected in the Statement of Activities as unallocated.

Governmental Activities

Table 2

	Year Ended,	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Revenues		
Program Revenues:		
Charges for services	\$ 912,506	\$ 1,022,669
Operating and capital grants and contributions	3,229,618	3,505,532
General Revenues:		
Property Taxes	5,379,775	5,338,953
State foundation allowance	16,450,668	17,808,511
Other	<u>201,374</u>	<u>86,428</u>
Total Revenue	26,173,941	27,762,093
Functions/Program Expenses		
Instruction	15,954,834	15,854,491
Support Services	6,793,906	7,680,681
Food Services	892,731	945,438
Community service	604,006	591,089
Interest and costs on long-term debt	1,078,285	1,042,063
Unallocated depreciation	<u>1,279,228</u>	<u>1,376,095</u>
Total Expenses	<u>26,602,990</u>	<u>27,489,857</u>
Increase (Decrease) in Net Assets	<u>\$ (429,049)</u>	<u>\$ 272,236</u>

Hastings Area School System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

The 2011/2012 fiscal year presented a number of challenges for the school district, particularly in the General Fund. It was anticipated that expenses would outpace revenues. There continues to be a strain on the State's ability to adequately fund public schools. Expenses continue to increase without a corresponding increase in revenues. Other factors that affect the value of Net Assets are year-to-year fund balances in the debt service funds, amounts of debt outstanding, as well as the fund balance in the School Service funds at year-end.

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$26,602,990. Certain activities were partially funded from those who benefited from the programs (\$912,506 charges for services) or by other governments and organizations that subsidized certain programs with operating grants and contributions (\$3,229,618). We paid for the remaining "public benefit" portion of our governmental activities with \$5,379,775 in taxes (for General and Debt funds) and \$16,652,042 in State foundation allowance and other revenues, i.e., interest and general entitlements.

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 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 deficit of \$83,833, which is a decrease of approximately \$2,743,997 from last year. The primary reason for the decrease was capital expenditures related to debt issuance in the prior year and operating costs in the General Fund not being reduced enough to keep pace with lost revenues.

General Fund Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year-end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements.

There were several revisions made to the 2011-2012 General Fund original budget. The total expenditure and other financing uses budget was amended approximately \$780,000.

The final amended revenue budget was amended up by approximately \$37,000 (<1%) once better information was available related to state and federal funding and our pupil count. Actual revenues were only approximately \$18,000 less than final amended budget due to the actual local and federal dollars coming in different than expected. The final amended expenditure budget was amended up by approximately \$780,000 (3.5%) once the revenue picture was better as we knew the funds that we had available to expend. Actual expenditures were approximately \$170,000 over budget (<1%) than the final amended budget.

Hastings Area School System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012, the School District had approximately \$30.0 million invested in a broad range of net capital assets, including land, buildings, vehicles, furniture, and equipment (net of accumulated depreciation). This amount represents a net increase (including additions and disposals) of approximately \$377,000 from last year. Below is the historical cost (net of accumulated depreciation) of all District capital assets:

	<u>2012</u>	<u>2011</u>
Land	\$ 253,410	\$ 253,410
Buildings and building improvements	26,151,306	27,222,280
Buses and other vehicles	85,873	174,783
Furniture and equipment	410,309	529,653
Construction in progress	<u>3,087,297</u>	<u>1,431,243</u>
Total	<u>\$ 29,988,195</u>	<u>\$ 29,611,369</u>

See the notes to the financial statements for more details related to capital assets.

This year's additions to historical cost of approximately \$1.6 million included miscellaneous equipment, furniture, vehicles, and building improvements.

Debt

At the end of this year, the School District had almost \$22.8 million in bonds and other obligations outstanding versus almost \$24.8 million in the previous year. Those debts consisted of the following:

	<u>2012</u>	<u>2011</u>
General Obligation Bonds	\$ 23,004,084	\$ 24,849,955
Resolution Bonds	20,644	72,324
Installment purchase agreements	-	11,520
Compensated absences/retirement incentive payable	177,245	312,392
Capitalized bond items less deferred amounts	<u>(371,322)</u>	<u>(445,586)</u>
Total	<u>\$ 22,830,651</u>	<u>\$ 24,800,605</u>

The State limits the amount of general obligation debt that schools can issue up to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding qualified general obligation debt of approximately \$16 million is below this statutorily imposed limit.

Other obligations including compensated absences and retirement incentive payable are reported as required by GASB. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Hastings Area School System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2012/2013 fiscal year budgets. 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 2012 fiscal year is 10 percent and 90 percent of the February 2012 and October 2012 student counts, respectively. The 2012/2013 budget was adopted in June 2012, based on an estimate of students that will be enrolled in September 2012. Approximately 75 percent of total General Fund revenue is from the foundation allowance. 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 operations. 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.

Another important factor is an increase in the employer retirement contribution rate to 25.9% of payroll.

Contacting the District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Business Office, 232 West Grand Street, Hastings, Michigan 49058.

BASIC FINANCIAL STATEMENTS

Hastings Area School System

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,965,964
Accounts receivable	269,391
Due from other governmental units	3,319,416
Inventories	<u>65,395</u>
Total current assets	7,620,166
Noncurrent assets	
Capital assets not being depreciated	3,340,707
Capital assets, net of accumulated depreciation	26,647,488
Deferred charges, net of amortization	<u>207,912</u>
Total noncurrent assets	<u>30,196,107</u>
TOTAL ASSETS	37,816,273
LIABILITIES	
Current liabilities	
Accounts payable	566,466
Accrued payroll	1,632,988
Other accrued liabilities	11,159
Unearned revenue	32,148
Accrued interest payable	144,550
Short-term notes payable	5,461,238
Current portion of retirement incentive payable	82,877
Current portion of long-term debt	<u>1,870,458</u>
Total current liabilities	9,801,884
Noncurrent liabilities	
Noncurrent portion of compensated absences	35,458
Noncurrent portion of retirement incentive payable	58,910
Noncurrent portion of long-term debt	<u>20,782,948</u>
Total noncurrent liabilities	<u>20,877,316</u>
TOTAL LIABILITIES	<u>30,679,200</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,542,701
Restricted for food and nutrition	53,003
Restricted for community center	5,135
Restricted for debt service	261,946
Restricted for capital projects	74,140
Unrestricted	<u>(799,852)</u>
TOTAL NET ASSETS	<u>\$ 7,137,073</u>

See accompanying notes to financial statements.

Hastings Area School System

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions		
Governmental activities					
Instruction	\$ 15,954,834	\$ 5,165	\$ 2,305,740	\$ -	\$ (13,643,929)
Supporting services	6,793,906	208,570	98,729	-	(6,486,607)
Food service	892,731	293,942	603,790	-	5,001
Community service	604,006	404,829	-	-	(199,177)
Interest and costs on long-term debt	1,078,285	-	-	221,359	(856,926)
Unallocated depreciation	1,279,228	-	-	-	(1,279,228)
TOTAL	\$ 26,602,990	\$ 912,506	\$ 3,008,259	\$ 221,359	(22,460,866)
General revenues					
Property taxes					5,379,775
State school aid - unrestricted					16,450,668
Special Education county allocation					104,028
Investment earnings					27,307
Miscellaneous					70,039
TOTAL GENERAL REVENUES					22,031,817
CHANGE IN NET ASSETS					(429,049)
Restated net assets, beginning of year					7,566,122
Net assets, end of year					\$ 7,137,073

See accompanying notes to financial statements.

Hastings Area School System

Governmental Funds

BALANCE SHEET

June 30, 2012

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,430,491	\$ 535,473	\$ 3,965,964
Accounts receivable	18,571	898	19,469
Due from other funds	286,200	329,179	615,379
Due from other governmental units	3,306,376	13,040	3,319,416
Inventories	42,516	22,879	65,395
	<u>7,084,154</u>	<u>901,469</u>	<u>7,985,623</u>
TOTAL ASSETS			
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 362,941	\$ 69,702	\$ 432,643
Accrued payroll	1,632,988	-	1,632,988
Other accrued liabilities	11,159	-	11,159
Deferred revenue	25,355	6,793	32,148
Due to other funds	329,179	286,200	615,379
Short-term notes payable - SAAN	5,345,139	-	5,345,139
	<u>7,706,761</u>	<u>362,695</u>	<u>8,069,456</u>
TOTAL LIABILITIES			
FUND BALANCES (DEFICIT)			
Nonspendable			
Inventories	42,516	22,879	65,395
Restricted			
Food and nutrition	-	30,124	30,124
Community center	-	5,135	5,135
Debt service	-	406,496	406,496
Capital projects	-	74,140	74,140
Unassigned	(665,123)	-	(665,123)
	<u>(622,607)</u>	<u>538,774</u>	<u>(83,833)</u>
TOTAL FUND BALANCES (DEFICIT)			
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,084,154</u>	<u>\$ 901,469</u>	<u>\$ 7,985,623</u>

See accompanying notes to financial statements.

Hastings Area School System

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2012

Total fund balances (deficit) - governmental funds \$ (83,833)

Amounts reported for the governmental activities in the statement of net assets are different because:

Certain noncurrent assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 56,329,382	
Accumulated depreciation is	<u>(26,341,187)</u>	
	29,988,195	
Deferred charges, net of amortization	<u>207,912</u>	
		30,196,107

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds and loans payable	(22,653,406)	
Accrued interest payable on long-term debt	(144,550)	
Compensated absences	(35,458)	
Retirement incentive payable	<u>(141,787)</u>	
		<u>(22,975,201)</u>
Net assets of governmental activities		<u><u>\$ 7,137,073</u></u>

Hastings Area School System

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Local sources	\$ 3,418,462	\$ 3,067,256	\$ 6,485,718
State sources	18,027,801	108,421	18,136,222
Federal sources	731,245	716,728	1,447,973
TOTAL REVENUES	22,177,508	3,892,405	26,069,913
EXPENDITURES			
Current			
Instruction	16,089,981	-	16,089,981
Supporting services	6,793,906	-	6,793,906
Food service	-	892,731	892,731
Community service	2,127	601,879	604,006
Capital outlay	-	1,656,054	1,656,054
Debt service	178,323	2,702,937	2,881,260
TOTAL EXPENDITURES	23,064,337	5,853,601	28,917,938
EXCESS OF REVENUES (UNDER) EXPENDITURES	(886,829)	(1,961,196)	(2,848,025)
OTHER FINANCING SOURCES (USES)			
County special education allocation	104,028	-	104,028
Transfers in	-	180,586	180,586
Transfers out	(180,586)	-	(180,586)
TOTAL OTHER FINANCING SOURCES (USES)	(76,558)	180,586	104,028
NET CHANGE IN FUND BALANCES	(963,387)	(1,780,610)	(2,743,997)
Fund balances, beginning of year	340,780	2,319,384	2,660,164
Fund balances (deficit), end of year	<u>\$ (622,607)</u>	<u>\$ 538,774</u>	<u>\$ (83,833)</u>

See accompanying notes to financial statements.

Hastings Area School System

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Net change in fund balances - total governmental funds **\$ (2,743,997)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,656,054	
Depreciation expense	<u>(1,279,228)</u>	
Excess of capital outlay over depreciation expense		376,826

Repayments of long-term debt and borrowings of long-term debt are reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consisted of:

Debt principal retirement	1,909,071	
Net effect of amortization on deferred charges and other deferred amounts	<u>(115,846)</u>	
Excess of principal retirements over other debt related items		1,793,225

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	9,750	
Decrease in compensated absences	3,018	
Decrease in retirement incentive payable	<u>132,129</u>	
		<u>144,897</u>

Change in net assets of governmental activities **\$ (429,049)**

Hastings Area School System
 Proprietary Fund - Internal Service Fund
 STATEMENT OF NET ASSETS
 June 30, 2012

	<u>Governmental Activities Health Insurance Services Fund</u>
ASSETS	
Current assets	
Accounts receivable	\$ 249,922
 LIABILITIES	
Current liabilities	
Short-term notes payable - overdrawn cash	116,099
Accounts payable	<u>133,823</u>
TOTAL LIABILITIES	<u>249,922</u>
 NET ASSETS	
Unrestricted	<u><u>\$ -0-</u></u>

See accompanying notes to financial statements.

Hastings Area School System

Proprietary Fund - Internal Service Fund

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS

Year Ended June 30, 2012

	<u>Governmental Activities Health Insurance Services Fund</u>
OPERATING REVENUES	
Charges for services	\$ 1,169,320
OPERATING EXPENSES	
Fringe benefits and other related charges	<u>1,169,320</u>
CHANGE IN NET ASSETS	-0-
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ -0-</u></u>

See accompanying notes to financial statements.

Hastings Area School System
 Proprietary Fund - Internal Service Fund
 STATEMENT OF CASH FLOWS
 Year Ended June 30, 2012

	<u>Governmental Activities</u> Health Insurance Services Fund <u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers/other funds	\$ 919,398
Cash paid for benefits and related charges	<u>(919,398)</u>
CASH PROVIDED BY OPERATING ACTIVITIES	-0-
Cash, beginning of year	<u>-</u>
Cash, end of year	<u><u>\$ -0-</u></u>
Reconciliation of change in net assets to net cash provided by operating activities	
Change in net assets	\$ -
Adjustments to reconcile change in net assets to cash provided by operating activities	
(Increase) in:	
Accounts receivable	(249,922)
Increase in:	
Accounts payable	133,823
Short-term notes payable - overdrawn cash	<u>116,099</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ -0-</u></u>

See accompanying notes to financial statements.

Hastings Area School System

Fiduciary Fund

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2012

	<u>Agency Fund</u>
ASSETS	
Cash	\$ 177,163
Accounts receivable	<u>21,960</u>
TOTAL ASSETS	<u><u>\$ 199,123</u></u>
LIABILITIES	
Accounts payable	\$ 10,643
Due to student groups	<u>188,480</u>
TOTAL LIABILITIES	<u><u>\$ 199,123</u></u>

See accompanying notes to financial statements.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hastings Area School System (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 4*, these financial statements present the financial activities of Hastings Area School System. The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the District are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the district-wide financial statements.

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type and are used to account for assets held by the District where the District acts in an agency capacity with these funds for individuals outside the District (i.e., student activities).

The major governmental fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

Additionally the District reports internal service funds to account for certain health insurance payouts.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The district-wide and proprietary funds financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide, proprietary fund and fiduciary fund financial statements are prepared using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

If/when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Proprietary Funds are charges to customers for sales and services. Operating expenses for proprietary funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds. All unexpended appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Three (3) supplemental appropriations were made during the year with the final amendments being approved June 27, 2012.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market accounts, and pooled investment funds. Cash equivalents are recorded at market (fair) value.

7. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2012 to be paid in July and August 2012. Of the total amount of \$3,319,416 due from other governmental units, \$3,265,010 consists of State Aid, and the remaining \$54,406 from grants and local programs.

9. Inventory

Inventories are stated at cost on a first in/first out basis. The General Fund inventory consists of paper, custodial supplies, fuel, and technology supplies. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance "nonspendable" designation which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Capital Assets

Capital assets include land, buildings and building improvements, furniture and equipment, and buses and other vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than five (5) years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and building improvements	20-50 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-20 years

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated general compensated absence and retirement incentive amounts to be paid at termination are considered as payable from future resources and are recorded, along with the related payroll taxes, as long-term liabilities in the district-wide financial statements.

12. Deferred/Unearned Revenues

Governmental funds report deferred revenues in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period and the unexpended balance of various federal and/or state categorical and local grants until the period in which eligible expenditures are incurred. Amounts shown as unearned revenue on the Statement of Net Assets relate to the same receivables and state categorical and local grants but are shown here because they are not earned.

13. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements. Accrued interest payable is due within one year and is reported as a current liability.

14. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Funds for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Deferred Charges

Debt issuance costs are capitalized and included in the district-wide financial statements as a noncurrent asset. These deferred charges are amortized over the lives of the related debt issuances using the straight-line method.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$17.9262 per \$1,000 of taxable valuation on nonprimary residency exempt property and \$6 per \$1,000 of taxable valuation on commercial personal property for general governmental services and \$4.25 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained. Total 2011 taxable value of the District was \$548,451,726.

17. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2012, the foundation allowance was based on the average of pupil membership counts taken in September 2011 and February 2011. The average calculation was weighted 90% for the September 2011 count and 10% for the February 2011 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

18. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

19. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

20. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Deposits

There is custodial credit risk as it relates to deposits if they are not federally insured. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2012, the carrying amount of the District's deposits was \$4,131,334 and the bank balance was \$4,372,810, of which \$1,038,128 was covered by federal depository insurance. The balance of \$3,334,682 was uninsured and uncollateralized. The District had \$3,327 of cash on hand.

Investments

As of June 30, 2012, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents caption on the combined balance sheet are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
Chase Bank - Michigan Governmental Money Market Fund	<u>\$ 8,466</u>	<u>\$ 8,466</u>	43

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Credit risk

State law limits investments in certain types of investments to a prime or better rating issue by nationally recognized statistical rating organizations (NRSRO'S). As of June 30, 2012, the District's investment in the Michigan Governmental Money Market Fund was rated Aaa by Moody's

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer or backer. The Board policy limits investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board approved policy.

As of June 30, 2012, the cash and cash equivalents referred to above have been reported in the cash and cash equivalents caption in the basic financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 3,965,964</u>	<u>\$ 177,163</u>	<u>\$ 4,143,127</u>

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Capital assets not being depreciated				
Land	\$ 253,410	\$ -	\$ -	\$ 253,410
Construction in progress	1,431,243	1,656,054	-	3,087,297
Total capital assets not being depreciated	1,684,653	1,656,054	-0-	3,340,707
Capital assets being depreciated				
Buildings and building improvements	46,067,009	-	(833,674)	45,233,335
Buses and other vehicles	1,908,370	-	-	1,908,370
Furniture and equipment	5,846,970	-	-	5,846,970
Total capital assets being depreciated	53,822,349	-0-	(833,674)	52,988,675

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE C: CAPITAL ASSETS - CONTINUED

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2012
Less accumulated depreciation for:				
Buildings and building improvements	\$ (18,844,729)	\$ (1,070,974)	\$ 833,674	\$ (19,082,029)
Buses and other vehicles	(1,733,587)	(88,910)	-	(1,822,497)
Furniture and equipment	(5,317,317)	(119,344)	-	(5,436,661)
Total accumulated depreciation	<u>(25,895,633)</u>	<u>(1,279,228)</u>	<u>833,674</u>	<u>(26,341,187)</u>
Net capital assets being depreciated	<u>27,926,716</u>	<u>(1,279,228)</u>	<u>-</u>	<u>26,647,488</u>
Capital assets, net	<u>\$ 29,611,369</u>	<u>\$ 376,826</u>	<u>\$ -0-</u>	<u>\$ 29,988,195</u>

Depreciation expense of \$1,279,228 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2012:

	Restated Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Amounts Due within One Year
2005 Refunding Bonds	\$ 6,405,000	\$ -	\$ (405,000)	\$ 6,000,000	\$ 420,000
2006 Refunding Bonds	3,190,000	-	-	3,190,000	-
2009 Refunding Bonds	10,160,000	-	(1,350,000)	8,810,000	1,385,000
2010 School Building and Site	3,200,000	-	-	3,200,000	-
Energy Conservation Bonds	1,894,955	-	(90,871)	1,804,084	119,078
1998 Durant Resolution Bonds	72,324	-	(51,680)	20,644	20,644
Land Contract	11,520	-	(11,520)	-0-	-
Compensated absences	38,476	57,491	(60,509)	35,458	-
Retirement incentive payable	<u>273,916</u>	<u>109,447</u>	<u>(241,576)</u>	<u>141,787</u>	<u>82,877</u>
	25,246,191	166,938	(2,211,156)	23,201,973	2,027,599
Less: deferred amounts on refunding	<u>(445,586)</u>	<u>-</u>	<u>74,264</u>	<u>(371,322)</u>	<u>(74,264)</u>
	<u>\$ 24,800,605</u>	<u>\$ 166,938</u>	<u>\$ (2,136,892)</u>	<u>\$ 22,830,651</u>	<u>\$ 1,953,335</u>

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE D: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$6,575,000 2005 Refunding Bonds due in annual principal installments ranging from \$420,000 to \$750,000 through May 1, 2022, with interest ranging from 4.00 to 5.00 percent, payable semi-annually.	\$ 6,000,000
\$3,190,000 2006 Refunding Bonds due in annual principal installments ranging from \$30,000 to \$775,000 from May 1, 2019 through May 1, 2022, with interest ranging from 4.00 to 4.125 percent, payable semi-annually.	3,190,000
\$12,125,000 2009 Refunding Bonds due in annual principal installments ranging from \$1,385,000 to \$1,515,000 through May 1, 2018, with interest ranging from 2.40 to 3.50 percent, payable semi-annually.	8,810,000
\$3,200,000 2010 School Building and Site Bonds, due in annual principal installments of \$400,000 from May 1, 2019 through May 1, 2026, with interest ranging from 5.00 to 5.25 percent, payable semi-annually.	3,200,000
\$2,079,765 2007 Energy Conservation Bonds due in semi-annual installments ranging from \$29,108 to \$134,463 through May 24, 2022, with an interest rate of 4.02 percent, payable semi-annually.	<u>1,804,084</u>
	23,004,084

Resolution Bonds

\$307,985 1998 Durant Resolution Bonds dated November 15, 1998, due in an annual installment of \$20,644 with interest of 4.761353 percent. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan	<u>20,644</u>
	<u>\$23,024,728</u>

Advance Refunding - Prior

On March 31, 2005 the District defeased the portion of the 2001 School Building and Site Bonds which were due and payable May 1, 2012 through May 1, 2022. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2005 Refunding Bonds in the amount of \$6,575,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2012, bonds due and payable May 1, 2013 through May 1, 2022 for the 2001 School Building and Site Bonds in the amount of \$5,865,000 are considered defeased.

On March 9, 2006 the District defeased the portion of the 2001 School Building and Site Bonds which are due and payable May 1, 2023 through May 1, 2026. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2006 Refunding Bonds in the amount of \$3,190,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2012, bonds due and payable May 1, 2023 through May 1, 2026 for the 2001 School Building and Site Bonds in the amount of \$3,025,000 are considered defeased.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE D: LONG-TERM DEBT - CONTINUED

Advance Refunding - Prior - continued

On September 29, 2009 the District defeased the 1998 Refunding Bonds and the 1999 Refunding Bonds which were due and payable May 1, 2018. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2009 Refunding Bonds in the amount of \$12,125,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2012, bonds due and payable through May 1, 2018 for the 1998 Refunding Bonds and the 1999 Refunding Bonds in the amount of \$9,100,000 are considered defeased.

Compensated Absences

In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused leave time under formulas and conditions specified in their respective personnel policies, contracts, and/or based on past District practice. The total liability, including the related payroll taxes, amounted to approximately \$35,458 as of June 30, 2012, and has been recorded in the district-wide financial statements.

Compensated absences	\$	32,938
Payroll taxes		<u>2,520</u>
	\$	<u><u>35,458</u></u>

Retirement Incentive Payable

In recognition of services to the District, a retirement incentive is being made to eligible employees with at least ten (10) or fifteen (15) years of service according to their respective employment contracts.

A summary of the calculated amounts of retirement incentive payable and related payroll taxes as of June 30, 2012, which has been recorded in the District-wide financial statements, is as follows:

Retirement incentive payable	\$	131,711
Payroll taxes		<u>10,076</u>
	\$	<u><u>141,787</u></u>

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	Durand Resolution Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 20,644	\$ 983	\$ 1,924,078	\$ 896,519
2014	-	-	1,997,600	837,360
2015	-	-	2,077,021	770,925
2016	-	-	2,167,386	694,176
2017	-	-	2,253,753	614,863
2018-2022	-	-	7,914,246	1,961,283
2023-2027	-	-	4,670,000	522,504
	<u>\$ 20,644</u>	<u>\$ 983</u>	<u>\$ 23,004,084</u>	<u>\$ 6,297,630</u>

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE D: LONG-TERM DEBT - CONTINUED

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2012, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 286,200</u>

Due to nonmajor governmental funds from:	
General Fund	<u>\$ 329,179</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to nonmajor governmental funds from:	
General Fund	<u>\$ 180,586</u>

The transfer from the General Fund to the nonmajor governmental (Community Center) was to cover operational costs.

NOTE G: EMPLOYEE RETIREMENT SYSTEM

Pension Plan Description and Funding Progress

All of the District's employees, except students, are eligible to participate in the state-wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, state-wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2011, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2012 was \$13,544,059 of which \$13,135,441 was for members who have elected the MIP option; the District's total payroll was \$14,223,206.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Pension Plan Description and Funding Progress - continued

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990 through June 30, 2008 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); \$510 plus 4.3% of all wages over \$15,000. Employees first hired on or after July 1, 2008 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); \$510 plus 6.4% of all wages over \$15,000. In addition, employees first hired on or after July 1, 2010, are required to contribute 3% of all wages to a retiree health care fund and 2% to a hybrid defined contribution pension plan.

For the period of July 1, 2011 to September 30, 2011, the District was required by State statute to contribute 20.66% for employees who first worked before July 1, 2010 and, if the employee first worked on or after July 1, 2010, the contribution was 19.16% of covered compensation for all wages to the Plan. For the period of October 1, 2011 to June 30, 2012, the District was required by State statute to contribute 24.46%, for employees who first worked before July 1, 2010, and if the employee first worked on or after July 1, 2010, the contribution was 23.23% of covered compensation for all wages to the Plan. All employees are required to contribute 3% of gross pay towards retirement health care costs which is included in the MIP contributions below.

The total amount contributed to the Plan for the year ended June 30, 2012, and the preceding two years, is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2012	\$ 1,070,986	\$ 3,192,397	\$ 4,263,383
2011	835,071	2,706,479	3,541,550
2010	590,534	2,452,792	3,043,326

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years.

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2012	8.2%	23.6%
2011	6.2%	19.7%
2010	4.1%	16.8%

NOTE H: RISK MANAGEMENT

The District is exposed to various risk of loss including property, auto, liability, in-land marine, crime, and workers' compensation, for which the District carries commercial insurance.

Beginning in the current year the District is self-insured for medical claims of certain employee groups up to \$100,000 individually and \$300,000 aggregately. The District has commercial insurance to insure claims in excess of these amounts. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the plan began in the current fiscal year.

The District estimates the liability for medical claims that have been incurred though the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Internal Service Fund and in the Governmental Activities in the government-wide statements. Changes in the estimated liability for the current year as this was the year of inception are as follows:

	<u>2012</u>
Estimated liability - beginning of year	\$ -
Estimated claims incurred - including changes in estimates	933,897
Claims payments	<u>800,074</u>
Estimated liability - end of year	<u>\$ 133,823</u>

This liability amount is reflected as accounts payable in the financial statements.

NOTE I: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Hastings Area School System, a nonplaintiff District, was awarded \$615,970 in the settlement. The funds are being paid as follows:

- a. One-half was paid over ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F (6). These funds are recorded within the General Fund as categorical State Aid. The year ended June 30, 2008 was the last year of payments of these funds.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE I: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT - CONTINUED

b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE J: SHORT-TERM NOTES

On August 20, 2010, the District issued a short-term State School Aid Anticipation Note in the amount of \$5,300,000 for the purpose of funding operating expenditures until the 2011 State Aid payments began. This short-term note, which had a net outstanding balance of \$5,389,570 (principal and accrued interest payable) at June 30, 2011, was reported in the General Fund and in the government-wide financial statements under the caption short-term notes payable. The outstanding balance was paid in August 2011.

Amounts appearing as short-term notes payable arise from two types of transactions. The first type of transactions was on August 22, 2011, the School issued a short-term State School Aid Anticipation Note in the amount of \$5,300,000 for the purpose of funding operating expenditures until the 2011-2012 State Aid payments began. This short-term note, which had a net outstanding balance of \$5,345,139 (principal and accrued interest payable) at June 30, 2012, is reported in the General Fund under the caption short-term notes payable - SAAN. The funds to make the payment due will come from State Aid and other local sources. The outstanding balance was paid August 22, 2012. The second type of transaction arose from a bank overdraft in the Internal Service Fund in the amount of \$116,099. This amount is reported in the Internal Service Fund under the caption short-term notes payable-overdrawn cash. Collectively these two (2) notes are reported in the Governmental Wide Financial Statements under the caption short-term notes payable in the amount of \$5,461,238

NOTE K: SUBSEQUENT EVENTS

After the year ended June 30, 2012, the following subsequent event occurred:

On August 20, 2012, the District issued a State School Aid Anticipation Note in the amount of \$6,500,000 for the purpose of funding operating expenditures until the fiscal year 2013 State Aid payments begin. This short-term note will be paid off when the District accumulates sufficient State Aid revenues at the end of next fiscal year. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

On August 15, 2012 the District obtained a capital lease in the amount of \$402,128 for the acquisition of buses. Future anticipated local funds are expected to be sufficient to cover this commitment.

On July 13, 2012 the District obtained an installment loan in the amount of \$368,746 for technology improvements. Future anticipated local funds are expected to be sufficient to cover this commitment.

NOTE L: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishing fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard:

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE L: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS - CONTINUED

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative Fund Balances are always reported as Unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, Hastings Area School System's highest level of decision-making authority is the District's Board of Education. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution by the Board.

For assigned fund balance, the Board is authorized to assign amounts to a specific purpose. The authorization policy is a vote and approval by the Board.

For the classification of fund balance amounts, the District's policy is to spend restricted amounts first, then unrestricted amounts when both restricted and unrestricted amounts are available. Similarly, the Districts policy is to spend committed amounts first, and then assigned amounts and finally unassigned amounts when any of those unrestricted fund balance classifications could be used.

NOTE M: GENERAL FUND DEFICIT

At June 30, 2012 the District had an accumulated fund balance deficit in the General Fund. As required by state law, the District filed a deficit elimination plan with the State of Michigan Department of Education. The Michigan State School Aid Act states a district receiving funds under this Act shall not adopt or operate under a deficit budget, and shall not incur an operating deficit in a fund for the fiscal year. At June 30, 2012 the General Fund of the District had a deficit of \$622,607. The initial budget for the fiscal year ending June 30, 2013 reflects revenues exceeding expenditures and outgoing transfers by \$1,632,723. The District received contingent approval of their Deficit Elimination Plan from the Michigan Department of Education on September 17, 2012 and continues to work to assure the General Fund will be in a positive situation in the 2012/2013 fiscal year.

NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the District's 2013 fiscal year. The statement incorporates deferred outflows of resources and the deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE O: CONTRACT COMMITMENTS

The District has entered into contracts related to the acquisition, construction, and remodeling of various school building projects that were not completed at June 30, 2012. The total contractual commitments outstanding at June 30, 2012 totaled approximately \$104,208. The District's remaining bond proceeds (i.e., fund balance) along with future anticipated local funds are expected to be sufficient to cover these commitments.

NOTE P: RESTATEMENT OF NET ASSETS

Beginning net assets for Governmental Activities has been restated due to a prior understatement of accrued liabilities. The Governmental Activities net assets has been decreased by \$38,746.

NOTE Q: CONTINGENT LIABILITIES

The District participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The Single Audit of the Federal Programs and the periodic program compliance audits of many of the programs have not yet been completed or final resolution has not been received. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

There are certain legal actions pending against the District. Due to the inconclusive nature of many of the actions, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the District's potential liability, if any. Those actions for which a reasonable estimate can be determined of the District's potential liability and that would not be covered by insurance and reserves, if any, could be material to the District.

NOTE R: FLEXIBLE BENEFITS PLAN

Previously the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all eligible employees, who meet the eligibility requirements as set by the plan, permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments, medical expense reimbursement benefits, or dependent care benefits. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The Plan is administered by AFLAC.

REQUIRED SUPPLEMENTARY INFORMATION

Hastings Area School System

General Fund

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 3,498,000	\$ 3,268,960	\$ 3,418,462	\$ 149,502
State sources	18,126,617	18,020,984	18,027,801	6,817
Federal sources	638,312	905,922	731,245	(174,677)
TOTAL REVENUES	22,262,929	22,195,866	22,177,508	(18,358)
EXPENDITURES				
Instruction				
Basic needs	13,218,505	12,333,445	12,649,374	(315,929)
Added needs	2,386,086	3,587,091	3,371,358	215,733
Preschool	102,000	102,000	69,249	32,751
Total instruction	15,706,591	16,022,536	16,089,981	(67,445)
Supporting services				
Pupil services	158,649	227,003	240,420	(13,417)
Instructional staff	153,667	226,361	473,206	(246,845)
General administration	242,405	359,549	319,556	39,993
School administration	945,227	1,376,648	1,389,304	(12,656)
Business services	933,876	891,170	628,875	262,295
Technology	270,154	268,826	272,435	(3,609)
Operations and maintenance	1,509,389	2,313,908	2,323,051	(9,143)
Transportation	570,570	831,198	797,384	33,814
Athletics	-	348,272	349,675	(1,403)
Employee benefits	1,412,295	-	-	-0-
Total supporting services	6,196,232	6,842,935	6,793,906	49,029
Community services	-	-	2,127	(2,127)
Debt service	-	-	178,323	(178,323)
TOTAL EXPENDITURES	21,902,823	22,865,471	23,064,337	(198,866)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	360,106	(669,605)	(886,829)	(217,224)
OTHER FINANCING SOURCES (USES)				
County special education allocation	-	104,028	104,028	-0-
Transfers to other funds	(388,000)	(206,000)	(180,586)	25,414
TOTAL OTHER FINANCING SOURCES (USES)	(388,000)	(101,972)	(76,558)	25,414
NET CHANGE IN FUND BALANCE	(27,894)	(771,577)	(963,387)	(191,810)
Fund balance, beginning of year	340,780	340,780	340,780	-0-
Fund balance (deficit), end of year	\$ 312,886	\$ (430,797)	\$ (622,607)	\$ (191,810)

Hastings Area School System

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2012

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2012, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
Instruction			
Basic needs	\$ 12,333,445	\$ 12,649,374	\$ 315,929
Supporting services			
Pupil services	227,003	240,420	13,417
Instructional staff	226,361	473,206	246,845
School administration	1,376,648	1,389,304	12,656
Technology	268,826	272,435	3,609
Operations and maintenance	2,313,908	2,323,051	9,143
Athletics	348,272	349,675	1,403
Community services	-	2,127	2,127
Debt service	-	178,323	178,323
Food Service Fund	867,422	892,731	25,309

OTHER SUPPLEMENTARY INFORMATION

Hastings Area School System
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET

June 30, 2012

	Special Revenue		2010 Capital Projects
	Food Service	Community Center	
ASSETS			
Cash	\$ 33,524	\$ 273,755	\$ 139,709
Accounts receivable	-	898	-
Due from other funds	-	11,168	-
Due from other governmental units	11,689	1,351	-
Inventory	22,879	-	-
TOTAL ASSETS	\$ 68,092	\$ 287,172	\$ 139,709
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 3,550	\$ 4,693	\$ 61,459
Due to other funds	4,746	277,344	4,110
Deferred revenue	6,793	-	-
TOTAL LIABILITIES	15,089	282,037	65,569
FUND BALANCES			
Nonspendable			
Inventory	22,879	-	-
Restricted			
Community center	-	5,135	-
Debt service	-	-	-
Capital projects	-	-	74,140
Food and nutrition	30,124	-	-
TOTAL FUND BALANCES	53,003	5,135	74,140
TOTAL LIABILITIES AND FUND BALANCES	\$ 68,092	\$ 287,172	\$ 139,709

<u>Debt Service</u>	<u>Total</u>
\$ 88,485	\$ 535,473
-	898
318,011	329,179
-	13,040
-	22,879
<u>\$ 406,496</u>	<u>\$ 901,469</u>

\$ -	\$ 69,702
-	286,200
-	6,793
<u>-</u>	<u>362,695</u>

-0-	362,695
-	22,879
-	5,135
406,496	406,496
-	74,140
-	30,124
<u>406,496</u>	<u>538,774</u>

<u>\$ 406,496</u>	<u>\$ 901,469</u>
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Hastings Area School System

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2012

	Special Revenue		2010 Capital Projects
	Food Service	Community Center	
REVENUES			
Local sources	\$ 293,943	\$ 421,293	\$ 2,491
State sources	43,542	-	-
Federal sources	560,248	-	-
TOTAL REVENUES	897,733	421,293	2,491
EXPENDITURES			
Current			
Food service	892,731	-	-
Community service	-	601,879	-
Capital outlay	-	-	1,656,054
Debt service			
Principal retirement	-	-	-
Interest, fiscal and other charges	-	-	-
TOTAL EXPENDITURES	892,731	601,879	1,656,054
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,002	(180,586)	(1,653,563)
OTHER FINANCING SOURCES			
Transfers in	-	180,586	-
NET CHANGE IN FUND BALANCES	5,002	-0-	(1,653,563)
Fund balances, beginning of year	48,001	5,135	1,727,703
Fund balances, end of year	\$ 53,003	\$ 5,135	\$ 74,140

<u>Debt Service</u>	<u>Total</u>
\$ 2,349,529	\$ 3,067,256
64,879	108,421
<u>156,480</u>	<u>716,728</u>
2,570,888	3,892,405
-	892,731
-	601,879
-	1,656,054
1,806,680	1,806,680
<u>896,257</u>	<u>896,257</u>
<u>2,702,937</u>	<u>5,853,601</u>
(132,049)	(1,961,196)
-	180,586
<u>(132,049)</u>	<u>(1,780,610)</u>
<u>538,545</u>	<u>2,319,384</u>
<u>\$ 406,496</u>	<u>\$ 538,774</u>