

**Hastings Area School System
Hastings, Michigan**

FINANCIAL STATEMENTS

June 30, 2013

Hastings Area School System

Hastings, Michigan

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June 30, 2013

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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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Hastings Area School System as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note M, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year. As a result of this implementation, the format and reporting of the financial statements has changed to reflect the required components of GASB Statement No. 63 and 65, as applicable. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the managements' 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.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013 on our consideration of Hastings Area School Systems' internal control over financial reporting and on 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* in considering the District's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 8, 2013

Hastings Area School System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013. 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 position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most 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 position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other 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 position 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, 2013

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

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 position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2013, with comparative information as of June 30, 2012:

Table 1

	<u>Statement of Net Assets</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Assets		
Current and other assets	\$ 9,647,504	\$ 7,412,254
Capital Assets	<u>29,655,894</u>	<u>30,196,107</u>
Total Assets	39,303,398	37,608,361
Deferred outflows of resources		
Deferred charges on refunding	297,058	-
Liabilities		
Current Liabilities	11,171,899	9,801,884
Noncurrent Liabilities	<u>20,062,553</u>	<u>7,542,701</u>
Total Liabilities	<u>31,234,452</u>	<u>17,344,585</u>
Net Position		
Net investment in capital assets	8,231,324	7,542,701
Restricted	97,338	394,224
Unrestricted	<u>37,342</u>	<u>(1,007,764)</u>
	<u>\$ 8,366,004</u>	<u>\$ 6,929,161</u>

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

Hastings Area School System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

The School District's net position was \$8,366,004 on at June 30, 2013, and \$6,926,161 at June 30, 2012, (Table 1). The \$1,436,843 increase in net position is mainly due to reductions in expenses.

Net position invested in capital assets, totaling \$8,231,324, 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. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. Restricted Net Position 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, 2013. Unrestricted Net Position reflects those assets available to the school district for use in its operation.

The \$37,342 in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. A positive unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities (Table 2), which shows the changes in net position for fiscal year 2012/2013. 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, 2013</u>	<u>June 30, 2012</u>
Revenues		
Program Revenues:		
Charges for services	\$ 1,049,739	\$ 912,506
Operating and capital grants and contributions	3,578,621	3,229,618
General Revenues:		
Property Taxes	5,195,660	5,379,775
State school aid - unrestricted	16,335,953	16,450,668
Other	<u>193,656</u>	<u>201,374</u>
Total Revenue	26,353,629	26,173,941
Functions/Program Expenses		
Instruction	14,494,734	15,954,834
Support services	6,528,517	6,793,906
Food services	1,006,975	892,731
Community service	602,304	604,006
Interest and costs on long-term debt	985,741	1,078,285
Unallocated depreciation	<u>1,298,515</u>	<u>1,279,228</u>
Total Expenses	<u>24,916,786</u>	<u>26,602,990</u>
Increase (Decrease) in Net Assets	<u>\$ 1,436,843</u>	<u>\$ (429,049)</u>

Hastings Area School System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

The 2012/2013 fiscal year presented a number of challenges for the school district, particularly in the General Fund. However with sacrifices from all employee groups it was anticipated that revenues would outpace expenses. 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 Position 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 \$24,916,786. Certain activities were partially funded from those who benefited from the programs (\$1,049,739 charges for services) or by other governments and organizations that subsidized certain programs with operating grants and contributions (\$3,578,621). We paid for the remaining "public benefit" portion of our governmental activities with \$5,195,660 in taxes (for General and Debt funds) and \$16,529,609 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 balance of \$799,824, which is an increase of approximately \$883,657 from last year. The primary reason for the increase was a reduction in operating costs in the General Fund that outpaced a stagnant revenue situation.

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 2012-2013 General Fund original budget. The total expenditure and other financing uses budget was amended approximately \$1,789,100.

The final amended revenue budget was amended up by approximately \$1,180,189 (5.4%) once better information was available related to state and federal funding and our pupil count. Actual revenues and other financing sources were approximately \$269,580 more than final amended budget due to not all other financing sources being budgeted for. The final amended expenditure and other financing uses budget was amended up by approximately \$1,790,000 (8.9%) once the revenue picture was better as we knew the funds that we had available to expend. Actual expenditures and other financing uses were approximately \$111,000 over budget (<1%) than the final amended budget.

Hastings Area School System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2013, 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 decrease (including additions and disposals) of approximately \$332,000 from last year. Below is the historical cost (net of accumulated depreciation) of all District capital assets:

	<u>2013</u>	<u>2012</u>
Land	\$ 253,410	\$ 253,410
Buildings and building improvements	27,247,924	26,151,306
Buses and other vehicles	452,198	85,873
Furniture and equipment	1,702,362	410,309
Construction in progress	<u>-</u>	<u>3,087,297</u>
Total	<u>\$ 29,655,894</u>	<u>\$ 29,988,195</u>

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

This year's additions to historical cost of approximately \$966,000 included miscellaneous equipment, furniture, vehicles, and building improvements.

Debt

At the end of this year, the School District had almost \$22.2 million in bonds and other obligations outstanding versus almost \$23.2 million in the previous year. Those debts consisted of the following:

	<u>2013</u>	<u>2012</u>
General Obligation Bonds	\$ 21,080,006	\$ 23,004,084
Resolution Bonds	-	20,644
Capital lease and installment purchase agreements	641,622	-
Compensated absences/retirement incentive payable	<u>522,413</u>	<u>177,245</u>
Total	<u>\$ 22,244,041</u>	<u>\$ 23,201,973</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 \$21 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, 2013

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2013/2014 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 2013 fiscal year is 10 percent and 90 percent of the February 2013 and October 2013 student counts, respectively. The 2013/2014 budget was adopted in June 2013, based on an estimate of students that will be enrolled in September 2013. 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 a decrease in federal funding to Title I and Title II programs which help our neediest students and provides training for our staff.

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 POSITION
June 30, 2013

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 5,917,140
Accounts receivable	26,801
Due from other governmental units	3,649,091
Prepays	10,817
Inventory	43,655
Total current assets	9,647,504
Noncurrent assets	
Capital assets not being depreciated	253,410
Capital assets, net of accumulated depreciation	29,402,484
Total noncurrent assets	29,655,894
TOTAL ASSETS	39,303,398
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	297,058
LIABILITIES	
Current liabilities	
Accounts payable	500,724
Accrued payroll liabilities	1,491,541
Other accrued liabilities	29,574
Due to other governmental units	259,054
Unearned revenue	22,612
Accrued interest payable	142,731
Short-term notes payable	6,544,175
Current portion of retirement incentive payable	58,909
Current portion of long-term debt	2,122,579
Total current liabilities	11,171,899
Noncurrent liabilities	
Noncurrent portion of compensated absences	463,504
Noncurrent portion of long-term debt	19,599,049
Total noncurrent liabilities	20,062,553
TOTAL LIABILITIES	31,234,452
NET POSITION	
Net investment in capital assets	8,231,324
Restricted for food and nutrition	31,514
Restricted for community center	2,762
Restricted for debt service	63,062
Unrestricted	37,342
TOTAL NET POSITION	\$ 8,366,004

See accompanying notes to financial statements.

Hastings Area School System

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 14,494,734	\$ 3,975	\$ 2,695,951	\$ -	\$(11,794,808)
Supporting services	6,528,517	265,945	14,994	-	(6,247,578)
Food service	1,006,975	310,425	675,062	-	(21,488)
Community service	602,304	469,394	1,585	-	(131,325)
Interest and costs on long-term debt	985,741	-	-	191,029	(794,712)
Unallocated depreciation	1,298,515	-	-	-	(1,298,515)
TOTAL	\$ 24,916,786	\$ 1,049,739	\$ 3,387,592	\$ 191,029	(20,288,426)
General revenues					
Property taxes					5,195,660
State school aid - unrestricted					16,335,953
County special education allocation					68,418
Investment earnings					28,548
Miscellaneous					96,690
TOTAL GENERAL REVENUES					21,725,269
CHANGE IN NET ASSETS					1,436,843
Restated net position beginning of year					6,929,161
Net position end of year					\$ 8,366,004

See accompanying notes to financial statements.

Hastings Area School System

Governmental Funds

BALANCE SHEET

June 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 5,607,313	\$ 308,831	\$ 5,916,144
Accounts receivable	12,652	4,145	16,797
Due from other funds	72,000	24	72,024
Due from other governmental units	3,622,975	26,116	3,649,091
Prepays	10,817	-	10,817
Inventory	26,415	17,240	43,655
TOTAL ASSETS	<u>\$ 9,352,172</u>	<u>\$ 356,356</u>	<u>\$ 9,708,528</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 467,254	\$ 33,470	\$ 500,724
Accrued payroll liabilities	1,489,011	2,530	1,491,541
Other accrued liabilities	28,173	1,401	29,574
Unearned revenue	14,958	7,654	22,612
Due to other funds	24	61,000	61,024
Due to other governmental units	248,822	10,232	259,054
Short-term notes payable - SAAN	6,544,175	-	6,544,175
TOTAL LIABILITIES	8,792,417	116,287	8,908,704
FUND BALANCES			
Nonspendable			
Prepays	10,817	-	10,817
Inventory	26,415	17,240	43,655
Restricted			
Food and nutrition	-	14,274	14,274
Community center	-	2,762	2,762
Debt service	-	205,793	205,793
Unassigned	522,523	-	522,523
TOTAL FUND BALANCES	<u>559,755</u>	<u>240,069</u>	<u>799,824</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,352,172</u>	<u>\$ 356,356</u>	<u>\$ 9,708,528</u>

See accompanying notes to financial statements.

Hastings Area School System

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

June 30, 2013

Total fund balances - governmental funds **\$ 799,824**

Amounts reported for the governmental activities in the statement of net position 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	\$ 57,295,596	
Accumulated depreciation is	<u>(27,639,702)</u>	
		29,655,894

Governmental funds report the difference between the carrying amount of the defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of net position. These amounts consist of:

Deferred charges on refunding	297,058
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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, loan, and lease payable	(21,721,628)	
Accrued interest payable on long-term debt	(142,731)	
Compensated absences	(463,504)	
Retirement incentive payable	<u>(58,909)</u>	
		<u>(22,386,772)</u>

Net assets of governmental activities **\$ 8,366,004**

Hastings Area School System

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Local sources	\$ 3,370,289	\$ 3,071,894	\$ 6,442,183
State sources	18,216,541	60,484	18,277,025
Federal sources	758,811	807,192	1,566,003
TOTAL REVENUES	22,345,641	3,939,570	26,285,211
EXPENDITURES			
Current			
Instruction	14,149,566	-	14,149,566
Supporting services	7,420,566	-	7,420,566
Food service	-	1,006,975	1,006,975
Community service	3,144	599,160	602,304
Capital outlay	-	74,165	74,165
Debt service	326,295	2,660,975	2,987,270
TOTAL EXPENDITURES	21,899,571	4,341,275	26,240,846
EXCESS OF REVENUES (UNDER) EXPENDITURES	446,070	(401,705)	44,365
OTHER FINANCING SOURCES (USES)			
County special education allocation	68,418	-	68,418
Transfers in	-	103,000	103,000
Transfers out	(103,000)	-	(103,000)
Debt proceeds	770,874	-	770,874
TOTAL OTHER FINANCING SOURCES (USES)	736,292	103,000	839,292
NET CHANGE IN FUND BALANCES	1,182,362	(298,705)	883,657
Fund balances (deficit), beginning of year	(622,607)	538,774	(83,833)
Fund balances, end of year	<u>\$ 559,755</u>	<u>\$ 240,069</u>	<u>\$ 799,824</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, 2013

Net change in fund balances - total governmental funds \$ 883,657

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	\$ 966,214	
Depreciation expense	<u>(1,298,515)</u>	
Excess of depreciation expense over capital outlay		(332,301)

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 position. 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	2,073,974	
Debt proceeds	(770,874)	
Deferred charges on refunding - amortization	<u>(74,264)</u>	
		1,228,836

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	1,819	
(Increase) in compensated absences	(428,046)	
Decrease in retirement incentive payable	<u>82,878</u>	
		<u>(343,349)</u>

Change in net position of governmental activities \$ 1,436,843

Hastings Area School System
 Proprietary Fund - Internal Service Fund
 STATEMENT OF NET POSITION
 June 30, 2013

	Governmental Activities
	Health Insurance Services Fund
ASSETS	
Current assets	
Cash	\$ 996
Accounts receivable	10,004
TOTAL ASSETS	11,000
LIABILITIES	
Current liabilities	
Due to other funds	11,000
NET POSITION	
Unrestricted	\$ -0-

See accompanying notes to financial statements.

Hastings Area School System

Proprietary Fund - Internal Service Fund

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

Year Ended June 30, 2013

	<u>Governmental Activities Health Insurance Services Fund</u>
OPERATING REVENUES	
Charges for services	\$ 1,048,194
OPERATING EXPENSES	
Fringe benefits and other related charges	<u>1,048,194</u>
CHANGE IN NET ASSETS	-0-
Net position beginning of year	<u>-</u>
Net position, end of year	<u><u>\$ -0-</u></u>

Hastings Area School System
 Proprietary Fund - Internal Service Fund
 STATEMENT OF CASH FLOWS
 Year Ended June 30, 2013

	<u>Governmental Activities</u> Health Insurance Services Fund <u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers/other funds	\$ 1,288,112
Cash paid for benefits and related charges	<u>(1,287,116)</u>
CASH PROVIDED BY OPERATING ACTIVITIES	996
Cash, beginning of year	<u>-</u>
Cash, end of year	<u><u>\$ 996</u></u>
Reconciliation of change in net assets to net cash provided by operating activities	
Change in net position	\$ -
Adjustments to reconcile change in net position to cash provided by operating activities	
Decrease in:	
Accounts receivable	239,918
Increase (decrease) in:	
Due to other funds	11,000
Accounts payable	(133,823)
Short-term notes payable - overdrawn cash	<u>(116,099)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 996</u></u>

See accompanying notes to financial statements.

Hastings Area School System

Fiduciary Fund

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2013

	<u>Agency Fund</u>
ASSETS	
Cash	<u>\$ 211,429</u>
LIABILITIES	
Accounts payable	\$ 10,643
Due to student groups	<u>200,786</u>
TOTAL LIABILITIES	<u>\$ 211,429</u>

See accompanying notes to financial statements.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 No. 39 and GASB Statement No. 61); and Michigan Committee on 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 position 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, 2013

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, deferred outflows of resources, current liabilities, and deferred inflows of resources 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.

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.

The District reports unearned or unavailable revenue on its governmental funds balance sheet, when applicable. Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Unearned revenues arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the unearned or unavailable revenue is removed from the balance sheet and revenue is recognized.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 17, 2013.

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, 2013 to be paid in July and August 2013. Of the total amount of \$3,649,091 due from other governmental units, \$3,533,747 consists of State Aid, and the remaining \$115,344 from grants and local programs.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 Outflows/Inflows of Resources

In addition to assets, the statement of financial position and the balance sheet, when applicable, will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and the balance sheet, when applicable, will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide financial statement of net position. A deferred charge on refunding results from difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. 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 for the General Fund of \$17.9262 per \$1,000 of taxable valuation on nonprimary residence exempt property (2012 value \$159,340,015) and \$6 per \$1,000 of taxable valuation on commercial personal property (2012 value \$13,116,357) 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 2012 taxable value of the District, which was used for the basis of the tax revenue for the applicable Debt Service Fund was \$553,541,447.

16. 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, 2013, the foundation allowance was based on the average of pupil membership counts taken in September 2012 and February 2012. The average calculation was weighted 90% for the September 2012 count and 10% for the February 2012 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.

17. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. 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.

19. 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.

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, 2013, the carrying amount of the District's deposits was \$6,116,855 and the bank balance was \$6,319,433, of which \$729,722 was covered by federal depository insurance. The balance of \$5,589,711 was uninsured and uncollateralized. The District had \$3,247 of cash on hand.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Investments

As of June 30, 2013, 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>\$ 8,467</u>	<u>\$ 8,467</u>	49

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, 2013, 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, 2013, 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>\$ 5,917,140</u>	<u>\$ 211,429</u>	<u>\$ 6,128,569</u>

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 253,410	\$ -	\$ -	\$ 253,410
Construction in progress	3,087,297	74,165	(3,161,462)	-0-
Total capital assets not being depreciated	3,340,707	74,165	(3,161,462)	253,410
Capital assets being depreciated				
Buildings and building improvements	45,233,335	2,169,022	-	47,402,357
Buses and other vehicles	1,908,370	482,554	-	2,390,924
Furniture and equipment	5,846,970	1,401,935	-	7,248,905
Total capital assets being depreciated	52,988,675	4,053,511	-0-	57,042,186
Less accumulated depreciation for:				
Buildings and building improvements	(19,082,029)	(1,072,404)	-	(20,154,433)
Buses and other vehicles	(1,822,497)	(116,229)	-	(1,938,726)
Furniture and equipment	(5,436,661)	(109,882)	-	(5,546,543)
Total accumulated depreciation	(26,341,187)	(1,298,515)	-0-	(27,639,702)
Net capital assets being depreciated	26,647,488	2,754,996	-0-	29,402,484
Capital assets, net	<u>\$ 29,988,195</u>	<u>\$ 2,829,161</u>	<u>\$ (3,161,462)</u>	<u>\$ 29,655,894</u>

Depreciation expense of \$1,298,515 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, 2013:

	Restated Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due within One Year
2005 Refunding Bonds	\$ 6,000,000	\$ -	\$ (420,000)	\$ 5,580,000	\$ 430,000
2006 Refunding Bonds	3,190,000	-	-	3,190,000	-
2009 Refunding Bonds	8,810,000	-	(1,385,000)	7,425,000	1,435,000
2010 School Building and Site	3,200,000	-	-	3,200,000	-
Energy Conservation Bonds	1,804,084	-	(119,078)	1,685,006	132,600
1998 Durant Resolution Bonds	20,644	-	(20,644)	-0-	-
Capital lease - buses	-	402,128	(58,836)	343,292	49,979
Installment loan - technology	-	368,746	(70,416)	298,330	75,000
Compensated absences	35,458	488,947	(60,901)	463,504	-
Retirement incentive payable	141,787	-	(82,878)	58,909	58,909
	<u>\$ 23,201,973</u>	<u>\$ 1,259,821</u>	<u>\$ (2,217,753)</u>	<u>\$ 22,244,041</u>	<u>\$ 2,181,488</u>

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 \$430,000 to \$750,000 through May 1, 2022, with interest ranging from 4.00 to 5.00 percent, payable semi-annually.	\$ 5,580,000
\$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 \$1,435,000 to \$1,515,000 through May 1, 2018, with interest ranging from 2.75 to 3.50 percent, payable semi-annually.	7,425,000
\$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>1,685,006</u>
	<u>\$21,080,006</u>

Capital Lease

\$402,128 School Bus capital lease payable, dated August 15, 2012, due in annual installments of \$58,836 from August 15, 2012 through August 15, 2016, and a final lump sum payment of \$139,000 on August 15, 2017 with interest of 2.58 percent. The cost of the vehicles under the lease purchase agreement amounted to \$402,128. The lease purchase agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception.	<u>\$ 343,292</u>
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Installment Loan

\$368,746 Technology Installment Loan, dated July 13, 2012 due in annual installments ranging from \$73,000 to \$76,330 through June 1, 2017, with an interest rate of 1.99 percent, payable annually.	<u>\$ 298,330</u>
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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, 2013, bonds due and payable May 1, 2014 through May 1, 2022 for the 2001 School Building and Site Bonds in the amount of \$5,475,000 are considered defeased.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE D: LONG-TERM DEBT - CONTINUED

Advance Refunding - Prior - continued

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, 2013, 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.

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, 2013, bonds due and payable May 1, 2014 through May 1, 2018 for the 1998 Refunding Bonds and the 1999 Refunding Bonds in the amount of \$7,705,000 are considered defeased.

Compensated Absences

In recognition of services to the District, a severance payment is made to eligible employees according to their respective employment contracts.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2013, for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years. Due to the uncertainties of how much will be used in the next fiscal year the entire balance is reflected as noncurrent in the government-wide financial statements.

A summary of the calculated amounts of compensated absences related to severance pay and related payroll taxes as of June 30, 2013, which have been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Compensated absences	\$ 342,146	\$ 88,420	\$ 430,566
Payroll taxes	26,174	6,764	32,938
	<u>\$ 368,320</u>	<u>\$ 95,184</u>	<u>\$ 463,504</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.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE D: LONG-TERM DEBT - CONTINUED

Retirement Incentive Payable - continued

A summary of the calculated amounts of retirement incentive payable and related payroll taxes as of June 30, 2013, which has been recorded in the District-wide financial statements, is as follows:

Retirement incentive payable	\$ 54,723
Payroll taxes	<u>4,186</u>
	<u><u>\$ 58,909</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,	<u>Installment Loan</u>		<u>General Obligation Bonds</u>		<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 75,000	\$ 5,806	\$ 1,997,600	\$ 837,360	\$ 49,979	\$ 8,857
2015	74,000	4,313	2,077,021	770,925	51,269	7,567
2016	73,000	2,841	2,167,386	694,176	52,591	6,245
2017	76,330	1,388	2,253,753	614,863	53,948	4,888
2018	-	-	2,341,175	534,319	135,505	3,495
2019-2013	-	-	6,748,071	1,634,676	-	-
2024-2027	-	-	3,495,000	314,792	-	-
	<u>\$ 298,330</u>	<u>\$ 14,348</u>	<u>\$ 21,080,006</u>	<u>\$ 5,401,111</u>	<u>\$ 343,292</u>	<u>\$ 31,052</u>

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2013, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	\$ 61,000
Internal service fund	<u>11,000</u>
	<u><u>\$ 72,000</u></u>
Due to nonmajor governmental funds from:	
General Fund	<u><u>\$ 24</u></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.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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>\$ 103,000</u>

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

NOTE G: EMPLOYEE RETIREMENT SYSTEM

Plan Description

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, 2012, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

Funding Policy

Employer contributions to the pension system result from implementing effects of the School Finance Reform Act. Member contribution rates vary based on date of hire and certain voluntary elections. 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 6.4% 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 enroll in the Pension Plus Plan, which includes a defined contribution component of 3% of all wages to retire health care fund and 2% to a hybrid defined contribution plan.

Pension Benefits

Each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits.

Other Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverage through MPERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate.

Hastings Area School System
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Contribution rates for the year ended June 30, 2013, are as follows:

	<u>Pension Contribution Rate</u>		<u>Health Contribution Rate</u>	
	<u>Basic/MIP</u>	<u>Pension Plus</u>	<u>Basic/MIP</u>	<u>Pension Plus</u>
July 1, 2012-September 30, 2012	15.96%	14.73%	8.50%	8.50%
October 1, 2012-January 31, 2013	16.25%	12.78-15.02%	9.11%	8.18%-9.11%
February 1, 2013-June 30, 2013	12.78-15.21%	12.78-15.02%	9.11%	8.18%-9.11%

The District's required and actual contributions to the various plans for the last three fiscal years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Defined Benefit Plan</u>		<u>Defined Contribution Plan</u>	
	<u>Employer Retirement Contributions</u>	<u>Employer Health Contributions</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>
2013	\$ 1,841,160	\$ 991,394	\$ 21,995	\$ 27,086
2012	2,083,019	1,109,378	Not available	Not available
2011	1,592,971	1,113,508	Not available	Not available

NOTE H: RISK MANAGEMENT

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

Beginning in 2012 the District was 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>2013</u>
Estimated liability - beginning of year	\$ 133,823
Estimated claims incurred - including changes in estimates	1,048,194
Claims payments	<u>1,171,017</u>
Estimated liability - end of year	<u>\$ 11,000</u>

This liability amount is reflected as due to other funds the financial statements.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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.
- 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. The year ended June 30, 2013 was the last year of payments of these funds.

NOTE J: SHORT-TERM NOTES

On August 22, 2011, 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 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, 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 2012.

On August 20, 2012, the School issued a short-term State School Aid Anticipation Note in the amount of \$6,500,000 for the purpose of funding operating expenditures until the 2013 State Aid payments began. This short-term note, which had a net outstanding balance of \$6,544,175 (principal and accrued interest payable) at June 30, 2013, is reported in the financial statements 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, 2013.

NOTE K: SUBSEQUENT EVENTS

After the year ended June 30, 2013, the following subsequent event occurred:

On August 27, 2013, the District issued a State School Aid Anticipation Note in the amount of \$5,000,000 for the purpose of funding operating expenditures until the fiscal year 2014 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.

NOTE L: DETAILS OF FUND BALANCES 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:

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE L: DETAILS OF FUND BALANCES 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 District's 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: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* were implemented during the current year. These statements incorporate deferred outflows of resources and 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 and fund balance when applicable.

NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENT

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the District's 2014-2015 fiscal year.

Hastings Area School System

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE O: 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 P: 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.

NOTE Q: RESTATEMENTS OF NET POSITION

Beginning net position of the government activities was restated by (\$207,912) due to the implementation of GASB 65. This implementation of the new standard resulted in governmental activities net position being restated from \$7,137,073 to \$6,929,161 at the beginning of the year.

REQUIRED SUPPLEMENTARY INFORMATION

Hastings Area School System

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 3,357,998	\$ 3,335,581	\$ 3,370,289	\$ 34,708
State sources	17,697,959	18,207,169	18,216,541	9,372
Federal sources	679,203	934,854	758,811	(176,043)
TOTAL REVENUES	21,735,160	22,477,604	22,345,641	(131,963)
EXPENDITURES				
Instruction				
Basic needs	10,094,076	10,994,463	10,867,468	126,995
Added needs	3,170,902	3,343,933	3,282,098	61,835
Total instruction	13,264,978	14,338,396	14,149,566	188,830
Supporting services				
Pupil services	192,202	206,919	206,855	64
Instructional staff	215,464	440,736	386,061	54,675
General administration	396,818	241,289	238,426	2,863
School administration	1,497,849	1,488,576	1,430,870	57,706
Business services	920,505	599,052	570,498	28,554
Technology	387,167	836,681	842,218	(5,537)
Operations and maintenance	2,035,436	2,078,298	2,083,272	(4,974)
Transportation	823,469	870,307	1,280,659	(410,352)
Athletics	328,549	370,534	381,707	(11,173)
Total supporting services	6,797,459	7,132,392	7,420,566	(288,174)
Community services	-	9,451	3,144	6,307
Debt service	-	326,297	326,295	2
TOTAL EXPENDITURES	20,062,437	21,806,536	21,899,571	(93,035)
EXCESS OF REVENUES OVER EXPENDITURES	1,672,723	671,068	446,070	(224,998)
OTHER FINANCING SOURCES (USES)				
County special education allocation	-	69,000	68,418	(582)
Transfers to other funds	(40,000)	(85,000)	(103,000)	(18,000)
Debt proceeds	-	368,745	770,874	402,129
TOTAL OTHER FINANCING SOURCES (USES)	(40,000)	352,745	736,292	383,547
NET CHANGE IN FUND BALANCE	1,632,723	1,023,813	1,182,362	158,549
Fund balance (deficit), beginning of year	(622,607)	(622,607)	(622,607)	-0-
Fund balance, end of year	\$ 1,010,116	\$ 401,206	\$ 559,755	\$ 158,549

Hastings Area School System

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2013

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, 2013, 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			
Supporting services			
Technology	\$ 836,681	\$ 842,218	\$ 5,537
Operations and maintenance	2,078,298	2,083,272	4,974
Transportation	870,307	1,280,659	410,352
Athletics	370,534	381,707	11,173
Transfers to other funds	85,000	103,000	18,000
CERC/Childcare Fund			
Current			
Community Service	575,411	599,160	23,749

OTHER SUPPLEMENTARY INFORMATION

Hastings Area School System
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET

June 30, 2013

	Special Revenue		2010 Capital Projects
	Food Service	Community Center	
ASSETS			
Cash	\$ 16,583	\$ 86,591	\$ -
Accounts receivable	3,426	719	-
Due from other funds	-	-	-
Due from other governmental units	22,512	3,492	-
Inventory	17,240	-	-
	\$ 59,761	\$ 90,802	\$ -0-
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 8,962	\$ 24,508	\$ -
Accrued payroll liabilities	737	1,793	-
Other accrued liabilities	247	1,154	-
Due to other funds	2,000	59,000	-
Due to other governmental units	8,647	1,585	-
Unearned revenue	7,654	-	-
	28,247	88,040	-0-
FUND BALANCES			
Nonspendable			
Inventory	17,240	-	-
Restricted			
Community center	-	2,762	-
Debt service	-	-	-
Food and nutrition	14,274	-	-
	31,514	2,762	-0-
TOTAL LIABILITIES AND FUND BALANCES	\$ 59,761	\$ 90,802	\$ -0-

<u>Debt Service</u>	<u>Total</u>
\$ 205,657	\$ 308,831
-	4,145
24	24
112	26,116
-	17,240
<u>\$ 205,793</u>	<u>\$ 356,356</u>

\$ -	\$ 33,470
-	2,530
-	1,401
-	61,000
-	10,232
-	7,654
<u>-</u>	<u>116,287</u>

-0- 116,287

- 17,240

- 2,762

205,793 205,793

- 14,274

<u>205,793</u>	<u>240,069</u>
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<u>\$ 205,793</u>	<u>\$ 356,356</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, 2013

	Special Revenue		2010 Capital Projects
	Food Service	Community Center	
REVENUES			
Local sources	\$ 310,424	\$ 492,202	\$ 25
State sources	37,273	1,585	-
Federal sources	637,789	-	-
TOTAL REVENUES	985,486	493,787	25
EXPENDITURES			
Current			
Food service	1,006,975	-	-
Community service	-	599,160	-
Capital outlay	-	-	74,165
Debt service			
Principal retirement	-	-	-
Interest, fiscal and other charges	-	-	-
TOTAL EXPENDITURES	1,006,975	599,160	74,165
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(21,489)	(105,373)	(74,140)
OTHER FINANCING SOURCES			
Transfers in	-	103,000	-
NET CHANGE IN FUND BALANCES	(21,489)	(2,373)	(74,140)
Fund balances, beginning of year	53,003	5,135	74,140
Fund balances, end of year	\$ 31,514	\$ 2,762	\$ -0-

<u>Debt Service</u>	<u>Total</u>
\$ 2,269,243	\$ 3,071,894
21,626	60,484
<u>169,403</u>	<u>807,192</u>
2,460,272	3,939,570
-	1,006,975
-	599,160
-	74,165
1,825,644	1,825,644
<u>835,331</u>	<u>835,331</u>
<u>2,660,975</u>	<u>4,341,275</u>
(200,703)	(401,705)
-	103,000
<u>(200,703)</u>	<u>(298,705)</u>
<u>406,496</u>	<u>538,774</u>
<u>\$ 205,793</u>	<u>\$ 240,069</u>

**Hastings Area School System
Hastings, Michigan**

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2013

Hastings Area School System

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Hastings Area School System's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hastings Area School System's major federal programs for the year ended June 30, 2013. Hastings Area School System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hastings Area School System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hastings Area School System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Hastings Area School System's compliance.

Opinion on Each Major Federal Program

In our opinion, Hastings Area School System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Hastings Area School System is responsible for establishing and maintaining effective internal control over compliance requirements referred to above. In planning and performing our audit of compliance we considered Hastings Area School System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hastings Area School System's internal control over compliance.

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hastings Area School System as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 8, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 8, 2013

Hastings Area School System

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Passed Through Michigan Department of Education			
E.S.E.A. Title I - Part A	84.010 (e)		
2012-13		1315301213	\$ 516,824
2011-12		1215301112	<u>390,738</u>
			907,562
Improving Teacher Quality	84.367		
2011-12		1205201112	136,557
2012-13		1305201213	<u>180,171</u>
			316,728
Passed Through Michigan Department of Education and Barry Intermediate School District (BISD)			
Special Education Grants to States	84.027		
IDEA			
2012-13		N/A	200,500
Career and Technical Education	84.048		
Perkins 12-13		N/A	<u>14,994</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			1,439,784
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Michigan Department of Education			
School Breakfast Program	10.553 (e)(f)		
2011-12 Cash assistance		121970	80,939
2012-13 Cash assistance		131970	<u>89,983</u>
			170,922
National School Lunch Program	10.555 (e)(f)		
2011-12 Cash assistance		121960	413,011
2012-13 Cash assistance		131960, 131980	400,482
2012-13 Noncash assistance - entitlement (a)		08030	<u>58,659</u>
			872,152

<u>Restated (Memo Only) Prior Years' Expenditures</u>	<u>Restated Balance July 1, 2012 Accrued or (Unearned) Revenue</u>	<u>Cash Receipts In-Kind Payments</u>	<u>Expenditures</u>	<u>Balance June 30, 2013 Accrued or (Unearned) Revenue</u>
\$ -	\$ -	\$ 372,529	\$ 423,796	\$ 51,267
<u>330,346</u>	<u>20,532</u>	<u>20,532</u>	<u>-</u>	<u>-0-</u>
330,346	20,532	393,061	423,796	51,267
89,243	9,974	9,974	-	-0-
<u>-</u>	<u>-</u>	<u>100,514</u>	<u>113,867</u>	<u>13,353</u>
89,243	9,974	110,488	113,867	13,353
-	-	200,500	200,500	-0-
<u>-</u>	<u>6</u>	<u>15,000</u>	<u>14,994</u>	<u>-0-</u>
419,589	30,512	719,049	753,157	64,620
72,144	-	8,795	8,795	-0-
<u>-</u>	<u>-</u>	<u>89,983</u>	<u>89,983</u>	<u>-0-</u>
72,144	-0-	98,778	98,778	-0-
363,155	-	49,856	49,856	-0-
-	-	400,482	400,482	-0-
<u>-</u>	<u>-</u>	<u>58,659</u>	<u>58,659</u> ^(c)	<u>-0-</u>
363,155	-0-	508,997	508,997	-0-

Hastings Area School System

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2013

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF AGRICULTURE - CONTINUED			
Passed Through Michigan Department of Education - continued			
Summer Food Service Program	10.559	(e)(f)	
2012-13 Cash assistance		120900,121900	
		130900,131900	<u>\$ 25,918</u>
Cluster Total			1,068,992
Child & Adult Care Food Program	10.558		
2012-13 Cash assistance		131920	<u>8,642</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,077,634
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Michigan Department of Human Services and Barry Intermediate School District			
Medicaid Assistance Program			
Title XIX			
Outreach	93.778	N/A	<u>5,654</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 2,523,072</u></u>

<u>Restated (Memo Only) Prior Years' Expenditures</u>	<u>Restated Balance July 1, 2012 Accrued or (Unearned) Revenue</u>	<u>Cash Receipts In-Kind Payments</u>	<u>Expenditures</u>	<u>Balance June 30, 2013 Accrued or (Unearned) Revenue</u>
\$ 4,546	\$ 4,546	\$ 18,228	\$ 21,372	\$ 7,690
439,845	4,546	626,003	629,147	7,690
<u>-</u>	<u>-</u>	<u>8,642</u>	<u>8,642</u>	<u>-0-</u>
439,845	4,546	634,645	637,789	7,690
<u>-</u>	<u>-</u>	<u>5,654</u>	<u>5,654</u>	<u>-0-</u>
<u>\$ 859,434</u>	<u>\$ 35,058</u>	<u>\$ 1,359,348</u> (d)	<u>\$ 1,396,600</u> ^(b)	<u>\$ 72,310</u>

Hastings Area School System

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Hastings Area School System and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (f) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education (MDE) Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Reports which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of condition commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the "paid during date range" amounts on the Grant Auditor Report.
- (e) Denotes programs tested as "major programs".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the federal revenues reported in the June 30, 2013 Financial Statements to the expenditures of the District administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>General Fund</u>	<u>Special Revenue Food Service</u>	<u>Debt Service</u>	<u>Total</u>
Revenues from Federal sources per financial statements	\$ 758,811	\$ 637,789	\$ 169,403	\$ 1,566,003
Less: Build America Bonds Federal Interest Subsidy which is not subject to the Single Audit Act	<u>-</u>	<u>-</u>	<u>(169,403)</u>	<u>(169,403)</u>
Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 758,811</u>	<u>\$ 637,789</u>	<u>\$ -0-</u>	<u>\$ 1,396,600</u>

Principals

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Aaron M. Stevens, CPA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards general in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 8, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as 2012-2 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as 2012-1 and 2013-1.

Hastings Area School Systems' Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. Hastings Area School Systems' responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinions on them.

Purpose of this Report

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 8, 2013

Hastings Area School System

SCHEDULE OF FINDINGS

Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? X Yes _____ None reported

Noncompliance material to financial statements noted? X Yes _____ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

2012-1 THE USE OF THE DISTRICT'S NAME AND/OR EMPLOYER IDENTIFICATION NUMBER BY OTHER ENTITIES

Condition: During the course of our audit, we noted that certain organizations/entities independent of the District had deposit accounts with local banks under the name and/or employer identification number of the District. This issue was noted and reported in our audit comments last year.

Criteria: The District should have under its control all accounts in its name and/or using its employer identification number of the District.

Cause: Organizations/entities independent of the District have opened deposit accounts with local banks under the name/employer identification number of the District.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended June 30, 2013

Section II - Financial Statement Findings - Continued

2012-1 THE USE OF THE DISTRICT'S NAME AND/OR EMPLOYER IDENTIFICATION NUMBER BY OTHER ENTITIES - CONTINUED

Effect: The District is associated with certain bank accounts, yet the District does not include these accounts in the District's general ledger and does not reconcile and monitor these accounts. Ultimately, the District cannot establish internal controls over such assets.

Recommendation: We recommend the District contact the banks with which it does business and take the necessary steps to have the District's identifying information removed from all accounts not under the control of the District.

Corrective Action Response: The District will contact banks to have the District's identifying information removed from all accounts not under the control of the District.

2012-2 WRITTEN PROCEDURES

Condition: Based on our discussions with management, we noted that the District, while in the process of working on these, has not formally adopted written procedures and policies for several areas of operation. This issue was noted and reported in our audit comments last year.

Criteria: Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible.

Cause: The District was not aware that policies were necessary in these areas in the prior year and are still working to get these completed.

Effect: Not documenting specific policies and procedures increases the possibility that management's expectations are not met and decreases their visibility over the areas for which they are responsible.

Recommendation: We recommend that the District formally adopt, and implement procedures and policies in the following areas:

1. Electronic transaction resolution - During our analysis of internal controls, it was noted that the Board has not implemented a written electronic transaction resolution as required by Michigan Compiled Law. Public Act 738 of 2002 requires that local units of government that utilize electronic transactions adopt a written Electronic Transaction Resolution. We recommend the District prepare a formal electronic transaction resolution that complies with the compiled law and adopt it through Board action.
2. Accounting procedures manual - We recommend that the District adopt and implement an accounting procedures manual which will describe and explain accounting duties.
3. Record retention policy - We recommend that the District develop and implement a record retention policy to ensure that all necessary records and documents of the District are adequately maintained and protected, as well as to ensure that records no longer needed by the District are discarded in the proper manner at the proper time.

Corrective Action Response: The District will adopt an electronic transaction resolution and the District will develop an accounting procedures manual.

Hastings Area School System
SCHEDULE OF FINDINGS - CONTINUED
Year Ended June 30, 2013

Section II - Financial Statement Findings - Continued

2013-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated in various activities in the General Fund and one (1) Special Revenue Fund in total.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the District adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public act requires amendments to be performed prior to incurring additional expenditures.

Cause: The District did not sufficiently amend the budget when it became apparent spending was going to exceed the amounts appropriated in the over budget areas

Effect: The District has not maintained adequate control over budgetary compliance in accordance with State law in the certain areas where the overages occurred.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriated budget adjustment as needed.

Corrective Action Response: Management of the District is continually reviewing procedures related to budgetary compliance in accordance with State law and will continue to monitor and amend our budget when the need arises.

Section III - Federal Award Findings and Questioned Costs

None noted

Hastings Area School System

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2013

Significant Deficiencies and Material Weaknesses Related to Internal Control Over the Financial Statements.

2012-2 WRITTEN PROCEDURES

Condition: Based on our discussions with management, we noted that the District has not formally adopted written procedures and policies for several areas of operation.

Resolution: The District did not adopt formal policies in the current year. We do not consider this issue resolved and it is repeated in the current year findings.

2012-3 PAYROLL PROCESSES

Condition: During our review of the controls over the payroll disbursement process and our gaining an understanding of the payroll procedures, we noted some opportunities to improve internal controls over the payroll process. We noted there was no standard documented approval process for each District employee's pay rate, years of service, etc. that was formally approved by someone independent of the payroll process. Also it was noted that once a new hire is approved by the group that has done the hiring, the remaining aspects of the payroll process were left to the Human Resources Coordinator to set the employee up in the payroll system, process the payroll, set up ACH transfers, generate payroll related journal entries, etc. with little supervisory oversight.

Resolution: The District implemented changes as recommended. This issue was not noted in the current audit. We consider this issue resolved.

2012-4 INTERNAL SERVICE FUND ACTIVITY

Condition: During our review of the newly implemented self-insurance activity during the 11/12 fiscal year it was noted that his activity was not being recorded in the general ledger of the District. During the audit process, the District accumulated the necessary financial information and provided a revised general ledger to the auditors that included this fund so all relevant financial data could be audited and the financial statement would be complete.

Resolution: The District implemented changes as recommended. This issue was not noted in the current audit. We consider this issue resolved.

2012-5 OVERDRAWN BANK ACCOUNT

Condition: During our review of the bank reconciliation process it was noted that the bank account that was used to handle the District's self-insurance (i.e., the internal service fund as noted in the above finding) was materially overdrawn and this amount was reflected in the audited financial statements as a short-term note payable. It was also determined that a formal bank reconciliation was not being performed on this account nor was the account being monitored by anyone independent of the self-insurance process.

Resolution: The District implemented changes as recommended. This issue was not noted in the current audit. We consider this issue resolved.

2012-7 DISBURSEMENT APPROVAL PROCESS

Condition: During our disbursement testing, it was noted that seven (7) out of forty (40) disbursements tested did not have proper approval by the superintendent or equivalent. While the disbursements appeared appropriate and allowable this is a control issue. In addition, one disbursement lacked approval by the appropriate department head.

Resolution: This issue was not noted in the current audit. We consider this issue resolved.

Hastings Area School System

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

Year Ended June 30, 2013

Significant Deficiencies and Material Weaknesses Related to Internal Control Over the Financial Statements - continued.

2012-8 BANK RECONCILIATIONS

Condition: During our analysis of cash and cash equivalents it was noted that certain bank reconciliations were not completed as of the beginning of fieldwork. Subsequently, the reconciliations were completed and certain reconciliations reflected immaterial unreconciled differences. Journal entries were provided by the District to correct a majority of the issues.

Resolution: The District's management established procedures to provide greater and timelier control over cash accounts and the reconciliation process. We consider this issue resolved.

2012-10 EMPLOYEE BENEFITS

Condition: During our review of the internal controls surrounding the employee benefits process, we noted opportunities to strengthen controls over the benefits procedures. Specifically we noted that on certain occasions it was difficult to readily substantiate accurate pay rates and add-on amounts to employee pay rates. It was also noted that certain individuals had accrued amounts in compensatory time which was greater than contractually allowed and there was no specific reconciliation process performed by an independent individual of compensated absence balances, earnings, usage, etc. This data was also tracked outside of the payroll system on ancillary spreadsheets instead of within the payroll system.

Resolution: All add-on amounts for pay and other benefits are now detailed in annual individual contracts or memos to personnel files signed by an appropriate supervisory level individual independent of the payroll process. Compensated absences process are now reviewed and approved to assure accuracy of amounts earned, used and that ending balances are accurate. We consider this issue resolved.

2012-11 DISBURSEMENT PROCESS

Condition: During our analysis of the disbursement process and our gaining an understanding of those procedures, we noted some opportunities to improve internal controls over this process. We noted the same individual has the ability to set up a new vendor, process accounts payable disbursements, has control over blank check stock, distributes checks after they have been processed, and files all invoices.

Resolution: The District adjusted the disbursement process to allow for better segregation of duties. This segregation allows for an employee independent of the disbursement process to set up vendors and match checks to invoices. We consider this issue resolved.

Findings related to Compliance with Requirements Applicable to the Financial Statements.

2012-1 THE USE OF THE DISTRICT'S NAME AND/OR EMPLOYER IDENTIFICATION NUMBER BY OTHER ENTITIES

Condition: During the course of our audit, we noted that several organizations/entities independent of the District had deposit accounts with local banks under the name and/or employer identification number of the District.

Resolution: The District's identifying information was not removed from all accounts not under the control of the District. We do not consider this issue resolved and it is repeated in the current year findings.

Hastings Area School System

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

Year Ended June 30, 2013

Findings related to Compliance with Requirements Applicable to the Financial Statements - continued.

2012-6 FUND DEFICIT

Condition: As indicated in Note M of the notes to the financial statements, the General Fund ended the year with a fund deficit.

Resolution: This issue was not noted in the current audit. We consider this issue resolved.

2012-9 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated in certain areas within the General Fund and Food Service Fund in total.

Resolution: This issue is evaluated each year and in the current year we found expenditures exceeded appropriations in the General Fund and Food Service Fund. We consider this issue resolved only as it pertains to the fiscal year ended June 30, 2012.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.