

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

FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
June 30, 2009

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## REPORT LETTER

October 16, 2009

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

We have audited the accompanying financial statements of the Governmental Activities, each major fund, and the aggregate remaining fund information of the Hillman Community Schools as of and for the years ended June 30, 2009 and 2008, which collectively comprise the School District's financial statements as listed in the table of contents. These financial statements are the responsibility of the Hillman Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, each major fund, and aggregate remaining fund information of the Hillman Community Schools as of June 30, 2009 and 2008, and the respective changes in financial position for the years then ended in conformity with United States generally accepted accounting principles.

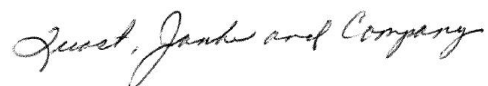
In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2009, on our consideration of Hillman Community Schools' internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of the audit.

To The Board of Education  
Hillman Community Schools  
October 16, 2009  
Page 2

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 25 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hillman Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C.

## **Hillman Community Schools Management's Discussion and Analysis**

This section of Hillman Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the years ended June 30, 2009 and 2008. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

### **Using this Annual Report**

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

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

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Other Supplemental Information

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

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

## **Hillman Community Schools Management's Discussion and Analysis**

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

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

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

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

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

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

## Hillman Community Schools Management's Discussion and Analysis

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

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

### The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2009 and 2008

TABLE 1:

	Governmental Activities	
	June 30, 2009	June 30, 2008
Assets		
Current and other assets	\$ 1,813,771	\$ 1,737,209
Capital assets – Net of accumulated depreciation	7,792,629	8,054,990
Total assets	9,606,400	9,792,199
Liabilities		
Current liabilities	767,038	964,395
Long-term liabilities	6,165,740	6,295,160
Total liabilities	6,932,778	7,259,555
<b>Net Assets</b>		
Invested in property and equipment – Net of related debt	1,497,476	1,417,655
Restricted	3,457	2,420
Unrestricted	1,172,689	1,112,569
Total net assets	\$ 2,673,622	\$ 2,532,644

## Hillman Community Schools Management's Discussion and Analysis

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$2,673,622 at June 30, 2009. Capital assets, net of related debt compares the original cost, less depreciation of the School District's capital assets to long-term debt. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$1,172,689 was unrestricted.

The \$1,172,689 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2009 and 2008.

TABLE 2:

	Governmental Activities	
	Year Ended June 30,	
	2009	2008
Program revenue:		
Charges for services	\$ 124,342	\$ 123,442
Grants and categoricals	1,058,332	734,551
General revenue:		
Property taxes	2,267,840	2,355,308
State foundation allowance	2,038,994	2,254,499
Investment earnings	39,769	64,857
Other	57,119	44,284
Total revenue	5,586,396	5,576,941
<b>Function/Program Expenses</b>		
Instruction	2,480,514	2,700,429
Support services	1,966,138	1,609,571
Food services	312,786	305,699
Athletics	120,618	116,100
Interest on long-term debt	287,070	296,527
Depreciation (unallocated)	278,292	304,474
Total expenses	5,445,418	5,332,800
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 140,978</b>	<b>\$ 244,141</b>

## **Hillman Community Schools Management's Discussion and Analysis**

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5,445,418. Certain activities were partially funded from those who benefited from the program or by other governments and organizations that subsidized certain programs with grants and categoricals. We paid for the remaining "public benefit" portion of our governmental activities with \$2,267,840 in taxes, \$2,038,994 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$140,978. Key reasons for the change in net assets were continued fiscal management. The increase in net assets differs from the change in fund balance and reconciliation appears on page 15.

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

### **The School District's Funds**

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$1,156,120, which is an increase of \$88,639 from last year. The primary reason for this increase is continuing cost management. Also, in the General Fund, our principal operating fund, the balance increased \$73,261 to \$967,764. Overall, actual General Fund revenue and expenses were within 99 percent of budgeted amounts.

The 2005 Debt Retirement Fund fund balance increased by \$8,166.  
The Food Service Fund Balance increased by \$4,951.

### **General Fund Budgetary Highlights**

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

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

**Hillman Community Schools**  
**Management's Discussion and Analysis**

**Capital Asset and Debt Administration**

**Capital Assets**

At June 30, 2009, the School District had \$13,015,669 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net increase (including additions and disposals) of \$68,911.

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 563,234	\$ 563,234
Buildings and improvements	9,795,961	9,769,714
Buses and Other Vehicles	652,324	621,696
Equipment	<u>2,004,150</u>	<u>1,992,114</u>
Total capital assets	13,015,669	12,946,758
Less accumulated depreciation	<u>5,223,041</u>	<u>4,891,768</u>
Net capital assets	<u>\$ 7,792,628</u>	<u>\$ 8,054,990</u>

This year's addition of \$68,911 consisted of a new press box, pick-up, and equipment.

**Debt**

At the end of this year, the School District had \$6,295,160 in bonds outstanding versus \$6,637,335 in the previous year – a decrease of 5.20 percent. These bonds consisted of the following:

2005 Refunding Bonds	\$ 6,255,000
Bus notes	<u>40,160</u>
	<u>\$ 6,295,160</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this limit. The School District's outstanding unqualified general obligation debt of \$6,295,160 is significantly below the statutorily imposed limit.

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

# **Hillman Community Schools**

## **Management's Discussion and Analysis**

### **Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration consider many factors when setting the School District's 2010 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2010 fiscal year is 25 percent and 75 percent of the February 2009 and September 2009 student counts, respectively. The 2010 fiscal year budget was adopted in June 2009, based on an estimate of students that will be enrolled in September of 2009. Approximately 44 percent of total General Fund revenues 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 operation. Based on early enrollment data at the start of the 2009-2010 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2010 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations.

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

### **Contacting the School District's Financial Management**

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

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

STATEMENT OF NET ASSETS  
June 30, 2009 and 2008

	June 30,	
	2009	2008
<b>ASSETS:</b>		
Cash & equivalents	\$ 1,030,663	\$ 940,575
Accounts receivable	1,057	2,959
Due from State of Michigan	492,876	484,883
Inventories	3,457	2,420
Dererred bond costs	361,450	361,450
Accumulated amortization	(75,732)	(55,078)
Capital assets	13,015,669	12,946,758
Accumulated depreciation	(5,223,041)	(4,891,768)
Total Assets	9,606,399	9,792,199
<b>LIABILITIES:</b>		
Accounts payable	1,398	1,978
Accrued payroll and other liabilities	308,731	515,782
Accrued interest	42,342	44,140
Deferred revenue	61,805	60,320
Current portion of long term liabilities	352,762	342,175
Non current portion of long term liabilities	6,165,740	6,295,160
Total Liabilities	6,932,778	7,259,555
<b>NET ASSETS:</b>		
Investment in capital assets - net of related debt	1,497,476	1,417,655
Restricted	3,457	2,420
Unrestricted	1,172,689	1,112,569
Total Net Assets	\$ 2,673,622	\$ 2,532,644

See Notes to Financial Statements

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

STATEMENT OF ACTIVITIES  
Years Ended June 30, 2009 and 2008

	Program Revenues				Governmental Activities	
Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expenses) Revenues And Changes in Net Assets Years Ended June 30, 2009                      2008		
GOVERNMENTAL ACTIVITIES:						
Instruction	\$ 2,480,514	\$ 3,420	\$ 784,754	\$ 0	\$ (1,692,340)	\$ (2,204,674)
Supporting Services	1,966,138	16,749	53,008	0	(1,896,381)	(1,571,330)
Food Services	312,786	54,869	220,570	0	(37,347)	(36,186)
Athletics	120,618	49,304	0	0	(71,314)	(61,616)
Interest on long term debt	287,070	0	0	0	(287,070)	(296,527)
Depreciation (Unallocated)	278,292	0	0	0	(278,292)	(304,474)
Total Governmental Activities	\$ 5,445,418	\$ 124,342	\$ 1,058,332	\$ 0	(4,262,744)	(4,474,807)
GENERAL PURPOSE REVENUES:						
Property taxes, levied for general purpose					1,666,684	1,758,967
Property taxes, levied for debt retirement					601,156	596,341
State school aid - Unrestricted					2,038,994	2,254,499
Investment earnings					39,769	64,857
Other					57,119	44,284
Total General Purpose Revenues					4,403,722	4,718,948
Change in Net Assets					140,978	244,141
Net Assets - Beginning of Year					2,532,644	2,288,503
Net Assets - End of Year					\$ 2,673,622	\$ 2,532,644

See Notes to Financial Statements

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

GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2009 and 2008

<u>ASSETS</u>	<u>GENERAL</u>	<u>FOOD SERVICE</u>	<u>2005 DEBT RETIREMENT</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>Totals June 30</u>	
					<u>2009</u>	<u>2008</u>
Cash	\$ 835,786	\$ 17,246	\$ 170,058	\$ 7,573	\$ 1,030,663	\$ 940,574
Accounts receivable	1,057	0	0	0	1,057	2,959
Due from State of Michigan	290,973	0	0	0	290,973	484,883
Due from Federal government	201,903	0	0	0	201,903	0
Due from other funds	0	0	0	0	0	385
Prepays	0	0	0	0	0	0
Inventory	0	3,457	0	0	3,457	2,419
	<u>\$ 1,329,719</u>	<u>\$ 20,703</u>	<u>\$ 170,058</u>	<u>\$ 7,573</u>	<u>\$ 1,528,053</u>	<u>\$ 1,431,220</u>
 <u>LIABILITIES AND FUND EQUITY</u>						
LIABILITIES:						
Accounts payable	\$ 1,398	\$ 0	\$ 0	\$ 0	\$ 1,398	\$ 1,978
Salaries payable	208,961	4,742	0	1,423	215,126	209,608
Retirement	34,562	784	0	235	35,581	35,046
Payroll taxes	15,817	329	0	109	16,255	15,849
Employee benefits	40,441	1,328	0	0	41,769	40,553
Due to other funds	0	0	0	0	0	385
Deferred revenue	60,776	1,028	0	0	61,804	60,320
Total Liabilities	361,955	8,211	0	1,767	371,933	363,739
Fund Equity:						
Reserved	0	12,492	170,058	0	182,550	164,732
Unreserved - Undesignated	967,764	0	0	5,806	973,570	902,749
Total Fund Equity	967,764	12,492	170,058	5,806	1,156,120	1,067,481
	<u>\$ 1,329,719</u>	<u>\$ 20,703</u>	<u>\$ 170,058</u>	<u>\$ 7,573</u>	<u>\$ 1,528,053</u>	<u>\$ 1,431,220</u>

See Notes to Financial Statements

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

GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS  
June 30, 2009

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	1,156,120
Amounts reported for governmental activities in the statement of net assets are different because -		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Capital assets at cost		13,015,669
Accumulated depreciation		(5,223,041)
Long term liabilities not due and payable in the current period and therefore not reported in the funds -		
Bonds payable		(6,295,152)
Compensated balances		(223,350)
Bond issuance costs including premiums reported as an expenditure in governmental funds and are reported as a deferred expense and amortized over the life of the bond issue in the statement of activities		
Bond issuance costs and premiums		361,450
Accumulated amortization		(75,732)
Accrued interest payable not included as a liability in governmental activities		<u>(42,342)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>2,673,622</u>

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

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE  
Years Ended June 30, 2009 and 2008

	GENERAL		FOOD SERVICE		2005 DEBT RETIREMENT		OTHER NONMAJOR GOVERNMENTAL FUNDS		TOTALS JUNE 30,			
									2009	2008		
REVENUES:												
Local Sources	\$	1,747,888	\$	73,476	\$	603,865	\$	53,540	\$	2,478,769	\$	2,585,893
State Sources -		2,388,007		15,109		0		3,145		2,406,261		2,591,861
Federal Sources		395,040		205,461		0		0		600,501		337,397
Interdistrict and Other Sources		104,010		0		0		0		104,010		59,792
Total Revenues		4,634,945		294,046		603,865		56,685		5,589,541		5,574,943
EXPENDITURES:												
Instruction		2,752,535		0		0		0		2,752,535		2,738,425
Supporting Services		1,718,452		0		0		10,434		1,728,886		1,690,891
Food Service		0		304,095		0		0		405,940		297,008
Athletics		0		0		0		101,845		101,845		97,120
Debt Service -												
Principal Repayment		0		0		330,000		2,492		332,492		315,000
Interest and Fiscal Charges		0		0		265,699		653		266,352		274,679
Total Expenditures		4,470,987		304,095		595,699		115,424		5,588,050		5,413,123
OTHER FINANCING SOURCES (USES):												
Operating Transfers in		0		15,000		0		61,000		76,000		76,000
Operating Transfers out		(76,000)		0		0		0		(76,000)		(76,000)
Bus note proceeds		0		0		0		0		0		63,950
Redemption of school bus loans		(12,182)		0		0		0		(12,182)		(11,615)
Interest on school bus loans		(2,515)		0		0		0		(2,515)		(2,851)
Sale of Fixed Assets		0		0		0		0		0		1,997
Net Other Financing Sources (Uses)		(90,697)		15,000		0		61,000		(14,697)		51,481
NET CHANGE IN FUND BALANCES		73,261		4,951		8,166		2,261		88,639		213,301
FUND BALANCE - BEGINNING OF YEAR		894,503		7,541		161,892		3,545		1,067,481		854,180
FUND BALANCE - END OF YEAR	\$	967,764	\$	12,492	\$	170,058	\$	5,806	\$	1,156,120	\$	1,067,481

See Notes to Financial Statements

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

GOVERNMENTAL FUNDS  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2009

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	\$	88,639
Amounts reported for governmental activities in the statement of activities are different because -			
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:			
Depreciation expense		(331,273)	
Capital outlay		<u>68,911</u>	
Net			(262,362)
Accrued interest recorded in the statement of activities when incurred and reported in governmental funds when paid			1,798
Bond principal repayment reported as an expenditure in governmental funds and as a reduction of long term debt in the statement of activities			342,183
Amortization of bond issuance costs and premiums previously reported as expenditures in governmental funds and currently reported as deferred expenses and amortized in the statement of activities			(20,654)
Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6			(8,625)
Rounding			<u>(1)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u><u>140,978</u></u>

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

FIDUCIARY FUND  
BALANCE SHEET  
June 30, 2009 and 2008

	June 30,	
	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash in bank	\$ <u>55,091</u>	\$ <u>60,062</u>
 <u>LIABILITIES</u>		
Due to school organizations	\$ <u>55,091</u>	\$ <u>60,062</u>

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Reporting Entity

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

District-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

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

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

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

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

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

The School District reports the following major governmental funds:

General Fund -

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

Food Service Fund –

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

2005 Debt Retirement Fund -

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

Assets, Liabilities, and Net Assets or Equity -

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

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

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

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

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

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

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

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

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS:

Deposits of the School District are carried at cost and maintained at Independent Bank, a federally insured bank, Community Financial Credit Union, a federally insured credit union, and the Michigan Liquid Asset Fund.

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

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

Governmental Activities    Fiduciary Funds    Total Primary Government

Cash and Investments	<u>\$1,030,655</u>	<u>\$ 55,091</u>	<u>\$ 1,085,744</u>
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HILLMAN COMMUNITY SCHOOLS  
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued):

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

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name.

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTION (Contd):

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

Category 1.	\$ 500,000
Category 2.	-
Category 3.	<u>585,744</u>
Total Bank Balances	<u>\$ 1,085,744</u>
Carrying Amount	<u>\$ 1,085,744</u>

NOTE 4. CAPITAL ASSETS:

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

	Balance July 1, 2008	Additions	Disposal	Balance June 30, 2008
Land and improvements	\$ 563,234	\$ 0	\$ 0	\$ 563,234
Buildings and improvements	9,769,714	26,247	0	9,795,961
Buses and other vehicles	621,696	30,628	0	652,324
Furniture and equipment	<u>1,992,114</u>	<u>12,036</u>	<u>0</u>	<u>2,004,150</u>
Total Capital Assets	12,946,758	68,911	0	13,015,669
Accumulated Depreciation				
Land and improvements	141,319	15,855	0	157,174
Buildings and improvements	2,876,559	189,062	0	3,065,621
Buses and other vehicles	519,730	32,471	0	552,201
Furniture and equipment	<u>1,354,160</u>	<u>93,885</u>	<u>0</u>	<u>1,448,045</u>
Total Accumulated Depreciation	<u>4,891,768</u>	<u>331,273</u>	<u>0</u>	<u>5,223,041</u>
Capital Assets	<u>\$ 8,054,990</u>	<u>\$(262,362)</u>	<u>\$ 0</u>	<u>\$ 7,792,628</u>

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 4. CAPITAL ASSETS (Continued):

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

Governmental activities:	
Instruction	\$ 707
Support services	35,244
Food services	8,691
Athletics	8,339
Unallocated	<u>278,292</u>
 Total governmental activities	 <u>\$ 331,273</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

There were no interfund receivables or payables.

Operating transfers out from the General Fund are as follows:

Athletic Fund	\$ 51,000
Food Service Fund	<u>25,000</u>
	 <u>\$ 76,000</u>

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

On November 1, 2005 the School District issued \$6,980,000 of refunding bonds with an interest rate of 4.015%. The School District issued the bonds to advance refund \$7,030,000 of the outstanding 1997 Building and Site Bonds with interest rates of 5.125% to 6.625%. The School District transferred the net proceeds along with other resources to an escrow agent. The escrow agent will provide for all future debt service on the refunded portion of the 1997 Building and Site Bonds. As a result, that portion of the 1997 Building and Site Bonds is considered defeased, and the School District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$6,255,000 as of June 30, 2009.

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

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 7. LONG-TERM DEBT:

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

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2009:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending</u> <u>Balance</u>
Bonds Payable-				
Bus Notes	\$ 52,335	\$ 0	\$ 12,175	\$ 40,160
2005 Refunding	<u>6,585,000</u>	<u>0</u>	<u>330,000</u>	<u>6,255,000</u>
	6,637,335	0	342,175	6,295,160
Other Obligations-				
Compensated Absences	<u>214,725</u>	<u>8,625</u>	<u>0</u>	<u>223,350</u>
	<u>\$ 6,852,060</u>	<u>\$ 8,625</u>	<u>\$ 342,175</u>	<u>\$ 6,518,510</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 352,762	\$ 255,760	\$ 608,522
2011	368,377	243,245	611,622
2012	379,021	230,173	609,194
2013	380,000	215,812	595,812
2014	395,000	200,612	595,612
2015-2019	2,255,000	737,960	2,992,960
2020-2023	<u>2,165,000</u>	<u>224,692</u>	<u>2,389,692</u>
	<u>\$ 6,295,160</u>	<u>\$ 2,108,254</u>	<u>\$ 8,403,414</u>

Bonds and other obligations payable consist of the following:

2005 Refunding Bonds, dated November 1, 2005, with interest of 4.015% payable May 1 and November 1.	\$ 6,255,000
Bus Notes payable	40,160
Accrued sick pay	<u>223,350</u>
	<u>\$ 6,518,510</u>

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 7. LONG-TERM DEBT (continued):

Other Obligations -

Compensated Absences:

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

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

All teaching staff, after twelve years of employment with the district, are eligible to be reimbursed for accumulated sick days, up to a maximum of 188 days, upon retirement from teaching. They will be reimbursed at the then daily substitute teaching pay rate, which was \$75 for the year ended June 30, 2009. As of June 30, 2009 the amount which would be due upon retirement for eligible staff is \$223,350.

NOTE 8. VOLUNTARY SEVERANCE PLAN:

On June 8, 2009, the Board of Education offered a Voluntary Severance Plan (VSP) to the members of the Hillman Education Association with 25 years of service, who apply by July 23, 2009. If three (3) or more members accept the VSP by July 23, 2009, a payment of \$5,000 will be made to a special 403b plan for the member. Three members accepted the Plan.

NOTE 9. RISK MANAGEMENT:

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

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

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 10. ECONOMIC DEPENDENCY:

Approximately 51.5% of the District's General Fund revenues are received from the State of Michigan through the Michigan Department of Education. This District is considered to be economically dependent on this revenue source.

NOTE 11. PENSION PLAN:

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

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

The pension benefit rate totals 16.72 % for the period from July, 2008 through September 30, 2008, and 16.54% for the period October 1, 2008 through June 30, 2009 of the covered payroll to the plan. Basic plan members contribute at rates ranging from 3.0% to 4.3% of gross wages. The School Districts contributions to the MPSERS plan for the year ended June 30, 2009 approximated \$415,700.

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

REQUIRED SUPPLEMENTAL INFORMATION

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

BUDGET COMPARISON SCHEDULE - GENERAL FUND  
Year Ended June 30, 2009

	Original Budget	Final Amended Budget	Actual
<b>REVENUES:</b>			
Local Sources	\$ 1,787,820	\$ 1,738,729	\$ 1,747,888
State Sources	2,526,882	2,422,948	2,388,007
Federal Sources	140,398	350,383	395,040
Interdistrict and other sources	58,404	65,000	104,010
Total Revenues	4,513,504	4,577,060	4,634,945
<b>EXPENDITURES:</b>			
Instruction-			
Basic Programs	2,351,238	2,234,917	2,201,879
Added Needs	530,553	599,182	550,656
Supporting Services -			
Pupil	69,381	79,545	79,334
Instructional Staff	65,120	68,937	68,469
General Administration	242,872	129,505	129,184
School Administration	227,199	224,841	223,701
Business Services	102,827	168,918	174,072
Operation & Maintenance	647,094	624,210	605,321
Transportation	314,835	310,813	304,132
Other Support Services	100,000	134,953	134,239
Total Expenditures	4,651,119	4,575,821	4,470,987
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers in	0	0	0
Operating Transfers Out	(113,000)	(76,000)	(76,000)
Redemption of school bus loans	(12,183)	(12,183)	(12,182)
Interest on school bus loans	(2,515)	(2,515)	(2,515)
Net Other Financing Sources (Uses)	(127,698)	(90,698)	(90,697)
<b>NET CHANGE IN FUND BALANCE</b>	(265,313)	(89,459)	73,261
<b>FUND BALANCE - BEGINNING OF YEAR</b>	698,104	894,502	894,503
<b>FUND BALANCE - END OF YEAR</b>	\$ 432,791	\$ 805,043	\$ 967,764

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

BUDGET COMPARISON SCHEDULE - FOOD SERVICE FUND  
Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
<b>REVENUES:</b>			
Local Sources	\$ 65,870	\$ 71,741	\$ 73,476
State Sources	13,710	13,737	15,109
Federal Sources	<u>180,000</u>	<u>202,935</u>	<u>205,461</u>
Total Revenues	259,580	288,413	294,046
<b>EXPENDITURES:</b>			
Supporting Services - Food Service	292,006	308,213	304,095
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers in	<u>36,000</u>	<u>15,000</u>	<u>15,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	3,574	(4,800)	4,951
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>563</u>	<u>7,540</u>	<u>7,541</u>
<b>FUND BALANCE - END OF YEAR</b>	\$ <u><u>4,137</u></u>	\$ <u><u>2,740</u></u>	\$ <u><u>12,492</u></u>

OTHER SUPPLEMENTAL INFORMATION

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

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
Years Ended June 30, 2009 and 2008

REVENUES:	Years Ended June 30,	
	2009	2008
Local Sources -		
Current tax levy	\$ 1,647,845	\$ 1,744,968
Other taxes	14,125	5,854
Interest on delinquent taxes	4,714	8,144
Tuition	0	433
Transportation fees	6,449	1,632
Interest on investments	14,071	31,067
Rentals	16,200	16,200
Royalties	6,710	15,644
Local grants and donations	12,581	9,959
Medicaid outreach	3,420	4,887
Other	21,773	15,630
Total Local Sources	1,747,888	1,854,418
State Sources -		
State Foundation Grant	2,028,448	2,226,000
Isolated districts	17,915	17,732
Court Placed Children	(7,368)	10,767
Special Education	117,010	70,695
At Risk - Section 31a	127,934	161,052
School Rediness	93,768	88,081
Strong Family Safe Children	10,300	0
Durant	0	4,478
Total State Sources	2,388,007	2,578,805
Federal Sources -		
Title 1	136,856	83,694
ARRA Stabilization	201,903	0
Improving Teacher Quality	42,284	43,508
Safe & Drug Free Schools	1,936	2,771
Title V LEA	0	1,764
Small Rural Schools	10,875	10,424
Technology Literacy Challenge	1,186	784
Total Federal Sources	395,040	142,945

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

GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE (CONTINUED)  
Years Ended June 30, 2009 and 2008

	Years Ended June 30,	
	2009	2008
REVENUES (Continued):		
Interdistrict and Other Sources		
Transfers from other governmental units:		
AMA Educational School District	\$ 104,010	\$ 59,792
Total Revenues	4,634,945	4,635,960
EXPENDITURES:		
Instruction	2,752,535	2,738,425
Supporting Services	1,718,452	1,680,250
Total Expenditures	4,470,987	4,418,675
OTHER FINANCING SOURCES (USES):		
Sales of fixed assets	0	1,997
Bus note proceeds	0	63,950
Redemption of school bus loans	(12,182)	(11,615)
Interest on school bus loans	(2,515)	(2,851)
Transfer to Athletic Fund	(61,000)	(51,000)
Transfer to Food Service Fund	(15,000)	(25,000)
Net Other Financing Sources (Uses)	(90,697)	(24,519)
NET CHANGE IN FUND BALANCE	73,261	192,766
Equity transfer from Capital Projects	0	3,633
FUND BALANCE - BEGINNING OF YEAR	894,503	698,104
FUND BALANCE - END OF YEAR	\$ 967,764	\$ 894,503

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

GENERAL FUND  
 DETAIL OF EXPENDITURES  
Years Ended June 30, 2009 and 2008

INSTRUCTION:	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies and Other Costs</u>	<u>Other Expenses</u>	<u>Capital Outlay</u>	<u>Totals Year Ended June 30, 2009</u>	<u>2008</u>
Basic Programs -								
Elementary	\$ 672,798	\$ 355,821	\$ 17,577	\$ 27,065	\$ 1,851	\$ 4,136	\$ 1,079,248	\$ 1,089,859
Secondary	618,427	345,091	49,424	18,971	2,197	2,656	1,036,766	1,055,890
Pre School	<u>49,648</u>	<u>28,084</u>	<u>41</u>	<u>5,924</u>	<u>0</u>	<u>2,168</u>	<u>85,865</u>	<u>79,145</u>
Total Basic Programs	1,340,873	728,996	67,042	51,960	4,048	8,960	2,201,879	2,224,894
Added Needs -								
Special Education	194,344	103,623	2,762	1,158	0	0	301,887	287,794
Compensatory Education	<u>149,020</u>	<u>71,165</u>	<u>15,038</u>	<u>11,396</u>	<u>0</u>	<u>2,150</u>	<u>248,769</u>	<u>225,737</u>
Total Added Needs	<u>343,364</u>	<u>174,788</u>	<u>17,800</u>	<u>12,554</u>	<u>0</u>	<u>2,150</u>	<u>550,656</u>	<u>513,531</u>
Total Instruction	1,684,237	903,784	84,842	64,514	4,048	11,110	2,752,535	2,738,425
SUPPORTING SERVICES:								
Pupil -								
Truancy Services	0	0	2,064	0	0	0	2,064	4,000
Guidance Services	33,461	16,022	26,193	1,594	0	0	77,270	63,179
Health Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,000</u>
Total Pupil	33,461	16,022	28,257	1,594	0	0	79,334	71,179
Instructional Staff Services -								
Improvement of Instruction	0	0	784	7,461	0	0	8,245	12,944
Educational Media Services	42,643	9,625	0	53	0	0	52,321	20,558
Supervision and Direction	<u>5,202</u>	<u>2,701</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,903</u>	<u>7,665</u>
Total Instructional Staff	47,845	12,326	784	7,514	0	0	68,469	41,167

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

GENERAL FUND  
 DETAIL OF EXPENDITURES (CONTINUED)  
Years Ended June 30, 2009 and 2008

SUPPORTING SERVICE (CONTINUED):	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30,	
							2009	2008
General Administration Services -								
Board of Education	\$ 3,819	\$ 314	\$ 16,547	\$ 0	\$ 0	\$ 2,741	\$ 23,421	\$ 25,226
Executive Administration	65,123	32,547	2,028	0	6,065	0	105,763	187,029
Total General Administrative Services	68,942	32,861	18,575	0	6,065	2,741	129,184	212,255
School Administrative Services -								
Office of the Principal	133,646	86,769	1,177	2,109	0	0	223,701	215,939
Business Services -								
Fiscal Services	79,797	49,318	3,252	1,236	109	0	133,712	71,863
Other Business Services	0	0	24,403	0	15,957	0	40,360	34,712
Total Business Services	79,797	49,318	27,655	1,236	16,066	0	174,072	106,575
Operation of Plant -								
Operation and Maintenance of Plant	172,066	128,722	98,792	181,785	14	23,942	605,321	587,315
Pupil Transportation Services -								
Pupil Transportation Services	153,695	58,400	6,513	51,900	2,995	30,629	304,132	344,629
Other Support -								
Staff/Personnel Services	29,774	16,048	0	0	65	0	45,887	5,155
Technology	0	0	54,000	31,121	0	3,231	88,352	96,036
Total Other Support	29,774	16,048	54,000	31,121	65	3,231	134,239	101,191
Total Supporting Services	719,226	400,466	235,753	277,259	25,205	60,543	1,718,452	1,680,250
Total Expenditures	\$ 2,403,463	\$ 1,304,250	\$ 320,595	\$ 341,773	\$ 29,253	\$ 71,653	\$ 4,470,987	\$ 4,418,675

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

FOOD SERVICE FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
Years Ended June 30, 2009 and 2008

REVENUES:	Years Ended June 30,	
	2009	2008
Local Sources -		
Cafeteria sales	\$ 54,869	\$ 62,006
Earnings on investments	41	28
Headstart sales	5,095	5,955
Donations	0	1,667
Other	13,471	1,821
Total Local Sources	73,476	71,477
State Sources -		
Section 31a At Risk	2,730	2,440
Section 31d School Lunch	12,379	10,616
Total State Sources	15,109	13,056
Federal Sources -		
National School Lunch Program	138,426	131,137
National School Breakfast Program	48,510	46,948
Child Care Food Program	0	4
Donated commodities - Entitlement	14,953	16,363
Donated commodities - Bonus	3,572	0
Total Federal Sources	205,461	194,452
Total Revenues	294,046	278,985
EXPENDITURES:		
Supporting Services -		
Food Service -		
Salaries and wages	86,811	87,029
Employee benefits	56,602	53,052
Purchased services	4,478	3,662
Food and milk	121,960	130,223
USDA Delivery charge	24,129	12,739
Sales tax	147	186
Supplies and other costs	9,968	10,117
Capital outlay	0	0
Total Expenditures	304,095	297,008
OTHER FINANCING SOURCES (USES):		
Operating Transfers In	15,000	25,000
NET CHANGE IN FUND BALANCES	4,951	6,977
FUND BALANCE - BEGINNING OF YEAR	7,541	564
FUND BALANCE - END OF YEAR	\$ 12,492	\$ 7,541

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

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2009 and 2008

<u>ASSETS</u>	<u>Athletic Activities</u>	<u>Durant</u>	<u>Totals June 30</u>	
			<u>2009</u>	<u>2008</u>
Cash	\$ <u>7,573</u>	\$ <u>0</u>	\$ <u>7,573</u>	\$ <u>5,189</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0
Salaries	1,423	0	1,423	1,322
Retirement	235	0	235	221
Payroll taxes	<u>109</u>	<u>0</u>	<u>109</u>	<u>101</u>
Total Liabilities	1,767	0	1,767	1,644
Fund balance	<u>5,806</u>	<u>0</u>	<u>5,806</u>	<u>3,545</u>
	\$ <u>7,573</u>	\$ <u>0</u>	\$ <u>7,573</u>	\$ <u>5,189</u>

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

COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
Years Ended June 30, 2009 and 2008

	Athletic Activities	Durant	Totals Year Ended June 30,	
			2009	2008
<b>REVENUES:</b>				
Local Sources -				
Gate receipts	\$ 49,304	\$ 0	\$ 49,304	\$ 54,484
Earnings on investments	37	0	37	36
Donations	4,199	0	4,199	3,626
Other	0	0	0	3,628
Total Local Sources	53,540	0	53,540	61,774
State Sources -				
Non Plaintiff Durant	0	3,145	3,145	0
Total Revenues	53,540	3,145	56,685	61,774
<b>EXPENDITURES:</b>				
Supporting Services -				
Transportation -				
Salaries and wages	8,401	0	8,401	8,550
Employee benefits	2,033	0	2,033	2,091
Total Transportation	10,434	0	10,434	10,641
Athletics -				
Salaries and wages	28,024	0	28,024	49,710
Employee benefits	7,787	0	7,787	12,476
Purchased services	52,658	0	52,658	24,183
Supplies and other costs	13,376	0	13,376	10,751
Capital Outlay	0	0	0	0
Total Athletics	101,845	0	101,845	97,120
Debt Service -				
Redemption of bonds	0	2,492	2,492	0
Interest on bonds	0	653	653	0
Total Debt Service	0	3,145	3,145	0
Total Expenditures	112,279	3,145	115,424	107,761
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	61,000	0	61,000	51,000
<b>NET CHANGE IN FUND BALANCES</b>	2,261	0	2,261	5,013
Equity transfer to General Fund	0	0	0	(3,633)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	3,545	0	3,545	2,165
<b>FUND BALANCE - END OF YEAR</b>	\$ 5,806	\$ 0	\$ 5,806	\$ 3,545

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

FIDUCIARY FUND  
 STATEMENT OF DUE SCHOOL ORGANIZATIONS  
Years Ended June 30, 2009 and 2008

	June 30,	
	2009	2008
<b>ELEMENTARY -</b>		
Camp	\$ 701	\$ 751
Fines	543	631
Funding Factory	174	216
General Purpose	160	1,100
MiBLSi	142	0
Playground	882	1,734
School Spirit Store	696	646
School Success	163	0
Student Improvement	323	57
	3,784	5,135
<b>Total Elementary</b>		
 <b>HIGH SCHOOL -</b>		
Class of 2009	0	6,365
Class of 2010	6,823	6,126
Class of 2011	7,405	5,325
Class of 2012	3,906	2,611
Class of 2013	2,002	1,341
Class of 2014	869	0
Band	1,389	2,479
Baseball	735	330
Basketball - Girls	4,393	2,461
Basketball - Boys	174	361
Basketball - Jr High	0	185
Cheerleading	513	691
Choir	46	46
Corn Maze	2,420	2,241
Drama	193	192
Fines -Supplies	0	204
Flag Corp	134	361
Football	1,371	940
Golf	262	261
Honor Society	1,612	1,523

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

FIDUCIARY FUND  
 STATEMENT OF DUE TO SCHOOL ORGANIZATIONS (CONTINUED)  
Years Ended June 30, 2009 and 2008

	June 30,	
	2009	2008
HIGH SCHOOL (Continued) -		
Interest	\$ 43	\$ 11
Library	434	462
Music Boosters	1,160	1,079
Physics	450	428
Pizza Club	194	67
Press Box	0	1,002
Rentals	1,191	1,065
Revolving Account	680	180
Shop	101	100
Softball	992	538
Special Ed	1,056	807
Student	2,325	2,316
Student Council	989	1,001
Student Improvement	2,306	4,606
Track	561	559
Volleyball	941	1,306
Youth Community	685	683
Yearbook	2,952	5,312
Total High School	51,307	55,565
	\$ 55,091	\$ 60,700

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

DETAIL OF BONDED DEBT  
 2005 REFUNDING BONDS  
June 30, 2009

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

<u>Date</u>	<u>May, 1</u>		<u>November, 1</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 0	\$ 0	\$ 126,912	\$ 126,912
2010	340,000	126,912	120,962	587,874
2011	355,000	120,962	114,749	590,711
2012	365,000	114,749	107,906	587,655
2013	380,000	107,906	100,306	588,212
2014	395,000	100,306	92,406	587,712
2015	415,000	92,406	84,106	591,512
2016	430,000	84,106	74,431	588,537
2017	450,000	74,431	64,306	588,737
2018	470,000	64,306	53,731	588,037
2019	490,000	53,731	43,931	587,662
2020	510,000	43,931	33,731	587,662
2021	535,000	33,731	23,031	591,762
2022	555,000	23,031	11,653	589,684
2023	565,000	11,653	0	576,653
	<u>\$ 6,255,000</u>	<u>\$ 1,052,161</u>	<u>\$ 1,052,161</u>	<u>\$ 8,359,322</u>

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

DETAIL OF BUS NOTE PAYABLE  
June 30, 2009

Security: 2008 77 passenger bus  
Date of Loan: July 20, 2007  
Interest Rate: 4.82%

<u>Date</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>
June 23,2010	\$ 14,697	\$ 12,762	\$ 1,936
June 23,2011	14,697	13,377	1,321
June 23,2012	<u>14,697</u>	<u>14,021</u>	<u>675</u>
	\$ <u>44,091</u>	\$ <u>40,160</u>	\$ <u>3,932</u>

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 16, 2009

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

We have audited the financial statements of Hillman Community Schools of as and for the year ended June 30, 2009 and 2008 issued our report thereon dated October 16, 2009. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Hillman Community School's financial statements are free of material misstatement we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 and opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We have also noted certain immaterial instances of noncompliance that we have reported to management of Hillman Community Schools in a separate letter dated October 16, 2009.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillman Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do no reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Trustees, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

QUAST, JANKE & CO.

A handwritten signature in cursive script that reads "Quast, Janke and Company".

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Certified Public Accountants, P.C.

# *Quast, Janke and Company, P.C.*

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October 16, 2009

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

Ladies and Gentlemen:

As a regular part of our audit of the financial statements of the Hillman Community Schools for the year ended June 30, 2009, we have reviewed the District's accounting procedures and internal controls surrounding the recording of accounting transactions. This letter presents comments and recommendations to strengthen these controls and increase administrative efficiency. These recommendations do not, of course, include all possible recommendations, but only those areas of potential improvement which came to our attention during our audit of the financial statements.

Nothing came to our attention that would indicate any improper or illegal actions have been committed by District personnel.

## RECOMMENDATIONS

1. In reviewing your budgets for the year ended June 30, 2009, we noticed some areas of your budgets and budgeting processes that are not in compliance with Public Act 621 of 1978 (the Uniform Budgeting and Accounting Act).
  - A. Section 18(3) of Public Act 621 prohibits the District from incurring expenditures against an account in excess of the amount appropriated. The following variances were noted:

<u>Fund</u>	<u>Total Budgeted</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund			
Business Services	\$ 168,918	\$ 174,072	\$ 5,154

We suggest that the budget be reviewed periodically and amendments to the amounts appropriated be made prior to the expenditure of any funds that exceed the amount appropriated.

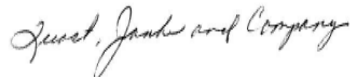
2. CHART OF ACCOUNTS -

The Michigan Department of Education has adopted a Chart of Accounts for use by the school districts. We recommend that you convert your accounting system's chart of accounts to the State's account numbering system. The present system is cumbersome since it requires using two (2) sets of account numbers, one for the district and one to meet state requirements.

We wish to express our appreciation for the assistance extended to our staff by the officials and employees of the School District. If we can be of further assistance in these or any other matters, please call upon us.

Sincerely,

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C.