



Gardner | Provenzano  
Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

# **HEMLOCK PUBLIC SCHOOL DISTRICT**

Hemlock, Michigan

**Financial Statements**

**June 30, 2009**



HEMLOCK PUBLIC SCHOOL DISTRICT  
HEMLOCK, MICHIGAN  
JUNE 30, 2009

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

September 11, 2009

To the Board of Education  
Hemlock Public School District  
Hemlock, Michigan

We have audited the accompanying financial statements of the governmental activities and funds of Hemlock Public School District, as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Hemlock Public School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

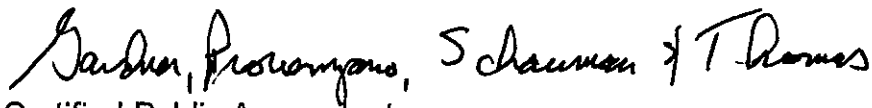
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and funds of the Hemlock Public School District as of June 30, 2009, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education  
Hemlock Public School District  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2009, on our consideration of Hemlock Public School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 7, and 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary 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 the Hemlock Public School District basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Hemlock Public School District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

HEMLOCK PUBLIC SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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This section of the annual financial report presents management's discussion and analysis of Hemlock Public School District's performance during the fiscal year ending June 30, 2009. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the School District.

**Annual Report**

The annual report consists of our Management's Discussion and Analysis, a series of financial statements, notes to those statements, and supplemental information. The financial statements are divided into two sections. The District-wide Financial Statements (government-wide financial statements) provide information about the activities of the School District as a whole. They present a year-end aggregate view and a longer-term view of the District's finances. All funds and capital assets are combined. The Fund Financial Statements (governmental fund statements) provide more detail showing the year's activity by fund. They also show the amount available to finance future programs. Fund Statements do not include long-term items such as capital assets or long-term debt.

**District-wide Financial Statements**

The District-wide Financial Statements appear first in the financial statements. They present information on the School District as a whole. They show net assets and a statement of activities for the year. These statements include all assets and liabilities using the full accrual basis of accounting, 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.

Net assets, the difference between assets and liabilities, are one way of measuring the financial health of the School District. In the statement of activities, the revenues less the expenses result in an increase or decrease in the net assets. Increases or decreases in net assets, over time, display the financial health of the District. However, the goal of the School District is to provide quality education and a safe environment, not to make a profit.

The statement of activities covers all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, and State and Federal grants finance most of these activities.



HEMLOCK PUBLIC SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Fund Financial Statements**

The Fund Financial Statements provide detailed information about the most significant funds instead of the School District as a whole. Some funds are required to be established by State law and by bond covenants. Many of the other funds are created to help control and manage money for a particular purpose or to meet legal responsibilities for certain taxes, grants, and other money. The governmental funds of the School District focus on showing how money flows into and out of funds and the balances remaining at year-end. They provide a detailed, short-term view of the operations and services of the School District. This helps determine whether more or fewer financial resources are available for future programs. Funds use the modified accrual method to record transactions. This method measures cash and all other financial assets that can readily be converted to cash.

The reconciliations between governmental activities (District-wide Financial Statements) and governmental fund activities (Fund Financial Statements) are located later in the annual report.

**Agency and Trust Accounts**

The School District acts as an agent or trustee for various student activity funds and trust funds. Our fiduciary net assets are reported in separate statements. We exclude these net assets from the School District's other financial statement because we cannot use these assets to finance our operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

HEMLOCK PUBLIC SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Summary of District-wide Financial Statement**

Table 1 provides a summary of our net assets as of June 30, 2009 and 2008. They represent the School District as a whole.

	<u>06-30-2009</u>	<u>06-30-2008</u>
Assets		
Current and other assets	\$ 4,373,875	\$ 4,873,551
Capital assets - Net of accumulated depreciation	<u>13,618,936</u>	<u>14,362,845</u>
Total assets	<u>\$ 17,992,811</u>	<u>\$ 19,236,396</u>
Liabilities		
Current liabilities	\$ 2,977,249	\$ 3,117,491
Long-term liabilities	<u>15,005,433</u>	<u>15,796,786</u>
Total liabilities	<u>\$ 17,982,682</u>	<u>\$ 18,914,277</u>
Net assets		
Invested in property and equipment - Net of related debt	\$ (1,183,773)	\$ (1,302,943)
Restricted for Debt Service	565,607	521,731
Unrestricted	<u>628,295</u>	<u>1,103,331</u>
Total Net Assets	<u>\$ 10,129</u>	<u>\$ 322,119</u>

The above table presents the net assets as of June 30, 2009. The change in net assets for the 2008-2009 and prior year is presented in Table 2 and discussed below that table. Capital assets net of accumulated depreciation are computed by taking the original cost of the assets and subtracting the depreciation.

Long-term liabilities include general obligation bonds used to finance acquisition of capital assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported to show legal constraints which limit use of some of the assets. Debt covenants and legislation limit the School District's ability to use those net assets for day-to-day operations.

Net assets decreased by \$311,990. Total revenues decreased by \$180,016, mainly due to a decrease in enrollment. Grants and categoricals increased over the prior year mainly due to additional federal revenues associated with the American Recovery and Reinvestment Act. The Education Stabilization Stimulus program yielded \$512,827 and was directly offset by a decrease in the State Foundation allowance. Expenses increased by \$114,165, mostly due to a 2% salary increase under the current employment contract.

HEMLOCK PUBLIC SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Summary of District-wide Financial Statement (cont.)**

The unrestricted net assets represent the accumulated results of all past years' activities. This amount will be affected by the year-to-year combined operations. The summary of this year's activities for the School District as a whole are reported below.

	<u>06-30-2009</u>	<u>06-30-2008</u>
Revenue		
Program revenue		
Charges for services	\$ 381,310	\$ 469,738
Grants and categoricals	1,451,525	821,826
General revenue		
Property taxes	2,451,211	2,867,030
State foundation allowance	8,734,934	9,007,308
Other	<u>176,782</u>	<u>209,876</u>
Total revenue	<u>13,195,762</u>	<u>13,375,778</u>
Function/Program expenses		
Instruction	7,144,296	7,100,661
Support services	4,201,005	4,083,260
Community services	32,849	27,515
Food services	327,775	341,033
Athletics	216,405	212,947
Interest on long-term debt	660,832	729,088
Other	3,360	12,770
Depreciation (unallocated)	<u>921,230</u>	<u>886,313</u>
Total expenses	<u>13,507,752</u>	<u>13,393,587</u>
Increase (decrease) in Net Assets	<u>\$ (311,990)</u>	<u>\$ (17,809)</u>

Funding for the above activities comes from a variety of sources. Some activities are partially funded by those who benefit from the programs or by grants and categoricals from governments and organizations. The remaining activities are paid for from taxes, State Foundation Allowance, and other revenues, such as interest.

The change in net assets differs from the change in fund balance because of different accounting requirements. A reconciliation appears later in the financial statements.

HEMLOCK PUBLIC SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Summary of Fund Financial Statement**

As 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.

The combined fund balance of \$1,396,626 decreased by \$359,434 from last year. The General fund, which is the primary operating fund decreased by \$407,054. The primary reason for the decrease in fund balance is an enrollment decline of approximately 55 FTE's from the 2007-2008 school year while maintaining the teacher to student ratio.

The Special Revenue fund balance, which includes Athletic and Food Service, showed an increase of \$3,744.

The Debt Service Funds showed a fund balance increase of \$43,876. Millage rates are determined annually to ensure that the School District accumulates sufficient funds to pay annual bond issue-related debt service. The fund balances in Debt Service Funds are reserved since they can only be used to pay debt service obligations.

**General Fund Budget**

By law, the School District must establish an original budget in June, with a beginning fiscal date of July 1, for the General Fund and Special Revenue Funds. Budgets are revised as changes in revenue and expenditures occur. Approximately 80 percent of the School District's revenue comes from the State through a Foundation Allowance and Categorical funds (specific program grants). The State Foundation Allowance is based on student enrollment and an amount per pupil designated by the State. Therefore, the budget is primarily based on an estimate of the student population including the following September count, the per-pupil amount set by the State, and an estimate of the categorical amounts that will be approved by the State.

State law requires that budgets be amended to ensure that expenditures do not exceed appropriations. Original and final budgets, as well as actual amounts paid and received, are included in the required supplemental information.

Original General Fund budgeted local revenues were decreased by \$551,565. When the original budget was prepared, the new Michigan Business Tax was not in place. The amended budget reflects the changes in how local taxes are now collected.

HEMLOCK PUBLIC SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**General Fund Budget (cont.)**

Original General Fund budgeted expenditures were decreased by \$288,268. The original budget was amended to reflect reduction of budgets based on student count.

The total actual revenue and expenditures were not significantly different from the final amended budget. As discussed earlier, the State and Federal revenues were adjusted to allow for changes related to the Federal Stimulus program.

**Capital Assets**

As of June 30, 2009, the School District has \$13,618,936 in capital assets including land, buildings, buses, vehicles, furniture and equipment, less depreciation.

	<u>06-30-2009</u>	<u>06-30-2008</u>
Land	\$ 688,500	\$ 688,500
Buildings and improvements	23,555,905	23,555,905
Buses and other vehicles	1,227,333	1,227,333
Furniture and equipment	<u>1,143,774</u>	<u>966,453</u>
 Total Capital Assets	 26,615,512	 26,438,191
 Less accumulated depreciation	 <u>12,996,576</u>	 <u>12,075,346</u>
 Net Capital Assets	 <u><u>\$ 13,618,936</u></u>	 <u><u>\$ 14,362,845</u></u>

**Debt**

As of June 30, 2009, the School District had \$14,568,085 in General Obligation Bonds outstanding versus \$15,506,973 in the previous year.

The School District's General Obligation Bond rating is 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 issued "qualified debt," such obligations are not subject to this debt limit. The School District has no qualified general obligation debt.

Other obligations include capital lease obligations, employee-compensated absences, and retirement incentives. The notes and supplemental information to the financial statements contain detailed information on long-term liabilities.

HEMLOCK PUBLIC SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Economic Conditions Affecting Next Year's Budget**

As mentioned above, State funding accounts for approximately 80 percent of the General Fund revenue. The funding consists of a Foundation Allowance per pupil and Categorical amounts. The Foundation Allowance per pupil is multiplied by the blended student count. The blended count is comprised of 25 percent of the February count and 75 percent of the September count. Therefore, the School District depends on the State's ability to fund local school operations. Under State law, the School District cannot access additional property tax revenue for general operations. When the final student count and per pupil funding is finalized, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

The per pupil funding for 2009-2010 has not yet been determined; however, it is likely there will be a reduction from last years amount.

During the 2005-2006 fiscal year, the School District completed negotiations with both of their unions. The contracts cover fiscal years 2006-2007, 2007-2008, and 2008-2009. Negotiations are currently taking place for new union contracts.

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

If you have questions regarding this report, please contact the Superintendent's Office, 1095 N. Hemlock Road, Hemlock, Michigan 48626.

HEMLOCK PUBLIC SCHOOL DISTRICT  
District Wide  
Statement of Net Assets  
June 30, 2009

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 2,137,731
Receivables	2,153,577
Inventories	64,237
Prepays	18,330
Capital assets less accumulated depreciation	13,618,936
<b>Total Assets</b>	<b><u>\$ 17,992,811</u></b>
<b>LIABILITIES</b>	
Accounts payable	\$ 46,554
Accrued liabilities	255,538
Salaries payable	839,182
Revenue anticipation note	1,826,350
Deferred revenue	9,625
Long-term liabilities	
Bonds payable, due within one year	903,524
Other liabilities, due within one year	100,181
Retirement incentive, due within one year	93,600
Bonds payable, due in more than one year	13,664,561
Other liabilities, due in more than one year	134,443
Compensated absences, due in more than one year	109,124
<b>Total Liabilities</b>	<b><u>17,982,682</u></b>
<b>NET ASSETS</b>	
Invested in capital assets net of related debt	(1,183,773)
Restricted for debt service	565,607
Unrestricted	628,295
<b>Total Net Assets</b>	<b><u>10,129</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 17,992,811</u></b>

The accompanying notes are an integral part of these financial statements.

HEMLOCK PUBLIC SCHOOL DISTRICT  
District Wide  
Statement of Activities  
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 7,144,296	\$ 164,714	\$ 1,253,905	\$ (5,725,677)
Support services	4,201,005	-	3,435	(4,197,570)
Community services	32,849	-	-	(32,849)
Food services	327,775	159,753	163,623	(4,399)
Athletics	216,405	56,843	-	(159,562)
Interest on long-term debt	660,832	-	30,562	(630,270)
Other	3,360	-	-	(3,360)
Depreciation (unallocated)	921,230	-	-	(921,230)
Totals	<u>\$ 13,507,752</u>	<u>\$ 381,310</u>	<u>\$ 1,451,525</u>	<u>(11,674,917)</u>
General revenues:				
Taxes:				
Property taxes levied for general purposes				927,715
Property taxes levied for debt service				1,523,496
State aid - unrestricted				8,734,934
Interest				15,972
Other				160,810
Total General Revenues				<u>11,362,927</u>
Change in Net Assets				(311,990)
Net Assets - Beginning of Year				322,119
Net Assets - End of Year				<u>\$ 10,129</u>

The accompanying notes are an integral part of these financial statements.



HEMLOCK PUBLIC SCHOOL DISTRICT  
Governmental Funds  
Balance Sheet  
June 30, 2009

	General	Cafeteria	Athletic	Debt Service	Totals
<u>Assets</u>					
Cash	\$ 1,684,816	\$ 106,318	\$ 23,119	\$ 323,478	\$ 2,137,731
Accounts receivable	2,153,577	-	-	-	2,153,577
Inventory	36,551	27,686	-	-	64,237
Due from other funds	-	-	-	242,620	242,620
Prepaid expenditures	18,330	-	-	-	18,330
Total Assets	<u>\$ 3,893,274</u>	<u>\$ 134,004</u>	<u>\$ 23,119</u>	<u>\$ 566,098</u>	<u>\$ 4,616,495</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 45,101	\$ 962	\$ -	\$ 491	\$ 46,554
Due to other funds	190,310	29,191	23,119	-	242,620
Revenue anticipation note	1,826,350	-	-	-	1,826,350
Salaries payable	839,182	-	-	-	839,182
Deferred revenue	9,625	-	-	-	9,625
Accrued expenditures	255,538	-	-	-	255,538
Total Liabilities	<u>3,166,106</u>	<u>30,153</u>	<u>23,119</u>	<u>491</u>	<u>3,219,869</u>
<u>Fund Balance</u>					
Reserved for debt retirement	-	-	-	565,607	565,607
Reserved for inventories	36,551	27,686	-	-	64,237
Undesignated	93,035	76,165	-	-	169,200
Designated for self funded insurance	597,582	-	-	-	597,582
Total Fund Balance	<u>727,168</u>	<u>103,851</u>	<u>-</u>	<u>565,607</u>	<u>1,396,626</u>
Total Liabilities and Fund Balance	<u>\$ 3,893,274</u>	<u>\$ 134,004</u>	<u>\$ 23,119</u>	<u>\$ 566,098</u>	<u>\$ 4,616,495</u>

The accompanying notes are an integral part of these financial statements.

HEMLOCK PUBLIC SCHOOL DISTRICT  
Reconciliation of Balance Sheet of Governmental Funds To Net Assets  
June 30, 2009

Total Fund Balances - Governmental Funds	\$ 1,396,626
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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:

The cost of the capital assets is	26,615,512
Accumulated depreciation is	(12,996,576)

Long-term liabilities are not due and payable in the current period  
and are not reported in the funds:

Bonds payable	(14,568,085)
Other liabilities	(234,624)
Retirement incentives	(93,600)
Compensated absences	(109,124)

Total Net Assets - Governmental Activities (District Wide)	<u>\$ 10,129</u>
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The accompanying notes are an integral part of these financial statements.

HEMLOCK PUBLIC SCHOOL DISTRICT  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
For The Year Ended June 30, 2009

	General	Cafeteria	Athletic	Debt Service	Totals
Revenue					
Local	\$ 1,039,098	\$ 165,396	\$ 56,878	\$ 1,529,144	\$ 2,790,516
State	8,937,149	17,528	-	109,451	9,064,128
Federal	1,032,170	146,095	-	-	1,178,265
Interdistrict and other sources	162,853	-	-	-	162,853
Total Revenue	<u>11,171,270</u>	<u>329,019</u>	<u>56,878</u>	<u>1,638,595</u>	<u>13,195,762</u>
Expenditures					
Current:					
Instruction					
Basic programs	5,271,457	-	-	-	5,271,457
Added needs	1,763,326	-	-	-	1,763,326
Adult and continuing	31,513	-	-	-	31,513
Support services					
Pupil	291,414	-	-	-	291,414
Instructional staff	294,352	-	-	-	294,352
General administration	314,188	-	-	-	314,188
School administration	686,761	-	-	-	686,761
Business	233,211	-	-	-	233,211
Operation and maintenance	1,118,296	-	-	-	1,118,296
Pupil transportation services	698,888	-	-	-	698,888
Central services	545,869	-	-	-	545,869
Other	24,300	-	-	-	24,300
Community services	32,849	-	-	-	32,849
Capital outlay	177,321	-	-	-	177,321
Debt Service:					
Principal	104,730	-	-	938,889	1,043,619
Interest	5,143	-	-	652,470	657,613
Food services	-	327,775	-	-	327,775
Athletic	-	-	216,405	-	216,405
Other	-	-	-	3,360	3,360
Total Expenditures	<u>11,593,618</u>	<u>327,775</u>	<u>216,405</u>	<u>1,594,719</u>	<u>13,732,517</u>
Excess (Deficiency) of Revenues Over Expenditures	(422,348)	1,244	(159,527)	43,876	(536,755)
Other Financing Sources (Uses)					
Proceeds - capital leases	177,321	-	-	-	177,321
Operating transfers in	-	2,500	159,527	-	162,027
Operating transfers out	(162,027)	-	-	-	(162,027)
Total Other Financing Sources (Uses)	<u>15,294</u>	<u>2,500</u>	<u>159,527</u>	<u>-</u>	<u>177,321</u>
Net Change In Fund Balances	(407,054)	3,744	-	43,876	(359,434)
Fund Balances - Beginning of Year	1,134,222	100,107	-	521,731	1,756,060
Fund Balances - End of Year	<u>\$ 727,168</u>	<u>\$ 103,851</u>	<u>\$ -</u>	<u>\$ 565,607</u>	<u>\$ 1,396,626</u>

The accompanying notes are an integral part of these financial statements.

HEMLOCK PUBLIC SCHOOL DISTRICT  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2009

Net Change in Fund Balances - Governmental Funds	\$ (359,434)
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Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlay as expenditures;  
in the statement of activities, these costs are capitalized  
and depreciated over their estimated useful lives.

Depreciation expense	(921,230)
Capital outlay capitalized	177,321

Proceeds of debt is an other financing source in the  
governmental funds, but not in the statement of activities

Proceeds of capital lease	(177,321)
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Repayment of debt principal is an expenditure in the  
governmental funds, but not in the statement of activities.

Bond principal	938,888
Note payable principal	35,929
Capital lease principal	65,583

In the statement of activities, certain expenses (retirement  
incentives, compensated absences) are reflected by the  
net amounts earned during the year. The governmental funds  
measure the financial resources used (paid).

Retirement incentives paid	16,666
Retirement incentives incurred	(93,600)
Compensated absences	5,208

Change in Net Assets of Governmental Activities (District Wide)	\$ (311,990)
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The accompanying notes are an integral part of these financial statements.

HEMLOCK PUBLIC SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
June 30, 2009

Assets	
Cash, student organizations	\$ 145,299
Cash, educational trusts	<u>81,406</u>
Total Assets	<u>\$ 226,705</u>

Liabilities	
Due to student organizations	\$ 145,299

Equity	
Educational trusts	<u>81,406</u>
Total Liabilities and Equity	<u>\$ 226,705</u>

The accompanying notes are an integral part of these financial statements.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

The Hemlock Public School District (the "School District") operates under an elected Board of Education and provides educational services to approximately 1,380 students. The School District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies relating to GAAP and used by the School District are discussed below.

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and 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.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. District-Wide Statements

The statement of net assets and the statement of activities display information about the School District as a whole. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the School District are considered to be governmental.

The district-wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore, reconciliation is included to identify the relationship between the district-wide statements and the statements for the governmental funds.

The district-wide statement of activities presents a comparison between program expenses and program revenues, revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws resources from the School District.

The district-wide approach is focused more on the sustainability of the School District as an entity and the change in the District's net assets from the current year's activities.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements

The accounts of the School District are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the School District:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the District.

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

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Cafeteria and Athletic funds are special revenue funds.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support School District programs.



HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

The emphasis in fund financial statements is on the major funds. The School District has opted to display information for all funds without regard to the criteria for determination of major funds. The School District's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the government-wide statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible with the current period or within 60 days after year-end. Expenditures are still recognized when incurred, however, principal and interest on long-term debt is recognized when due.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Modified Accrual

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

Cash includes cash on hand, demand deposits, and time deposits (savings or certificates of deposit).

Investments

Investments include money market and mutual funds accounts and are stated at fair value.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

Inventories

Inventories consist of expendable supplies held for the District's use and are carried at cost using the first-in, first-out method.

Prepaid

Prepaid amounts consist of payments for which the District will have a future benefit and will be used up at a date beyond the current year-end.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The School District does not possess infrastructure type assets. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Buildings	50 years
Building improvements	25 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

Accounts Payable

Accounts payable consist of items from which the District benefited during the current fiscal year but has not yet paid.

Accrued Liabilities

Accrued liabilities consist of items related to salaries payable, specifically the District's portion of FICA and Medicare taxes and retirement contributions.

Salaries Payable

Salaries payable consist of amounts due on employee's contracts that are due and payable for the current fiscal year.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Revenue Anticipation Note

The revenue anticipation note relates to short-term borrowings for cash flow purposes.

Deferred Revenue

Deferred revenue represents amounts for which the District has received or is due to receive but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended.

Long-Term Liabilities

Bonds payable are the result of long-term obligations issued for the purpose of making capital purchases and improvements or the refinancing of previously issued obligations. Retirement incentives are the result of agreements made between the District and certain employees opting for early retirement.

Compensated absences represent accumulated unpaid vacation and sick leave as earned by supervision employees. The accumulated benefit is payable to the employee upon termination of employment. No portion of the compensated absence is believed to be current at year-end.

Inter-fund Activity

Inter-fund activity is reported as loans, reimbursements, or transfers. Loans are reported as inter-fund receivables and payables and are eliminated upon consolidation.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2--Stewardship, Compliance, and Accountability

The School District is required to adopt an annual budget before the beginning of the fiscal year for the General Fund, Cafeteria Fund, and the Athletic Fund. The accounting basis of the budgets is the modified accrual method. Following are the procedures used in establishing the budgetary data reflected in the financial statements:

1. The District's Superintendent submits to the Board of Education a proposed budget by July 1 of each year. The budget includes proposed expenditures and the means to finance them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The Superintendent is authorized to transfer budgeted amounts within functional expenditure lines as approved by the Board; however, any revisions that alter functional expenditure lines of any fund must be approved by the Board of Education.
4. Budgeted amounts shown in the supplemental information reflect amendments through June 30.

The budgetary comparison 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. The School District's actual expenditures exceeded the final budget in certain areas as disclosed on page 32.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3--Deposits and Investments

The School District is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The District is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks,
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the District's deposits was \$2,137,731 and the bank balance was \$2,391,869. Of the bank balance, \$479,694 was covered by federal depository insurance and \$1,912,175 was uninsured and uncollateralized.

It is the policy of the Board to invest surplus funds of the District, however, surplus funds were not available and no deposit was placed in an investment during the year.

# HEMLOCK PUBLIC SCHOOL DISTRICT NOTES TO THE FINANCIAL STATEMENTS

## NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the School District was as follows:

	Balance 07-01-2008	Additions	Retirements	Balance 06-30-2009
Capital assets not subject to depreciation				
Land	\$ 688,500	\$ -	\$ -	\$ 688,500
Subtotals	<u>688,500</u>	<u>-</u>	<u>-</u>	<u>688,500</u>
Capital assets subject to depreciation				
Buildings and improvements	23,555,905	-	-	23,555,905
Buses and other vehicles	1,227,333	-	-	1,227,333
Furniture and equipment	966,453	177,321	-	1,143,774
Subtotals	<u>25,749,691</u>	<u>177,321</u>	<u>-</u>	<u>25,927,012</u>
Total Capital Assets	<u>26,438,191</u>	<u>177,321</u>	<u>-</u>	<u>26,615,512</u>
Accumulated depreciation				
Buildings and improvements	10,273,456	837,128	-	11,110,584
Buses and other vehicles	944,307	14,613	-	958,920
Furniture and equipment	857,583	69,489	-	927,072
Total Accumulated Depreciation	<u>12,075,346</u>	<u>921,230</u>	<u>-</u>	<u>12,996,576</u>
Total Net Capital Assets	<u>\$ 14,362,845</u>	<u>\$ (743,909)</u>	<u>\$ -</u>	<u>\$ 13,618,936</u>

## NOTE 5--Inter-fund – Receivables, Payables, and Transfers

The makeup of inter-fund balances and transfers is as follows:

Interfund Receivable		Interfund Payable	
Debt Service	\$ 242,620	General Fund	\$ 190,310
Total	<u>\$ 242,620</u>	Cafeteria Fund	29,191
		Athletic	23,119
		Total	<u>\$ 242,620</u>
Outgoing Transfer		Incoming Transfer	
General Fund	\$ 162,027	Cafeteria	\$ 2,500
Total	<u>\$ 162,027</u>	Athletic	159,527
		Total	<u>\$ 162,027</u>

# HEMLOCK PUBLIC SCHOOL DISTRICT NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6--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 District. Other long-term debts include compensated absences and retirement incentives.

Long-term debt activity is summarized as follows:

	Balance 07-01-2008	Additions	Retirements	Balance 06-30-2009	Current Portion
Governmental Activities					
Bonds	\$ 15,506,973	\$ -	\$ 938,888	\$ 14,568,085	\$ 903,524
Notes payable	112,776	-	35,929	76,847	37,567
Capital lease obligations	46,039	177,321	65,583	157,777	62,614
Compensated absences	114,332	-	5,208	109,124	unknown
Retirement incentives	16,666	93,600	16,666	93,600	93,600
Totals	<u>\$ 15,796,786</u>	<u>\$ 270,921</u>	<u>\$ 1,062,274</u>	<u>\$ 15,005,433</u>	<u>\$ 1,097,305</u>

Annual debt service requirements to maturity for the above governmental bonds and capital lease obligations are as follows:

	Principal	Interest	Total
2009-10	\$ 1,097,305	\$ 608,216	\$ 1,705,521
2010-11	1,045,764	568,607	1,614,371
2011-12	1,002,691	527,424	1,530,115
2012-13	1,015,550	487,738	1,503,288
2013-14	1,040,000	446,568	1,486,568
2014-15 thru 2018-19	5,950,000	1,514,000	7,464,000
2019-20 thru 2021-22	3,745,000	287,195	4,032,195
Subtotals	14,896,309	4,439,749	19,336,058
Compensated Absences	109,124	-	109,124
Totals	<u>\$ 15,005,433</u>	<u>\$ 4,439,749</u>	<u>\$ 19,445,182</u>

Additional detail regarding long-term debt is provided in the supplemental information.



HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7--Advance Refund of Bond Resulting in Defeasance of Debt

On February 15, 2005, the District issued \$4,550,000 in general obligation refunding bonds with interest rates ranging between 2.50% and 5.00%. The District issued the bonds to advance refund \$4,460,000 of the outstanding series 1996 general obligation bonds with a 5.2% interest rate. The District used the net proceeds along with other sources to purchase State and Local Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded 1996 series bonds. As a result, the 1996 series bonds are considered defeased, and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$3,995,000 as of June 30, 2009.

The advance refunding reduced total debt service payments over 16 years by \$422,747. This results in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$302,184.

On July 13, 2005, the District issued \$7,520,000 in general obligation refunding bonds with interest rates ranging between 3.00% and 4.00%. The District issued the bonds to advance refund \$6,970,000 of the outstanding series 2001 general obligation bonds with a 5.25% interest rate. The District used the net proceeds along with other sources to purchase State and Local Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded 2001 series bonds. As a result, the refunded portion of the 2001 series bonds are considered defeased, and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$6,970,000 as of June 30, 2009. The advance refunding reduced total

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7--Advance Refund of Bond Resulting in Defeasance of Debt (continued)

debt service payments over 16 years by \$370,669. This results in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$273,419.

NOTE 8--Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters. During the year, the District carried commercial insurance for the above risks of loss.

NOTE 9--Pension Plan

The school District's defined benefit pension plan provides retirement, survivor and disability benefits to its employees. The District participates in the Michigan Public School Employees Retirement System (MPERS), a cost sharing multiple-employer, statewide plan governed by the State of Michigan. Benefit provisions are established by state statute. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the MPERS Directors, PO Box 30673, Lansing, Michigan 48909 or by calling (517) 322-6235.

Funding Policy

The School District is required to contribute at an actuarially determined rate; the current rate is 16.54% of covered payroll. Employees hired before January 1, 1990 contribute 3.9% of their gross pay. Employees hired January 1, 1990 or later contribute between 3% and 6.4%. The contribution requirements are established and may be amended by the State of Michigan.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9--Pension Plan (continued)

The contribution requirements of plan members are established and may be amended by the State of Michigan. The District's contributions to MPSERS for the current year and the preceding two years were \$1,131,466, \$1,112,470, and \$1,136,569, respectively.

NOTE 10--Joint Venture

Hemlock Public School District, Hemlock Semiconductor, and Dow Corning Health Care Materials Site are engaged in a partnership for the purpose of developing various educational activities in the school, workplace, and community that offers each child an opportunity to attain excellence in his or her chosen educational endeavors. Such activities are categorized as follows:

- a. student oriented activities
- b. shared staff/administration development programs
- c. support of special projects
- d. acquisition of instruction materials, supplies, and equipment

A task force represented by members of all the partners determines the direction of the Partnership and its goals. The cash activity of the Partnership is summarized as follows:

Cash Balance, July 1, 2008		\$ 8,773
Revenue		
Contributions	25,688	
Total Revenue		25,688
Expenses		
Scholarships	1,500	
Materials and equipment	9,959	
Educational activities	9,505	
Other	4,042	
Total Expenses		25,006
Cash Balance June 30, 2009		<u>\$ 9,455</u>

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11--Durant Settlement and Bond Issue

As a result of the lawsuit known as "Durant VS. State of Michigan", non-plaintiff districts, of which the School District is a part, were offered an amount to settle and resolve in their entirety any claim against the State of Michigan related to its violations of the state constitution. The District was offered a settlement of \$463,950, which it accepted. Terms of the settlement required that one half of the settlement be paid to the District over 10 years beginning November 24, 1998 with the use of the funds restricted to various capital outlay or debt elimination. The remaining one half of the settlement has been received in the form of bond proceeds in the Capital Projects Fund with the use of the funds restricted to various capital projects as specified in Section 1351a of the Revised School Code.

The only source of revenue to service the debt shall come from annual state appropriation. Although the bond issue is considered a legal obligation of the District, if the legislature fails to appropriate the funds, the District is under no obligation for payment.

In May 2007, the Michigan Municipal Bond Authority revised the payment schedule of the 1998 Durant bond issue. The revised payment schedule is included in the supplemental information. The total principal and interest remaining on the bond has not changed.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12--Self-Funded Insurance

The District maintains a partially self-funded plan for employee benefits covering health, dental, and vision. The estimated savings total below represents the difference between the premium estimated for full coverage, net of the actual amount paid for self-funded claims and insurance coverage for amounts in excess of the deductible. The estimated annual differences between full coverage and self-funded coverage are as follows:

2000-2001	\$ 60,767
2001-2002	151,031
2002-2003	94,091
2003-2004	65,593
2004-2005	221,586
2005-2006	242,932
2006-2007	163,710
2007-2008	27,227
2008-2009	<u>70,645</u>
Total Estimated Savings	1,097,582
Less: Designation released by Board action 9-10-2007	500,000
Designated for self-funded insurance	<u><u>\$ 597,582</u></u>

## **SUPPLEMENTAL INFORMATION**

HEMLOCK PUBLIC SCHOOL DISTRICT  
Budgetary Comparison  
For the Year Ended June 30, 2009

	General Fund			Special Revenue Funds (Cafeteria and Athletic)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue						
Local	\$ 1,564,910	\$ 1,013,345	\$ 1,039,098	\$235,400	\$222,287	\$222,274
State	9,296,143	9,462,051	8,937,149	14,000	17,528	17,528
Federal	420,427	543,449	1,032,170	121,000	132,261	146,095
Interdistrict and other	188,000	209,747	340,174	188,657	165,036	162,027
Total Revenues	<u>11,469,480</u>	<u>11,228,592</u>	<u>11,348,591</u>	<u>559,057</u>	<u>537,112</u>	<u>547,924</u>
Expenditures						
Current:						
Instruction						
Basic programs	5,426,261	5,294,168	5,271,457	-	-	-
Added needs	1,822,059	1,783,628	1,763,326	-	-	-
Adult and continuing	37,007	31,330	31,513	-	-	-
Support Services						
Pupil	320,534	292,289	291,414	-	-	-
Instructional staff	308,882	320,225	294,352	-	-	-
General administration	327,364	328,503	314,188	-	-	-
School administration	728,826	700,344	686,761	-	-	-
Business	252,033	234,715	233,211	-	-	-
Operation and maintenance	1,137,827	1,124,899	1,118,296	-	-	-
Pupil transportation services	762,013	699,438	698,888	-	-	-
Central services	551,251	538,466	545,869	-	-	-
Other	28,284	24,300	24,300	-	-	-
Community services	40,200	30,117	32,849	-	-	-
Capital outlay	6,543	84,619	177,321	3,000	-	-
Food service	-	-	-	335,098	329,520	327,775
Athletic activities	-	-	-	235,837	220,099	216,405
Outgoing transfers and other	248,975	222,750	271,900	-	-	-
Total Expenditures	<u>11,998,059</u>	<u>11,709,791</u>	<u>11,755,645</u>	<u>573,935</u>	<u>549,619</u>	<u>544,180</u>
Excess (Deficiency) of Revenues Over Expenditures	(528,579)	(481,199)	(407,054)	(14,878)	(12,507)	3,744
Fund Balance - Beginning of Year	1,134,222	1,134,222	1,134,222	100,107	100,107	100,107
Fund Balance - End of Year	<u>\$ 605,643</u>	<u>\$ 653,023</u>	<u>\$ 727,168</u>	<u>\$ 85,229</u>	<u>\$ 87,600</u>	<u>\$103,851</u>

HEMLOCK PUBLIC SCHOOL DISTRICT  
Schedules of Long-Term Liabilities  
June 30, 2009

1998 ISSUE (Durant) \$231,975

Interest Rate: 4.761%

Year Ending June 30,	Annual Principal	Semiannual Interest Payment		Total Fiscal Year Requirement
	May 15	November 15	May 15	
2009-10	\$ 13,524	\$ -	\$ 2,766	\$ 16,290
2010-11	14,168	-	2,122	16,290
2011-12	14,843	-	1,447	16,290
2012-13	15,550	-	740	16,290
Totals	<u>\$ 58,085</u>	<u>\$ -</u>	<u>\$ 7,075</u>	<u>\$ 65,160</u>

2001 ISSUE \$13,355,000

Interest Rate: 4.375%

Year Ending June 30,	Annual Principal	Semiannual Interest Payment		Total Fiscal Year Requirement
	May 1	November 1	May 1	
2009-10	\$ 585,000	\$ 65,900	\$ 65,900	\$ 716,800
2010-11	605,000	54,200	54,200	713,400
2011-12	640,000	42,100	42,100	724,200
2012-13	660,000	28,900	28,900	717,800
2013-14	680,000	14,875	14,875	709,750
Totals	<u>\$ 3,170,000</u>	<u>\$ 205,975</u>	<u>\$ 205,975</u>	<u>\$ 3,581,950</u>



HEMLOCK PUBLIC SCHOOL DISTRICT  
Schedules of Long-Term Liabilities  
June 30, 2009

2005 REFUNDING ISSUE \$4,550,000 (1996 Refunded)

Interest Rate: 2.50 to 5.00%

Year Ending June 30,	Annual	Semiannual		Total
	Principal May 1	Interest Payment November 1	Interest Payment May 1	Fiscal Year Requirement
2009-10	\$ 260,000	\$ 79,674	\$ 79,674	\$ 419,348
2010-11	275,000	75,774	75,774	426,548
2011-12	275,000	71,306	71,306	417,612
2012-13	295,000	66,493	66,493	427,986
2013-14	315,000	61,146	61,146	437,292
2014-15	335,000	55,240	55,240	445,480
2015-16	335,000	48,540	48,540	432,080
2016-17	345,000	40,165	40,165	425,330
2017-18	365,000	31,540	31,540	428,080
2018-19	385,000	24,240	24,240	433,480
2019-20	395,000	16,348	16,347	427,695
2020-21	400,000	8,250	8,250	416,500
Totals	<u>\$ 3,980,000</u>	<u>\$ 578,716</u>	<u>\$ 578,715</u>	<u>\$ 5,137,431</u>

2005 REFUNDING ISSUE \$7,520,000 (2001 Refunded)

Interest Rate: 2.50 to 5.00%

Year Ending June 30,	Annual	Semiannual		Total
	Principal May 1	Interest Payment November 1	Interest Payment May 1	Fiscal Year Requirement
2009-10	\$ 45,000	\$ 150,233	\$ 150,233	\$ 345,466
2010-11	45,000	149,558	149,558	344,116
2011-12	45,000	148,838	148,838	342,676
2012-13	45,000	148,106	148,106	341,212
2013-14	45,000	147,263	147,263	339,526
2014-15	755,000	146,475	146,475	1,047,950
2015-16	805,000	127,600	127,600	1,060,200
2016-17	845,000	111,500	111,500	1,068,000
2017-18	875,000	94,600	94,600	1,064,200
2018-19	905,000	77,100	77,100	1,059,200
2019-20	950,000	59,000	59,000	1,068,000
2020-21	1,000,000	40,000	40,000	1,080,000
2021-22	1,000,000	20,000	20,000	1,040,000
Totals	<u>\$ 7,360,000</u>	<u>\$ 1,420,273</u>	<u>\$ 1,420,273</u>	<u>\$ 10,200,546</u>

**HEMLOCK PUBLIC SCHOOL DISTRICT**

**Schedules of Long-Term Liabilities**

**June 30, 2009**

**Chase Equipment Leasing, Inc.**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009-10	\$ 37,567	\$ 3,504	\$ 41,071
2010-11	39,280	1,791	41,071
Totals	<u>\$ 76,847</u>	<u>\$ 5,295</u>	<u>\$ 82,142</u>

**Oce Financial Service, Inc.**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009-10	\$ 14,380	\$ 2,468	\$ 16,848
2010-11	15,780	1,068	16,848
2011-12	2,776	32	2,808
Totals	<u>\$ 32,935</u>	<u>\$ 3,569</u>	<u>\$ 36,504</u>

**Hewlett-Packard Financial Service**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009-10	\$ 13,623	\$ 2,084	\$ 15,707
2010-11	14,628	1,079	15,707
Totals	<u>\$ 28,251</u>	<u>\$ 3,163</u>	<u>\$ 31,414</u>

**CNB Computers**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009-10	\$ 13,448	\$ 1,674	\$ 15,122
2010-11	14,457	665	15,122
2011-12	1,253	7	1,260
Totals	<u>\$ 29,158</u>	<u>\$ 2,346</u>	<u>\$ 31,504</u>

**Compass Learning**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009-10	\$ 21,163	\$ 4,106	\$ 25,269
2010-11	22,451	2,818	25,269
2011-12	23,819	1,450	25,269
Totals	<u>\$ 67,433</u>	<u>\$ 8,374</u>	<u>\$ 75,807</u>

**Compensated Absences**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Maturity Unknown	\$ 109,124	\$ -	\$ 109,124
Totals	<u>\$ 109,124</u>	<u>\$ -</u>	<u>\$ 109,124</u>

**Retirement Incentives**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009-10	\$ 93,600	\$ -	\$ 93,600
Totals	<u>\$ 93,600</u>	<u>\$ -</u>	<u>\$ 93,600</u>

HEMLOCK PUBLIC SCHOOL DISTRICT  
AGENCY FUNDS  
SCHEDULE OF ACTIVITY AND AMOUNT DUE TO STUDENT GROUPS  
FOR THE YEAR ENDED JUNE 30, 2009

	Cash Balance July 1, 2008	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2009
Accelerated reader	\$ 2,788	\$ 319	\$ 1,493	\$ 1,614
Auto mechanics	2,288	185	2,054	419
Basketball club	460	7,467	4,710	3,217
Beverage fund	3,667	7,703	9,711	1,659
Bleacher	210	-	-	210
Business club	40	11,407	10,211	1,236
Cheerleader, high school	145	-	145	-
Class of 2005	145	-	-	145
Class of 2008	911	-	-	911
Class of 2009	5,152	10,867	15,274	745
Class of 2010	646	16,481	11,405	5,722
Class of 2011	2,541	1,354	1,840	2,055
Class of 2012	-	3,348	1,148	2,200
Community education	4,390	882	-	5,272
Educational fund	-	2,501	-	2,501
Elementary	7,784	18,239	18,699	7,324
Elementary/Ling Library	13	-	-	13
Football club	2,195	13,914	9,870	6,239
High school	16,124	34,620	32,771	17,973
Interest	1,935	303	380	1,858
K of C Special ed	8	-	-	8
Kempf music	-	1,000	775	225
Library fines	3,281	3,145	3,661	2,765
Ling	18,992	42,699	46,407	15,284
Middle school office	23,709	55,372	49,018	30,063
Musical instruments	190	-	190	-
National honor society	2,086	4,313	4,892	1,507
Pompon	(237)	11,865	7,485	4,143
Reading is fundamental	268	-	-	268
SADD	1,406	7,747	7,652	1,501
Safety glasses, high school	639	56	-	695
SAW Project	550	3,331	3,881	-
Scoreboard fund	8,396	12,185	15,120	5,461
Softball club	89	21,434	21,127	396
Sports	1,886	25,085	23,797	3,174
Student council, high school	(96)	4,588	3,983	509
Wood shop fund	1,834	1,526	907	2,453
Yearbook fund, high school	10,676	10,707	5,849	15,534
Totals	<u>\$ 125,111</u>	<u>\$ 334,643</u>	<u>\$ 314,455</u>	<u>\$ 145,299</u>

HEMLOCK PUBLIC SCHOOL DISTRICT  
EDUCATIONAL TRUSTS  
SCHEDULE OF ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2009

	Cash Balance July 1, 2008	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2009
Agresta	\$ 6,062	\$ 2,136	\$ 107	\$ 8,091
Bastounis	11,625	225	500	11,350
Bray	2,839	378	-	3,217
Gariglio	11,978	340	315	12,003
Hall	13,525	172	-	13,697
Honsinger	-	902	-	902
Kempf	2,237	1,019	3,256	-
Kostrzewa	5,420	143	500	5,063
Munger	2,839	32	-	2,871
Setty	24,207	1,005	1,000	24,212
Totals	<u>\$ 80,732</u>	<u>\$ 6,352</u>	<u>\$ 5,678</u>	<u>\$ 81,406</u>



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## 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

September 11, 2009

To the Board of Education  
Hemlock Public School District  
Hemlock, Michigan

We have audited the financial statements of Hemlock Public School District as of and for the year ended June 30, 2009, and have issued our report thereon dated September 11, 2009. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hemlock Public School District's internal control over financial reporting as a basis for designing our auditing procedures 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 Hemlock Public School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hemlock Public School District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hemlock Public School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Hemlock Public School District's financial statements that is more than inconsequential will not be prevented or detected by Hemlock Public School District's internal control.

To the Board of Education  
Hemlock Public School District  
Page Two


A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hemlock Public School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hemlock Public School District'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 an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

HEMLOCK PUBLIC SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant ID Number	Grant Amount	Accrued (Deferred) Revenue July 1, 2008	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue July 1, 2009
<b>Department of Agriculture</b>								
Passed Through State of Michigan								
Nat'l School Breakfast	10.553	Various	\$14,540	\$ -	\$ -	\$ 14,540	\$ 14,540	\$ -
Nat'l School Lunch	10.555	Various	101,721	-	-	101,721	101,721	-
Passed Through TLC Warehousing Services, Inc.								
USDA Bonus	10.550	73210	3,565	-	-	3,565	3,565	-
USDA Commodities	10.550	73210	26,269	-	-	26,269	26,269	-
Total Department of Agriculture				-	-	146,095	146,095	-
<b>Department of Education</b>								
Passed Through State of Michigan								
Title I, Part A	84.010	081530 0708	127,474	74,011	126,831	-	74,011	-
Title I, Part A	84.010	091530 0809	176,313	-	-	130,569	89,994	40,575
Title V LEA Allocation	84.298	080250 0708	293	279	279	-	279	-
Technology Literacy	84.318	094290 0809	1,812	-	-	1,459	1,459	-
Title II Part A	84.367	080520 0708	69,296	22,056	41,178	1,452	23,508	-
Title II Part A	84.367	090520 0809	95,653	-	-	42,194	33,729	8,465
Education Stabilization	84.394	092525 0809	512,827	-	-	512,827	-	512,827
Passed Through Intermediate District								
Drug-Free Schools	84.186	092860 0809	1,159	-	-	1,159	-	1,159
IDEA, Part B	84.027	080450 0708	216,472	43,401	216,472	-	43,401	-
IDEA, Part B	84.027	090450 0809	246,900	-	-	246,900	-	246,900
IDEA, Part B (Recovery Act)	84.391A	100455 0910	91,726	-	-	91,726	-	91,726
Passed Through Delta College								
Tech Prep	84.243A	083540-8014-08	2,928	2,928	-	-	2,928	-
Tech Prep	84.243A	093540/80148	2,276	-	-	2,276	2,276	-
Total Department of Education				142,675	384,760	1,030,562	271,585	901,652
<b>Department of Health and Human Service</b>								
Passed Through Intermediate District								
Medicaid Outreach	93.778	08-09	1,608	-	-	1,608	746	862
Total Department of Health and Human Services				-	-	1,608	746	862
Grand Totals				\$ 142,675	\$ 384,760	\$ 1,178,265	\$ 418,426	\$ 902,514

Notes:

- Expenditures in this schedule are in agreement with amounts reported in the financial statements.
- The amounts reported in the Grant Section Auditor Report, reconcile with this schedule.
- This schedule was prepared using Modified-Accrual Basis of Accounting.  
The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.

See independent auditor's report on schedule of expenditures of federal awards.



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
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Heather A. Thomas

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 11, 2009

To the Board of Education  
Hemlock Public School District  
Hemlock, Michigan

### Compliance

We have audited the compliance of Hemlock Public School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Hemlock Public School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hemlock Public School District's management. Our responsibility is to express an opinion on Hemlock Public School District's compliance based on our audit.

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 Non-Profit 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 Hemlock Public School District'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. Our audit does not provide a legal determination of Hemlock Public School District's compliance with those requirements.



In our opinion, Hemlock Public School District complied, in all material respects, with the requirement referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

#### Internal Control Over Compliance

The management of Hemlock Public School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hemlock Public School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Hemlock Public School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

To the Board of Education  
Hemlock Public School District  
Page Three

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Sabher, Pracomano, Schumann & Thomas*

Certified Public Accountants

HEMLOCK PUBLIC SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2009

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Hemlock Public School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control Over Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Hemlock Public School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs of Hemlock Public School District expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs for Hemlock Public School District reported in this Schedule.
7. The programs tested as major programs include: Education Stabilization 84.394.
8. The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
9. Hemlock Public School District qualified as a low risk auditee.

FINDINGS-FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD  
PROGRAMS AUDIT

None