

# **HEMLOCK PUBLIC SCHOOL DISTRICT**

**Hemlock, Michigan**

## **Financial Statements**

**June 30, 2013**



**Gardner | Provenzano  
Thomas & Luplow**

HEMLOCK PUBLIC SCHOOL DISTRICT  
HEMLOCK, MICHIGAN  
JUNE 30, 2013

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# Gardner | Provenzano Thomas & Luplow

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
Heather A. Thomas  
Brett A. Luplow

## INDEPENDENT AUDITOR'S REPORT

October 11, 2013

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hemlock Public School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Hemlock Public School District as of June 30, 2013 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.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hemlock Public School District's 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Board of Education  
Hemlock Public School District  
Page Three

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013, on our consideration of Hemlock Public School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hemlock Public School District's internal control over financial reporting and compliance.

  
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, 2013. 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 position 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 position, 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 position. Increases or decreases in net position, 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 position is reported in separate statements. We exclude this net position 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, 2013 and 2012. They represent the School District as a whole.

	<u>06-30-2013</u>	<u>06-30-2012</u>
Assets		
Current and other assets	\$ 3,620,447	\$ 3,830,999
Capital assets - Net of accumulated depreciation	<u>10,032,585</u>	<u>11,084,476</u>
Total assets	<u>\$ 13,653,032</u>	<u>\$ 14,915,475</u>
Liabilities		
Current liabilities	\$ 3,262,355	\$ 3,307,135
Long-term liabilities	<u>9,747,140</u>	<u>10,827,729</u>
Total liabilities	<u>\$ 13,009,495</u>	<u>\$ 14,134,864</u>
Net position (deficit)		
Net investment in capital assets	\$ (730,526)	\$ (706,616)
Restricted for Debt Service	784,663	644,345
Unrestricted	<u>589,400</u>	<u>842,882</u>
Total Net Position	<u>\$ 643,537</u>	<u>\$ 780,611</u>

The above table presents the net position as of June 30, 2013. The change in net position for the 2012-2013 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 position is 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 that net position for day-to-day operations.

Net position decreased by \$137,074. Total revenues increased by \$410,902 mainly due to an increase in State Foundation Allowance, MPSERS flow through, Performance Based Funding and other increases to categoricals. Expenses increased by \$691,380, mostly due to a small increase in staff, increased salaries per union contracts, increase in benefit costs, MPSERS flow through, and capital outlay.

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

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

The unrestricted net position represents 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>06-30-2013</u>	<u>06-30-2012</u>
Revenue		
Program revenue		
Charges for services	\$ 539,950	\$ 503,464
Grants and categoricals	1,288,820	1,323,847
General revenue		
Property taxes	3,045,774	2,822,500
State foundation allowance	7,477,622	7,365,843
Other	<u>144,264</u>	<u>69,874</u>
Total revenue	<u>12,496,430</u>	<u>12,085,528</u>
Function/Program expenses		
Instruction	6,502,669	6,189,247
Support services	3,906,947	3,735,538
Community services	59,188	64,016
Food services	354,803	315,764
Athletics	206,948	207,412
Interest on long-term debt	489,625	529,527
Other	960	894
Depreciation (unallocated)	<u>1,112,364</u>	<u>899,726</u>
Total expenses	12,633,504	11,942,124
Increase (decrease) in Net Position	<u>\$ (137,074)</u>	<u>\$ 143,404</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 position 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 \$1,411,199 decreased by \$139,585 from last year. The General Fund, which is the primary operating fund, decreased by \$198,898, the primary reasons for the decrease in fund balance are increases in wages per union contracts, increase in benefit costs and capital outlay.

The Food Service fund balance decreased by \$20,532 due to the purchase of equipment.

The Debt Service Funds showed a fund balance increase of \$140,318. 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.

**Capital Projects Fund**

The capital projects fund showed a fund balance decrease of \$60,473 for amounts paid by the general fund to be reimbursed from bond proceeds.

**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 increased by \$239,277. This is mostly due to an increase in state foundation and pupil count over what was originally budgeted. Federal revenues were increased by \$42,476 due to carry over of funds from the previous year.

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

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**General Fund Budget (cont.)**

Original General Fund budgeted expenditures were increased by \$501,534 mostly due to an increase in wages based on completion of contract negotiations, an increase in staff and benefit costs.

The total actual revenues were not significantly different from the final amended budget. Total actual expenditures were less than the final budget. This difference is due to lower SISD special education service costs, lower utility costs and conservative budgeting.

**Capital Assets**

As of June 30, 2013, the School District had \$10,032,585 in capital assets including land, buildings, buses, vehicles, furniture and equipment, less depreciation.

	<u>06-30-2013</u>	<u>06-30-2012</u>
Land	\$ 688,500	\$ 688,500
Construction in progress	60,473	-
Buildings and improvements	23,555,905	23,555,905
Buses and other vehicles	1,258,858	1,258,858
Furniture and equipment	<u>1,277,143</u>	<u>1,277,143</u>
 Total Capital Assets	 26,840,879	 26,780,406
 Less accumulated depreciation	 <u>16,808,294</u>	 <u>15,695,930</u>
 Net Capital Assets	 <u><u>\$ 10,032,585</u></u>	 <u><u>\$ 11,084,476</u></u>

**Debt**

As of June 30, 2013, the School District had \$10,735,000 in General Obligation Bonds outstanding versus \$11,750,550 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 and employee-compensated absences. 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 10 percent of the February count and 90 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.

Student count is projected to decrease for the 2013-2014 school year. Health care and other benefit costs are projected to increase.

There is a H.A.S.E.L. support staff contract in place for the 2013-2014 school year, however, there is no HFT teacher contract in place as of yet.

**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 Position  
June 30, 2013

	Governmental Activities
ASSETS	
Cash	\$ 1,614,697
Receivables	1,948,469
Inventories	30,122
Prepaid	27,159
Capital assets less accumulated depreciation	10,032,585
Total Assets	<u>\$ 13,653,032</u>
LIABILITIES	
Accounts payable	\$ 212,995
Accrued liabilities	211,901
Salaries payable	558,486
Revenue anticipation note	1,151,484
Unearned revenue	74,382
Long-term liabilities	
Bonds payable, due within one year	1,040,000
Other liabilities, due within one year	13,107
Bonds payable, due in more than one year	9,695,000
Other liabilities, due in more than one year	52,140
Total Liabilities	<u>13,009,495</u>
NET POSITION (DEFICIT)	
Net investment in capital assets	(730,526)
Restricted for debt service	784,663
Restricted for cafeteria	114,933
Unrestricted	474,467
Total Net Position	<u>643,537</u>
Total Liabilities and Net Position	<u>\$ 13,653,032</u>

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, 2013

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Instruction	\$ 6,502,669	\$ 273,417	\$ 1,047,088	\$ (5,182,164)
Support services	3,906,947	-	30,682	(3,876,265)
Community services	59,188	26,245	-	(32,943)
Food services	354,803	137,791	210,310	(6,702)
Athletics	206,948	102,497	-	(104,451)
Interest on long-term debt	489,625	-	740	(488,885)
Other	960	-	-	(960)
Depreciation (unallocated)	1,112,364	-	-	(1,112,364)
Totals	<u>\$ 12,633,504</u>	<u>\$ 539,950</u>	<u>\$ 1,288,820</u>	<u>(10,804,734)</u>
General revenues:				
Taxes:				
Property taxes levied for general purposes				1,418,462
Property taxes levied for debt service				1,627,312
State aid - unrestricted				7,477,622
Interest				2,221
Other				142,043
Total General Revenues				<u>10,667,660</u>
Change in Net Position				(137,074)
Net Position - Beginning of Year				780,611
Net Position - End of Year				<u>\$ 643,537</u>

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



HEMLOCK PUBLIC SCHOOL DISTRICT  
Governmental Funds  
Balance Sheet  
June 30, 2013

	General	Cafeteria	Debt Service	Capital Project	Totals
<u>Assets</u>					
Cash	\$ 854,304	\$ 41,541	\$ 718,852	\$ -	\$1,614,697
Accounts receivable	1,948,469	-	-	-	1,948,469
Inventory	9,853	20,269	-	-	30,122
Prepaid	27,159	-	-	-	27,159
Due from other funds	89,976	53,123	69,816	-	212,915
Total Assets	<u>\$ 2,929,761</u>	<u>\$ 114,933</u>	<u>\$ 788,668</u>	<u>\$ -</u>	<u>\$3,833,362</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 212,995	\$ -	\$ -	\$ -	\$ 212,995
Due to other funds	148,437	-	4,005	60,473	212,915
Revenue anticipation note	1,151,484	-	-	-	1,151,484
Salaries payable	558,486	-	-	-	558,486
Unearned revenue	74,382	-	-	-	74,382
Accrued expenditures	211,901	-	-	-	211,901
Total Liabilities	<u>2,357,685</u>	<u>-</u>	<u>4,005</u>	<u>60,473</u>	<u>2,422,163</u>
<u>Fund Balance (deficit)</u>					
Restricted for cafeteria	-	94,664	-	-	94,664
Restricted for debt retirement	-	-	784,663	-	784,663
Non-spendable for inventory & prepaid	37,012	20,269	-	-	57,281
Assigned	250,612	-	-	-	250,612
Unassigned	284,452	-	-	(60,473)	223,979
Total Fund Balance	<u>572,076</u>	<u>114,933</u>	<u>784,663</u>	<u>(60,473)</u>	<u>1,411,199</u>
Total Liabilities and Fund Balance	<u>\$ 2,929,761</u>	<u>\$ 114,933</u>	<u>\$ 788,668</u>	<u>\$ -</u>	<u>\$3,833,362</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 Position  
June 30, 2013

Total Fund Balances - Governmental Funds	\$ 1,411,199
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Amounts reported for governmental activities in the statement  
of net position are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds:

The cost of the capital assets is	26,840,879
Accumulated depreciation is	(16,808,294)

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

Bonds payable	(10,735,000)
Capital lease obligations	(28,111)
Compensated absences	(37,136)

Total Net Position - Governmental Activities (District Wide)	<u>\$ 643,537</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, 2013

	General	Cafeteria	Debt Service	Capital Project	Totals
Revenue					
Local	\$ 1,686,515	\$ 141,790	\$ 1,628,313	\$ -	\$ 3,456,618
State	7,927,928	15,356	16,289	-	7,959,573
Federal	568,206	194,954	-	-	763,160
Interdistrict and other sources	317,079	-	-	-	317,079
Total Revenue	<u>10,499,728</u>	<u>352,100</u>	<u>1,644,602</u>	<u>-</u>	<u>12,496,430</u>
Expenditures					
Current:					
Instruction					
Basic programs	4,642,462	-	-	-	4,642,462
Added needs	1,853,917	-	-	-	1,853,917
Adult and continuing	6,290	-	-	-	6,290
Support services					
Pupil	405,644	-	-	-	405,644
Instructional staff	201,598	-	-	-	201,598
General administration	341,507	-	-	-	341,507
School administration	660,131	-	-	-	660,131
Business	149,582	-	-	-	149,582
Operation and maintenance	1,118,918	-	-	-	1,118,918
Pupil transportation services	617,912	-	-	-	617,912
Central services	316,655	-	-	-	316,655
Other	24,208	-	-	-	24,208
Community services	59,188	-	-	-	59,188
Capital outlay	97,213	26,707	-	60,473	184,393
Debt Service:					
Principal	12,431	-	1,015,550	-	1,027,981
Interest	1,851	-	487,774	-	489,625
Food services	-	328,096	-	-	328,096
Athletic	206,948	-	-	-	206,948
Other	-	-	960	-	960
Total Expenditures	<u>10,716,455</u>	<u>354,803</u>	<u>1,504,284</u>	<u>60,473</u>	<u>12,636,015</u>
Excess (Deficiency) of Revenues Over Expenditures	(216,727)	(2,703)	140,318	(60,473)	(139,585)
Other Financing Sources (Uses)					
Operating transfers in	19,651	(19,651)	-	-	-
Operating transfers out	(1,822)	1,822	-	-	-
Total Other Financing Sources (Uses)	<u>17,829</u>	<u>(17,829)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(198,898)	(20,532)	140,318	(60,473)	(139,585)
Fund Balances - Beginning of Year	770,974	135,465	644,345	-	1,550,784
Fund Balances (deficit) - End of Year	<u>\$ 572,076</u>	<u>\$ 114,933</u>	<u>\$ 784,663</u>	<u>\$ (60,473)</u>	<u>\$ 1,411,199</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, 2013

Net Change in Fund Balances - Governmental Funds	\$ (139,585)
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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	(1,112,364)
Capital outlay capitalized	60,473

Repayment of debt principal is an expenditure in the  
governmental funds, but not in the statement of activities.

Bond principal	1,015,550
Capital lease principal	12,431

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).

Compensated absences	26,421
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Change in Net Position of Governmental Activities (District Wide)	<u><u>\$ (137,074)</u></u>
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The accompanying notes are an integral part of these financial statements.

HEMLOCK PUBLIC SCHOOL DISTRICT  
Statement of Fiduciary Net Position  
June 30, 2013

	<u>Assets</u>	<u>Educational Trusts</u>	<u>Student Organizations</u>
Cash		\$ 66,759	\$ 216,210
Total Assets		<u>\$ 66,759</u>	<u>\$ 216,210</u>
	<u>Liabilities</u>		
Due to student organizations		\$ -	\$ 216,210
Total Liabilities		<u>-</u>	<u>\$ 216,210</u>
	<u>Net Position</u>		
Educational trusts		66,759	
Total Net Position		<u>\$ 66,759</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 1,251 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 position 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 fund is a special revenue fund.

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 within 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.

Unearned Revenue

Unearned revenue represents amounts for which the District has received or is due to receive but has not yet earned. Unearned 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.

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 1--Summary of Significant Accounting Policies (continued)

Fund Balance

The fund financial statements report the following components of fund balance:

- Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- Committed – Amounts that have been formally set aside by the Board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board.
- Assigned – Intent to spend resources on specific purposes expressed by the Board.
- Unassigned – Amounts that are available for any purpose.

The District did not have any committed fund balance as of June 30, 2013.

Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

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

Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 11, 2013, which is the date the financial statements were available to be issued.

GASB Statements No. 62, 63 and 65

For the year ended June 30, 2013 the District implemented the following new pronouncements:

*GASB Statement 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

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

**Summary:**

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

GASB Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and 65 Items previously reported as Assets and Liabilities.*

**Summary:**

These Statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statements No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. As of June 30, 2013, the District does not report any amounts for deferred outflows or inflows.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

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

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65 also states that bond issuance costs should be expensed in the year in which they are incurred.

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 and Cafeteria 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.



HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2--Stewardship, Compliance, and Accountability (continued)

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 39.

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 \$1,897,666 and the bank balance was \$2,244,574. Of the bank balance, \$828,326 was covered by federal depository insurance and \$1,416,248 was uninsured and uncollateralized.

# HEMLOCK PUBLIC SCHOOL DISTRICT NOTES TO THE FINANCIAL STATEMENTS

## NOTE 3--Deposits and Investments (continued)

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.

## NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the School District was as follows:

	Balance 07-01-2012	Additions	Retirements	Balance 06-30-2013
Capital assets not subject to depreciation				
Land	\$ 688,500	\$ -	\$ -	\$ 688,500
Construction in progress	-	60,473	-	60,473
Subtotals	<u>688,500</u>	<u>60,473</u>	<u>-</u>	<u>748,973</u>
Capital assets subject to depreciation				
Buildings and improvements	23,555,905	-	-	23,555,905
Buses and other vehicles	1,258,858	-	-	1,258,858
Furniture and equipment	1,277,143	-	-	1,277,143
Subtotals	<u>26,091,906</u>	<u>-</u>	<u>-</u>	<u>26,091,906</u>
Total Capital Assets	<u>26,780,406</u>	<u>60,473</u>	<u>-</u>	<u>26,840,879</u>
Accumulated depreciation				
Buildings and improvements	13,590,911	821,598	-	14,412,509
Buses and other vehicles	990,264	215,691	-	1,205,955
Furniture and equipment	1,114,755	75,075	-	1,189,830
Total Accumulated Depreciation	<u>15,695,930</u>	<u>1,112,364</u>	<u>-</u>	<u>16,808,294</u>
Total Net Capital Assets	<u>\$ 11,084,476</u>	<u>\$ (1,051,891)</u>	<u>\$ -</u>	<u>\$ 10,032,585</u>

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

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

Interfund Receivable		Interfund Payable	
General Fund	\$ 89,976	General Fund	\$ 148,437
Cafeteria Fund	53,123	Debt Service Fund	4,005
Debt Fund	69,816	Capital Project Fund	60,473
Total	<u>\$ 212,915</u>	Total	<u>\$ 212,915</u>
Outgoing Transfer		Incoming Transfer	
General Fund	\$ 1,822	Cafeteria Fund	\$ 1,822
Cafeteria Fund	19,651	General Fund	19,651
Total	<u>\$ 21,473</u>	Total	<u>\$ 21,473</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 capital lease obligations and compensated absences.

Long-term debt activity is summarized as follows:

	Balance 07-01-2012	Additions	Retirements	Balance 06-30-2013	Current Portion
Governmental Activities					
Bonds	\$ 11,750,550	\$ -	\$ 1,015,550	\$ 10,735,000	\$ 1,040,000
Capital lease obligations	40,542	-	12,431	28,111	13,107
Compensated absences	63,557	-	26,421	37,136	unknown
Totals	<u>\$ 11,854,649</u>	<u>\$ -</u>	<u>\$ 1,054,402</u>	<u>\$ 10,800,247</u>	<u>\$ 1,053,107</u>

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

	Principal	Interest	Total
2013-14	\$ 1,053,107	\$ 447,743	\$ 1,500,850
2014-15	1,103,819	403,893	1,507,712
2015-16	1,141,185	352,285	1,493,470
2016-17	1,190,000	303,330	1,493,330
2017-18	1,240,000	252,280	1,492,280
2018-19 thru 2021-22	5,035,000	489,875	5,524,875
Subtotals	10,763,111	2,249,406	13,012,517
Compensated Absences	37,136	-	37,136
Totals	<u>\$ 10,800,247</u>	<u>\$ 2,249,406</u>	<u>\$ 13,049,653</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 \$2,940,000 as of June 30, 2013.

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, 2013. 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

Plan Description

The District contributes to the Michigan Public School Employees Retirement System ("MPERS"), a collection of several retirement plans administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-5103.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9--Pension Plan (continued)

Funding Policy

*Defined Benefit Plans*

Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3.0 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the MIP Plus Plan. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. Basic 4% and MIP 7% members contribute 4 percent and 7 percent of pretax salary, respectively. Based on the option selected at enrollment, these individuals contribute at a fixed rate until termination of employment or until reaching 30 years of service. At that time, based on the option selected, employee contributions are no longer required or revert to the contribution requirements under the MIP plan in which the employee initially enrolled.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9--Pension Plan (continued)

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis. The rates for the year ended June 30, 2013 as a percentage of payroll ranged from 20.96 to 25.39 percent.

*Hybrid Plans*

Effective February 1, 2013, members that initially enrolled in the defined benefit plan were provided the option to convert to a defined contribution plan. In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4 percent employer contributions to a personal 401(k) account. Voluntary employee contributions are permitted in accordance with IRS guidelines. Employer contributions and earnings thereon vest based on the following schedule: 50 percent at 2 years of service, 75 percent at 3 years of service, and 100 percent at 4 years of service. Any voluntary contributions vest with the employees immediately. If a member participating in the hybrid plan retires with certain age and service requirement, he or she will receive a monthly pension based on compensation received before February 1, 2013.

*Defined Contribution Plan*

A member first enrolling in MPSERS on or after September 4, 2012 is automatically enrolled in the defined contribution plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the hybrid plan as described above.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9--Pension Plan (continued)

The contribution requirements of plan members and the District are established by Michigan State Statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS under all plans for the years ended June 30, 2013, 2012 and 2011 were \$1,524,182, \$1,340,481, and \$1,127,827, respectively, equal to the required contributions for each year.

Other Post Employment Benefits

Retirees enrolled MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Plan participants contribute 3 percent of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that cover up to 80 percent of cost.

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2 percent employee contribution into a personal tax-deferred account, which is matched by an additional 2 percent employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert



HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9--Pension Plan (continued)

from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3 percent employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The District's contributions to MPSERS for other postemployment benefits are not separately identified and are included in the contribution amounts disclosed above.

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:

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10--Joint Venture (continued)

Cash Balance, July 1, 2012		\$ 19,497
Revenue		
Contributions	26,336	
Total Revenue		26,336
Expenses		
Scholarships	1,100	
Materials and equipment	18,617	
Educational activities	4,432	
Other	1,481	
Total Expenses		25,630
Cash Balance June 30, 2013		<u>\$ 20,203</u>

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.

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11--Durant Settlement and Bond Issue (continued)

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. As of June 30, 2013, all principal and interest associated with the bond liability have been satisfied.

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	70,645
2009-2010	(51,703)
2010-2011	(31,661)
2011-2012	(10,383)
2012-2013	(23,670)
Total Estimated Savings (Cost)	<u>\$ 980,165</u>

HEMLOCK PUBLIC SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13--Subsequent Event

On May 7, 2013, the qualified electors of the District approved a proposal authorizing the issuance of bonds not to exceed \$8,400,000 for school building and site purposes. The bonds were sold on July 9, 2013. Initial expenditures related to the project began in 12-13 and were paid from the general fund. The \$60,473 initially paid from the general fund has been reimbursed by the capital projects fund from the bond proceeds.

NOTE 14--Upcoming Accounting Pronouncement

GASB Statement 67, *Financial Reporting for Pension Plans* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, were issued by the Governmental Accounting Standards Board and will be effective for the District's 2014 and 2015 fiscal years, respectively. The Statements require governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

## **SUPPLEMENTAL INFORMATION**

HEMLOCK PUBLIC SCHOOL DISTRICT  
Budgetary Comparison  
For the Year Ended June 30, 2013

	General Fund			Special Revenue Funds (Cafeteria)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue						
Local	\$ 1,452,486	\$ 1,691,763	\$1,686,515	\$ 144,470	\$ 141,743	\$141,790
State	7,902,385	7,964,525	7,927,928	14,000	14,679	15,356
Federal	557,990	600,466	568,206	140,000	194,261	194,954
Interdistrict and other	266,000	235,769	336,730	1,820	1,820	1,822
Total Revenues	<u>10,178,861</u>	<u>10,492,523</u>	<u>10,519,379</u>	<u>300,290</u>	<u>352,503</u>	<u>353,922</u>
Expenditures						
Current:						
Instruction						
Basic programs	4,496,141	4,681,697	4,642,462	-	-	-
Added needs	1,748,395	1,839,149	1,853,917	-	-	-
Adult and continuing	-	-	6,290	-	-	-
Support Services						
Pupil	465,220	439,395	405,644	-	-	-
Instructional staff	166,705	215,259	201,598	-	-	-
General administration	297,459	371,623	341,507	-	-	-
School administration	635,119	631,790	660,131	-	-	-
Business	189,866	157,572	149,582	-	-	-
Operation and maintenance	1,123,080	1,143,503	1,118,918	-	-	-
Pupil transportation services	550,437	652,045	617,912	-	-	-
Central services	326,135	319,813	316,655	-	-	-
Other	26,653	17,884	24,208	-	-	-
Community services	66,304	57,386	59,188	-	-	-
Capital outlay	18,000	99,927	97,213	-	25,736	26,707
Food service	-	-	-	305,253	321,563	328,096
Athletic activities	220,158	204,163	206,948	-	-	-
Outgoing transfers and other	26,820	26,820	16,104	-	-	19,651
Total Expenditures	<u>10,356,492</u>	<u>10,858,026</u>	<u>10,718,277</u>	<u>305,253</u>	<u>347,299</u>	<u>374,454</u>
Excess (Deficiency) of						
Revenues Over Expenditures	(177,631)	(365,503)	(198,898)	(4,963)	5,204	(20,532)
Fund Balance - Beginning of Year	770,974	770,974	770,974	135,465	135,465	135,465
Fund Balance - End of Year	<u>\$ 593,343</u>	<u>\$ 405,471</u>	<u>\$ 572,076</u>	<u>\$ 130,502</u>	<u>\$ 140,669</u>	<u>\$114,933</u>

HEMLOCK PUBLIC SCHOOL DISTRICT  
Schedules of Long-Term Liabilities  
June 30, 2013

2001 ISSUE \$13,355,000

Interest Rate: 4.375%

Year Ending June 30,	Annual Principal May 1	Semiannual Interest Payment		Total Fiscal Year Requirement
		November 1	May 1	
2013-14	\$ 680,000	\$ 14,875	\$ 14,875	\$ 709,750
Totals	\$ 680,000	\$ 14,875	\$ 14,875	\$ 709,750

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

Interest Rate: 2.50 to 5.00%

Year Ending June 30,	Annual Principal May 1	Semiannual Interest Payment		Total Fiscal Year Requirement
		November 1	May 1	
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	\$ 2,875,000	\$ 285,469	\$ 285,468	\$ 3,445,937

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

Interest Rate: 2.50 to 5.00%

Year Ending June 30,	Annual Principal May 1	Semiannual Interest Payment		Total Fiscal Year Requirement
		November 1	May 1	
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	\$ 7,180,000	\$ 823,538	\$ 823,538	\$ 8,827,076

HEMLOCK PUBLIC SCHOOL DISTRICT  
Schedules of Long-Term Liabilities  
June 30, 2013

Kansas State Bank (7 copiers)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013-14	\$ 13,107	\$ 1,175	14,282
2014-15	13,819	463	14,282
2015-16	1,185	5	1,190
Totals	<u>\$ 28,111</u>	<u>\$ 1,643</u>	<u>\$ 29,754</u>

Compensated Absences

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Maturity Unknown	\$ 37,136	\$ -	\$ 37,136
Totals	<u>\$ 37,136</u>	<u>\$ -</u>	<u>\$ 37,136</u>



HEMLOCK PUBLIC SCHOOL DISTRICT  
AGENCY FUNDS  
SCHEDULE OF ACTIVITY AND AMOUNT DUE TO STUDENT GROUPS  
FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance July 1, 2012	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2013
Accelerated reader	\$ 12	\$ -	\$ 12	\$ -
Auto mechanics	1,990	3,037	2,416	2,611
Basketball club	3,239	8,486	7,632	4,093
Beverage fund	5,460	7,322	5,596	7,186
Bleacher	230	-	-	230
Business club	1,783	1,399	-	3,182
Cheerleaders	-	2,226	1,009	1,217
Class of 2005	145	-	1	144
Class of 2008	911	-	1	910
Class of 2009	790	-	1	789
Class of 2010	3,486	-	-	3,486
Class of 2011	861	-	-	861
Class of 2012	4,800	-	1,052	3,748
Class of 2013	5,294	9,199	12,960	1,533
Class of 2014	2,939	15,013	9,818	8,134
Class of 2015	1,892	4,050	3,147	2,795
Class of 2016	-	1,667	807	860
Class of 2017	-	4,789	1,900	2,889
Community education	4,431	260	-	4,691
Educational fund	1,365	2,544	-	3,909
Elementary	5,432	26,555	21,562	10,425
Elementary/Ling Library	13	-	13	-
Football club	3,897	7,078	10,598	377
High school	44,094	46,619	35,906	54,807
Interest	1,340	-	28	1,312
K of C Special ed	708	1	-	709
Kempf music	225	-	-	225
Library fines	(93)	84	-	(9)
Ling	17,107	50,194	43,653	23,648
Middle school office	28,336	49,287	49,918	27,705
National honor society	(93)	893	379	421
Pompon	1,926	12,070	10,965	3,031
SADD	497	1,983	1,071	1,409
Safety glasses, high school	812	21	-	833
Scoreboard fund	7,846	17,817	22,256	3,407
Softball club	330	25,391	25,473	248
Sports	12,527	41,226	43,955	9,798
Student council, high school	272	5,786	4,661	1,397
Wood shop fund	4,349	430	249	4,530
Yearbook fund, high school	14,887	7,556	3,774	18,669
Totals	\$ 184,040	\$ 352,983	\$ 320,813	\$ 216,210

HEMLOCK PUBLIC SCHOOL DISTRICT  
EDUCATIONAL TRUSTS  
SCHEDULE OF ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance July 1, 2012	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2013
Agresta	\$ 3,407	\$ 2,002	\$ 1,621	\$ 3,788
Bastounis	11,176	4	-	11,180
Bray	3,269	247	-	3,516
Gariglio	11,947	769	717	11,999
Hall	13,904	44	2,000	11,948
Honsinger	906	-	-	906
Munger	2,162	5	-	2,167
Setty	22,212	43	1,000	21,255
Totals	<u>\$ 68,983</u>	<u>\$ 3,114</u>	<u>\$ 5,338</u>	<u>\$ 66,759</u>



# Gardner | Provenzano Thomas & Luplow

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
Heather A. Thomas  
Brett A. Luplow

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 11, 2013

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hemlock Public School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Hemlock Public School District's basic financial statements and have issued our report thereon dated October 11, 2013.

### **Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a

To the Board of Education  
Hemlock Public School District  
Page Two

material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify and deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2013-001.

#### **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*.

#### **Purpose of This Report**

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

  
Certified Public Accountants

HEMLOCK PUBLIC SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant ID Number	Grant Amount	Accrued (Deferred) Revenue July 1, 2012	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue July 1, 2013
<b>Department of Agriculture</b>								
Passed Through State of Michigan								
School Breakfast Program	10.553	Various	\$28,978	\$ -	\$ -	\$ 28,978	\$ 28,978	\$ -
National School Lunch Progra	10.555	Various	139,092	-	-	139,092	139,092	-
Passed Through Great Lakes Co-op								
USDA Commodities	10.550	73210	26,884	-	-	26,884	26,884	-
Total Department of Agriculture				-	-	194,954	194,954	-
<b>Department of Education</b>								
Passed Through State of Michigan								
Title I, Part A	84.010	121530 1112	172,991	45,469	143,318	-	45,469	-
Title I, Part A	84.010	121530 1112	172,991	-	-	24,100	24,100	-
Title I, Part A	84.010	131530 1213	158,698	-	-	133,658	-	133,658
Title II Part A	84.367	120520 1112	109,887	31,315	83,302	-	31,315	-
Title II Part A	84.367	120520 1112	109,887	-	-	6,935	6,935	-
Title II Part A	84.367	130520 1213	84,336	-	-	63,917	-	63,917
Passed Through Intermediate District								
IDEA, Part B	84.027	120450 1112	293,878	99,265	293,878	-	99,265	-
IDEA, Part B	84.027	130450 1213	328,623	-	-	339,147	199,573	139,574
Total Department of Education				176,049	520,498	567,757	406,657	337,149
<b>Department of Health and Human Service</b>								
Passed Through Intermediate District								
Medical Outreach	93.778	12-13	449	-	-	449	449	-
Total Department of Health and Human Services				-	-	449	449	-
Grand Totals				\$ 176,049	\$ 520,498	\$ 763,160	\$ 602,060	\$ 337,149

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 Thomas & Luplow

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
Heather A. Thomas  
Brett A. Luplow

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 11, 2013

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

### **Report on Compliance for Each Major Federal Program**

We have audited Hemlock Public School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hemlock Public School District's major federal programs for the year ended June 30, 2013. 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.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Hemlock Public School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Hemlock Public School District's compliance.

### **Opinion on Each Major Federal Program**

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

### **Report on Internal Control Over Compliance**

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

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

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

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

  
Sandra Provencio, Thomas & Lepore  
Certified Public Accountants

HEMLOCK PUBLIC SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Hemlock Public School District.
2. No material weaknesses 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 material weaknesses relating to the audit of the major federal award programs reported in the Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on each Major Program and on 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 unmodified 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: IDEA PART B 84.027.
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.



HEMLOCK PUBLIC SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013

FINDINGS FINANCIAL STATEMENT AUDIT

2013 – 001 Lack of Segregation of Functions

Criteria: The Michigan Public School Accounting Manual (Bulletin 1022) requires effective control related procedures including segregation of incompatible duties.

Condition: The duties performed within the financial coordinator position lack an acceptable segregation of functions coupled with an absence of a reasonable mitigating factor.

Cause: The duties performed by the financial coordinator allow the individual to initiate, approve, and reconcile financial transactions without any involvement of other District personnel.

Effect: The individual performing the duties of the financial coordinator has the ability to process financial transactions independent of reasonable management oversight.

Recommendation: Duties should be adjusted so that no individual District personnel has the ability to initiate, approve, and reconcile financial transactions without another individual's involvement or other mitigating management oversight.

Management's Response: Beginning in fiscal 13-14, a part-time business manager has been employed to oversee budgeting and overall financial activity.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None



# HEMLOCK PUBLIC SCHOOLS

HEMLOCK, MICHIGAN 48626

## CORRECTIVE ACTION PLAN

June 30, 2013

Michigan Department of Education

Hemlock Public School District submits the following corrective action plan for the year ended June 30, 2013.

Name and address of independent accounting firm:  
Gardner, Provenzano, Thomas & Luplow  
4855 State Street  
Saginaw, MI 48603

Audit Period: July 1, 2012 through June 30, 2013

The findings from the June 30, 2013 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### FINDINGS – FINANCIAL STATEMENT AUDIT

#### SIGNIFICANT DEFICIENCY

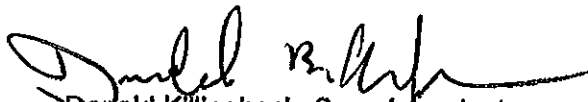
##### 2013-001 Lack of Segregation of Functions

Recommendation: Duties should be adjusted so that no individual District personnel has the ability to initiate, approve, and reconcile financial transactions without another individual's involvement or other mitigating management oversight.

Action Taken: We concur with the recommendation, and have hired a part-time business manager to oversee budgeting and overall financial activity.

If there are any questions regarding this plan, please call Donald Killingbeck, Superintendent at 989-642-5282.

Sincerely,

  
Donald Killingbeck, Superintendent

SUPERINTENDENT - 642-5282 • HIGH SCHOOL - 642-5287

LING ELEMENTARY SCHOOL - 642-5235 • MIDDLE SCHOOL - 642-5253 • ELEMENTARY SCHOOL - 642-5221