

HEMLOCK PUBLIC SCHOOL DISTRICT

Hemlock, Michigan

Financial Statements

June 30, 2012



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

HEMLOCK PUBLIC SCHOOL DISTRICT
HEMLOCK, MICHIGAN
JUNE 30, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
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INDEPENDENT AUDITOR'S REPORT

October 16, 2012

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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2012, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hemlock Public School District's financial statements as a whole. 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 also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Barbra Brown, Shawna & Thomas

Certified Public Accountants

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

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, 2012. 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)

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)

Summary of District-wide Financial Statement

Table 1 provides a summary of our net assets as of June 30, 2012 and 2011. They represent the School District as a whole.

	<u>06-30-2012</u>	<u>06-30-2011</u>
Assets		
Current and other assets	\$ 3,830,999	\$ 3,606,807
Capital assets - Net of accumulated depreciation	<u>11,084,476</u>	<u>11,914,000</u>
Total assets	<u>\$ 14,915,475</u>	<u>\$ 15,520,807</u>
Liabilities		
Current liabilities	\$ 3,307,135	\$ 2,072,264
Long-term liabilities	<u>10,827,729</u>	<u>12,811,336</u>
Total liabilities	<u>\$ 14,134,864</u>	<u>\$ 14,883,600</u>
Net assets		
Invested in property and equipment - Net of related debt	\$ (706,616)	\$ (839,241)
Restricted for Debt Service	644,345	565,571
Unrestricted	<u>842,882</u>	<u>910,877</u>
Total Net Assets	<u>\$ 780,611</u>	<u>\$ 637,207</u>

The above table presents the net assets as of June 30, 2012. The change in net assets for the 2011-2012 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 increased by \$143,404. Total revenues decreased by \$688,605 mainly due to a decrease in ARRA Federal funds. Also there was a reduction in State Foundation Allowance and pupil count. Expenses increased by \$85,692, mostly due to an increase in the MPSERS retirement rate.

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

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>06-30-2012</u>	<u>06-30-2011</u>
Revenue		
Program revenue		
Charges for services	\$ 503,464	\$ 456,405
Grants and categoricals	1,323,847	1,866,674
General revenue		
Property taxes	2,822,500	2,744,463
State foundation allowance	7,365,843	7,626,720
Other	<u>69,874</u>	<u>79,871</u>
Total revenue	<u>12,085,528</u>	<u>12,774,133</u>
Function/Program expenses		
Instruction	6,189,247	5,994,498
Support services	3,735,538	3,819,026
Community services	64,016	42,733
Food services	315,764	337,370
Athletics	207,412	201,930
Interest on long-term debt	529,527	564,796
Other	894	827
Depreciation (unallocated)	<u>899,726</u>	<u>895,252</u>
Total expenses	11,942,124	11,856,432
Increase (decrease) in Net Assets	<u>\$ 143,404</u>	<u>\$ 917,701</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)

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 \$1,550,784 increased by \$16,241 from last year. The General Fund, which is the primary operating fund, decreased by \$71,364, the primary reasons for the decrease in fund balance are a reduction of ARRA funds, student count and foundation allowance.

The Food Service fund balance increased by \$8,831.

The Debt Service Funds showed a fund balance increase of \$78,774. 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 increased by \$54,819. This is mostly due to an increase in taxable value over what was projected. Federal revenues were increased by \$16,278 in anticipation of additional funding.

Original General Fund budgeted expenditures were increased by \$218,585 mostly due to an increase in wages based on completion of contract negotiations and an increase in staff.

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

General Fund Budget (cont.)

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 unemployment, a drop in delinquent taxes and conservative budgeting.

Capital Assets

As of June 30, 2012, the School District has \$11,084,476 in capital assets including land, buildings, buses, vehicles, furniture and equipment, less depreciation.

	<u>06-30-2012</u>	<u>06-30-2011</u>
Land	\$ 688,500	\$ 688,500
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>1,206,941</u>
Total Capital Assets	26,780,406	26,710,204
Less accumulated depreciation	<u>15,695,930</u>	<u>14,796,204</u>
Net Capital Assets	<u>\$ 11,084,476</u>	<u>\$ 11,914,000</u>

Debt

As of June 30, 2012, the School District had \$11,750,550 in General Obligation Bonds outstanding versus \$12,725,393 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.

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.

There was a proposed increase in the retirement rate on compensation from 24.46% to 27.37%. Currently the state has reduced that amount to 25.36% pending the full implementation of PA 300 of 2012.

There are union contracts in place for the 2012-2013 school year.

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, 2012

	Governmental Activities
ASSETS	
Cash	\$ 2,006,342
Receivables	1,761,087
Inventories	30,672
Prepaid	32,898
Capital assets less accumulated depreciation	11,084,476
Total Assets	<u>\$ 14,915,475</u>
LIABILITIES	
Accounts payable	\$ 229,865
Accrued liabilities	201,786
Salaries payable	519,881
Revenue anticipation note	1,261,482
Deferred revenue	67,201
Long-term liabilities	
Bonds payable, due within one year	1,015,550
Other liabilities, due within one year	11,370
Bonds payable, due in more than one year	10,735,000
Other liabilities, due in more than one year	92,729
Total Liabilities	<u>14,134,864</u>
NET ASSETS	
Invested in capital assets net of related debt	(706,616)
Restricted for debt service	644,345
Unrestricted	842,882
Total Net Assets	<u>780,611</u>
Total Liabilities and Net Assets	<u>\$ 14,915,475</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, 2012

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 6,189,247	\$ 226,640	\$ 1,088,241	\$ (4,874,366)
Support services	3,735,538	-	27,524	(3,708,014)
Community services	64,016	16,841	-	(47,175)
Food services	315,764	147,848	206,635	38,719
Athletics	207,412	112,135	-	(95,277)
Interest on long-term debt	529,527	-	1,447	(528,080)
Other	894	-	-	(894)
Depreciation (unallocated)	899,726	-	-	(899,726)
Totals	<u>\$ 11,942,124</u>	<u>\$ 503,464</u>	<u>\$ 1,323,847</u>	<u>(10,114,813)</u>
General revenues:				
Taxes:				
Property taxes levied for general purposes				1,259,312
Property taxes levied for debt service				1,563,188
State aid - unrestricted				7,365,843
Interest				2,336
Other				67,538
Total General Revenues				<u>10,258,217</u>
Change in Net Assets				143,404
Net Assets - Beginning of Year				637,207
Net Assets - End of Year				<u>\$ 780,611</u>

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

HEMLOCK PUBLIC SCHOOL DISTRICT
Governmental Funds
Balance Sheet
June 30, 2012

	General	Cafeteria	Debt Service	Totals
<u>Assets</u>				
Cash	\$ 1,270,074	\$ 88,384	\$ 647,884	\$2,006,342
Accounts receivable	1,761,087	-	-	1,761,087
Inventory	9,549	21,123	-	30,672
Prepaid	32,898	-	-	32,898
Due from other funds	-	25,958	-	25,958
Total Assets	<u>\$ 3,073,608</u>	<u>\$ 135,465</u>	<u>\$ 647,884</u>	<u>\$3,856,957</u>
<u>Liabilities and Fund Balance</u>				
Liabilities				
Accounts payable	\$ 229,865	\$ -	\$ -	\$ 229,865
Due to other funds	22,419	-	3,539	25,958
Revenue anticipation note	1,261,482	-	-	1,261,482
Salaries payable	519,881	-	-	519,881
Deferred revenue	67,201	-	-	67,201
Accrued expenditures	201,786	-	-	201,786
Total Liabilities	<u>2,302,634</u>	<u>-</u>	<u>3,539</u>	<u>2,306,173</u>
Fund Balance				
Restricted for debt retirement	-	-	644,345	644,345
Non-spendable for inventory & prepaid	42,447	21,123	-	63,570
Assigned to cafeteria	-	114,342	-	114,342
Assigned	177,631	-	-	177,631
Unassigned	550,896	-	-	550,896
Total Fund Balance	<u>770,974</u>	<u>135,465</u>	<u>644,345</u>	<u>1,550,784</u>
Total Liabilities and Fund Balance	<u>\$ 3,073,608</u>	<u>\$ 135,465</u>	<u>\$ 647,884</u>	<u>\$3,856,957</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, 2012

Total Fund Balances - Governmental Funds	\$ 1,550,784
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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	26,780,406
Accumulated depreciation is	(15,695,930)

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

Bonds payable	(11,750,550)
Capital lease obligations	(40,542)
Compensated absences	(63,557)

Total Net Assets - Governmental Activities (District Wide)	<u>\$ 780,611</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, 2012

	General	Cafeteria	Debt Service	Totals
Revenue				
Local	\$ 1,447,863	\$ 151,584	\$ 1,564,223	\$ 3,163,670
State	7,893,308	11,854	16,289	7,921,451
Federal	543,498	194,781	-	738,279
Interdistrict and other sources	262,128	-	-	262,128
Total Revenue	<u>10,146,797</u>	<u>358,219</u>	<u>1,580,512</u>	<u>12,085,528</u>
Expenditures				
Current:				
Instruction				
Basic programs	4,469,168	-	-	4,469,168
Added needs	1,676,771	-	-	1,676,771
Adult and continuing	43,308	-	-	43,308
Support services				
Pupil	518,929	-	-	518,929
Instructional staff	153,654	-	-	153,654
General administration	287,550	-	-	287,550
School administration	619,365	-	-	619,365
Business	149,005	-	-	149,005
Operation and maintenance	1,085,519	-	-	1,085,519
Pupil transportation services	558,899	-	-	558,899
Central services	308,710	-	-	308,710
Other	26,493	-	-	26,493
Community services	64,016	-	-	64,016
Capital outlay	73,553	23,695	-	97,248
Debt Service:				
Principal	38,912	-	974,911	1,013,823
Interest	3,522	-	525,933	529,455
Food services	-	310,670	-	310,670
Athletic	207,412	-	-	207,412
Other	-	-	894	894
Total Expenditures	<u>10,284,786</u>	<u>334,365</u>	<u>1,501,738</u>	<u>12,120,889</u>
Excess (Deficiency) of Revenues Over Expenditures	(137,989)	23,854	78,774	(35,361)
Other Financing Sources (Uses)				
Capital lease proceeds	51,602	-	-	51,602
Operating transfers in	16,843	(16,843)	-	-
Operating transfers out	(1,820)	1,820	-	-
Total Other Financing Sources (Uses)	<u>66,625</u>	<u>(15,023)</u>	<u>-</u>	<u>51,602</u>
Net Change in Fund Balances	(71,364)	8,831	78,774	16,241
Fund Balances - Beginning of Year	842,338	126,634	565,571	1,534,543
Fund Balances - End of Year	<u>\$ 770,974</u>	<u>\$ 135,465</u>	<u>\$ 644,345</u>	<u>\$ 1,550,784</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, 2012

Net Change in Fund Balances - Governmental Funds	\$ 16,241
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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	(899,726)
Capital outlay capitalized	70,202

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

Bond principal	974,843
Capital lease principal	38,908

Proceeds from issuance of debt are other financing sources
in the governmental statement of changes in fund balance but
not in the government wide statement of activities

Proceeds from capital lease obligations	(51,602)
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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	(5,462)
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Change in Net Assets of Governmental Activities (District Wide)	\$ 143,404
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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, 2012

<u>Assets</u>	
Cash, student organizations	\$ 184,040
Cash, educational trusts	<u>68,983</u>
Total Assets	<u><u>\$ 253,023</u></u>

<u>Liabilities</u>	
Due to student organizations	\$ 184,040

<u>Equity</u>	
Educational trusts	<u>68,983</u>
Total Liabilities and Equity	<u><u>\$ 253,023</u></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 1,265 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 fund is 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.

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 1--Summary of Significant Accounting Policies (continued)

Fund Balance

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications as follows:

- 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, 2012.

HEMLOCK PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

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

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 16, 2012, which is the date the financial statements were available to be issued.

GASB Statement No. 63

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position was released by the GASB in June 2011 and will be effective for the School District's 2012-2013 fiscal year. The statements incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net positions, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

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 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.

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 35.

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 \$2,259,365 and the bank balance was \$2,491,027. Of the bank balance, \$1,117,597 was covered by federal depository insurance and \$1,373,430 was uninsured and un-collateralized.

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 07-01-2011	Additions	Retirements	Balance 06-30-2012
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	1,258,858	-	-	1,258,858
Furniture and equipment	1,206,941	70,202	-	1,277,143
Subtotals	<u>26,021,704</u>	<u>70,202</u>	<u>-</u>	<u>26,091,906</u>
Total Capital Assets	<u>26,710,204</u>	<u>70,202</u>	<u>-</u>	<u>26,780,406</u>
Accumulated depreciation				
Buildings and improvements	12,769,312	821,599	-	13,590,911
Buses and other vehicles	975,652	14,612	-	990,264
Furniture and equipment	1,051,240	63,515	-	1,114,755
Total Accumulated Depreciation	<u>14,796,204</u>	<u>899,726</u>	<u>-</u>	<u>15,695,930</u>
Total Net Capital Assets	<u>\$ 11,914,000</u>	<u>\$ (829,524)</u>	<u>\$ -</u>	<u>\$ 11,084,476</u>

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

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

Interfund Receivable		Interfund Payable	
Cafeteria Fund	\$ 25,958	General Fund	\$ 22,419
Total	<u>\$ 25,958</u>	Debt Service Fund	3,539
		Total	<u>\$ 25,958</u>
Outgoing Transfer		Incoming Transfer	
General Fund	\$ 1,820	Cafeteria Fund	\$ 1,820
Cafeteria Fund	16,843	General Fund	16,843
Total	<u>\$ 18,663</u>	Total	<u>\$ 18,663</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 07-01-2011	Additions	Retirements	Balance 06-30-2012	Current Portion
Governmental Activities					
Bonds	\$ 12,725,393	\$ -	\$ 974,843	\$ 11,750,550	\$ 1,015,550
Capital lease obligations	27,848	51,602	38,908	40,542	11,370
Compensated absences	58,095	5,462	-	63,557	unknown
Totals	<u>\$ 12,811,336</u>	<u>\$ 57,064</u>	<u>\$ 1,013,751</u>	<u>\$ 11,854,649</u>	<u>\$ 1,026,920</u>

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

	Principal	Interest	Total
2012-13	\$ 1,026,920	\$ 489,459	\$ 1,516,379
2013-14	1,053,049	447,800	1,500,849
2014-15	1,103,758	403,953	1,507,711
2015-16	1,142,365	352,297	1,494,662
2016-17	1,190,000	303,330	1,493,330
2017-18 thru 2021-22	6,275,000	742,155	7,017,155
Subtotals	11,791,092	2,738,994	14,530,086
Compensated Absences	63,557	-	63,557
Totals	<u>\$ 11,854,649</u>	<u>\$ 2,738,994</u>	<u>\$ 14,593,643</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 \$3,225,000 as of June 30, 2012.

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, 2012. 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 District contributes to the Michigan Public School Employees Retirement System ("MPERS"), a cost-sharing multiple-employer defined benefit plan administered by the State of Michigan, Department of Management and Budget, Office of Retirement Systems. MPERS provides survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

HEMLOCK PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Pension Plan (continued)

Funding Policy

Member contribution rates vary based on date of hire and individual elections. Basic Plan members make no contributions. Member Investment Plan ("MIP") members enrolled in MIP before January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members hired between January 1, 1990 through June 30, 2008 contribute on graduated permanently fixed rates: 3% of the first \$5,000; 3.6% of \$5,001 to \$15,000; 4.3% of all wages greater than \$15,000. Members hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 to \$15,000; 6.4% on all wages greater than \$15,000. Members enrolled for the first time on or after July 1, 2010 are enrolled in the Pension Plan Plus which contains a defined contribution component. Member contributions into the defined contribution plan will be matched by the employer at a rate of 50% to a maximum of one percent.

The MPSERS rate from July to September was 20.66 percent and from October through June was 24.46 percent of covered payroll. The Pension Plus rate from July to September was 19.16 percent and From October through June was 23.23 percent. 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 retirement plans for the years ended June 30, 2012, 2011, and 2010 were \$1,357,503, \$1,127,827, and \$1,090,980, respectively.

HEMLOCK PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

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, 2011		\$ 15,144
Revenue		
Contributions	25,500	
Total Revenue		25,500
Expenses		
Scholarships	250	
Materials and equipment	5,985	
Educational activities	10,421	
Other	4,491	
Total Expenses		21,147
Cash Balance June 30, 2012		<u>\$ 19,497</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	70,645
2009-2010	(51,703)
2010-2011	(31,661)
2011-2012	(10,383)
Total Estimated Savings (Cost)	<u>\$ 1,003,835</u>

SUPPLEMENTAL INFORMATION

HEMLOCK PUBLIC SCHOOL DISTRICT
Budgetary Comparison
For the Year Ended June 30, 2012

	General Fund			Special Revenue Funds (Cafeteria)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue						
Local	\$ 1,397,367	\$ 1,452,186	\$1,447,865	\$ 147,960	\$ 144,470	\$ 151,584
State	7,771,399	7,884,216	7,893,308	15,000	14,000	11,854
Federal	543,183	559,461	543,498	141,000	140,000	194,781
Interdistrict and other	171,256	331,401	330,573	1,820	1,820	1,820
Total Revenues	<u>9,883,205</u>	<u>10,227,264</u>	<u>10,215,244</u>	<u>305,780</u>	<u>300,290</u>	<u>360,039</u>
Expenditures						
Current:						
Instruction						
Basic programs	4,301,236	4,452,851	4,469,168	-	-	-
Added needs	1,743,494	1,681,933	1,676,771	-	-	-
Adult and continuing	28,247	41,331	43,308	-	-	-
Support Services						
Pupil	457,513	512,405	518,929	-	-	-
Instructional staff	169,328	166,417	153,654	-	-	-
General administration	288,328	291,593	287,550	-	-	-
School administration	640,000	626,387	619,365	-	-	-
Business	200,395	177,345	149,005	-	-	-
Operation and maintenance	1,133,172	1,129,163	1,095,250	-	-	-
Pupil transportation services	555,935	571,577	558,899	-	-	-
Central services	273,604	321,669	308,710	-	-	-
Other	29,364	29,740	26,493	-	-	-
Community services	106,468	129,157	64,016	-	-	-
Capital outlay	-	65,237	63,823	-	-	23,695
Food service	-	-	-	302,345	305,253	310,670
Athletic activities	220,158	209,022	207,412	-	-	-
Outgoing transfers and other	80,320	40,320	44,254	-	-	16,843
Total Expenditures	<u>10,227,562</u>	<u>10,446,147</u>	<u>10,286,607</u>	<u>302,345</u>	<u>305,253</u>	<u>351,208</u>
Excess (Deficiency) of Revenues Over Expenditures	(344,357)	(218,883)	(71,363)	3,435	(4,963)	8,831
Fund Balance - Beginning of Year	842,338	842,338	842,338	126,634	126,634	126,634
Fund Balance - End of Year	<u>\$ 497,981</u>	<u>\$ 623,455</u>	<u>\$ 770,975</u>	<u>\$ 130,069</u>	<u>\$ 121,671</u>	<u>\$ 135,465</u>

HEMLOCK PUBLIC SCHOOL DISTRICT
Schedules of Long-Term Liabilities
June 30, 2012

1998 ISSUE (Durant) \$231,975

Interest Rate: 4.761%

Year Ending June 30,	Annual Principal May 15	Semiannual Interest Payment		Total Fiscal Year Requirement
		November 15	May 15	
2012-13	\$ 15,550	\$ -	\$ 740	\$ 16,290
Totals	\$ 15,550	\$ -	\$ 740	\$ 16,290

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	
2012-13	\$ 660,000	\$ 28,900	\$ 28,900	\$ 717,800
2013-14	680,000	14,875	14,875	709,750
Totals	\$ 1,340,000	\$ 43,775	\$ 43,775	\$ 1,427,550

HEMLOCK PUBLIC SCHOOL DISTRICT
Schedules of Long-Term Liabilities
June 30, 2012

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
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>\$ 3,170,000</u>	<u>\$ 351,962</u>	<u>\$ 351,961</u>	<u>\$ 3,873,923</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
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>\$ 7,225,000</u>	<u>\$ 971,644</u>	<u>\$ 971,644</u>	<u>\$ 9,168,288</u>

HEMLOCK PUBLIC SCHOOL DISTRICT
Schedules of Long-Term Liabilities
June 30, 2012

Kansas State Bank (7 copiers)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012-13	\$ 11,370	\$ 1,721	\$ 13,091
2013-14	13,049	1,232	14,281
2014-15	13,758	523	14,281
2015-16	2,365	17	2,382
Totals	<u>\$ 40,542</u>	<u>\$ 3,493</u>	<u>\$ 44,035</u>

Compensated Absences

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Maturity Unknown	\$ 63,557	\$ -	\$ 63,557
Totals	<u>\$ 63,557</u>	<u>\$ -</u>	<u>\$ 63,557</u>

HEMLOCK PUBLIC SCHOOL DISTRICT
AGENCY FUNDS
SCHEDULE OF ACTIVITY AND AMOUNT DUE TO STUDENT GROUPS
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance July 1, 2011	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2012
Accelerated reader	\$ 322	\$ -	\$ 310	\$ 12
Auto mechanics	2,002	675	687	1,990
Basketball club	3,883	9,306	9,950	3,239
Beverage fund	1,131	6,006	1,677	5,460
Bleacher	210	20	-	230
Business club	3,176	160	1,553	1,783
Class of 2005	145	-	-	145
Class of 2008	911	-	-	911
Class of 2009	790	-	-	790
Class of 2010	3,486	-	-	3,486
Class of 2011	861	-	-	861
Class of 2012	7,803	4,476	7,479	4,800
Class of 2013	3,125	12,625	10,456	5,294
Class of 2014	1,044	2,612	717	2,939
Class of 2015	-	3,049	1,157	1,892
Community education	4,357	74	-	4,431
Educational fund	1,071	3,102	2,808	1,365
Elementary	7,120	6,998	8,686	5,432
Elementary/Ling Library	13	-	-	13
Football club	2,514	11,493	10,110	3,897
High school	43,420	69,249	68,575	44,094
Interest	1,340	-	-	1,340
K of C Special ed	708	-	-	708
Kempf music	225	-	-	225
Library fines	1,981	105	2,179	(93)
Ling	11,524	49,586	44,003	17,107
Middle school office	21,167	43,184	36,015	28,336
National honor society	32	450	575	(93)
Pompon	2,284	14,222	14,580	1,926
SADD	337	28,004	27,844	497
Safety glasses, high school	785	27	-	812
Scoreboard fund	3,392	28,302	23,848	7,846
Softball club	(344)	21,445	20,771	330
Sports	7,585	26,680	21,738	12,527
Student council, high school	2,887	8,224	10,839	272
Wood shop fund	4,618	548	817	4,349
Yearbook fund, high school	10,746	11,121	6,980	14,887
Totals	<u>\$ 156,651</u>	<u>\$ 361,743</u>	<u>\$ 334,354</u>	<u>\$ 184,040</u>

HEMLOCK PUBLIC SCHOOL DISTRICT
EDUCATIONAL TRUSTS
SCHEDULE OF ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance July 1, 2011	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2012
Agresta	\$ 5,028	\$ 503	\$ 2,124	\$ 3,407
Bastounis	11,453	123	400	11,176
Bray	3,257	12	-	3,269
Gariglio	11,838	109	-	11,947
Hall	13,865	39	-	13,904
Honsinger	905	1	-	906
Kostrzewa	5,083	3	5,086	-
Munger	2,900	9	747	2,162
Setty	23,847	365	2,000	22,212
Totals	<u>\$ 78,176</u>	<u>\$ 1,164</u>	<u>\$ 10,357</u>	<u>\$ 68,983</u>



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CERTIFIED PUBLIC ACCOUNTANTS

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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 16, 2012

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, 2012, and have issued our report thereon dated October 16, 2012. 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

Management of Hemlock Public School District is responsible for establishing and maintaining effective 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 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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

To the Board of Education
Hemlock Public School District
Page Two

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 deficiencies, 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, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant ID Number	Grant Amount	Accrued (Deferred) Revenue July 1, 2011	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue July 1, 2012
Department of Agriculture								
Passed Through State of Michigan								
School Breakfast Program	10.553	Various	\$21,121	\$ -	\$ -	\$ 21,121	\$ 21,121	\$ -
NSLP Section 11-Free & Redt	10.555	Various	146,916	-	-	146,916	146,916	-
Passed Through Great Lakes Co-op								
USDA Bonus	10.550	73210	2,504	-	-	2,504	2,504	-
USDA Commodities	10.550	73210	24,240	-	-	24,240	24,240	-
Total Department of Agriculture				-	-	194,781	194,781	-
Department of Education								
Passed Through State of Michigan								
Title I, Part A	84.010	111530 1011	152,542	67,581	156,862	-	67,581	-
Title I, Part A	84.010	121530 1112	152,549	-	-	147,551	103,560	43,991
Title I, Part A ARRA	84.389	101535 0910	74,726	9,314	84,041	-	9,314	-
Title II Part A	84.367	110520 1011	97,547	23,976	83,003	-	23,976	-
Title II Part A	84.367	120520 1112	59,427	-	-	79,069	58,001	21,068
Title II D ARRA	84.386	114295 1011	1,745	1,745	1,745	-	1,745	-
Education Jobs Fund	84.410A	112545 1011	297,938	52,849	297,938	-	52,849	-
Education Jobs Fund	84.410A	112545 1112	22,507	-	-	22,507	22,507	-
Passed Through Intermediate District								
IDEA, Part B	84.027	110450 1011	295,157	295,157	295,157	-	295,157	-
IDEA, Part B	84.027	120450 1112	293,878	-	-	293,878	194,613	99,265
IDEA, Part B (Recovery Act)	84.391A	110455 1011	84,674	84,674	84,674	-	84,674	-
Passed Through Delta College								
Tech Prep	84.243A	113540-11148	2,088	2,088	2,088	-	2,088	-
Total Department of Education				537,384	1,005,508	543,005	916,065	164,324
Department of Health and Human Service								
Passed Through Intermediate District								
Medical Outreach	93.778	11-12	493	-	-	493	493	-
Total Department of Health and Human Services				-	-	493	493	-
Grand Totals				\$ 537,384	\$ 1,005,508	\$ 738,279	\$ 1,111,339	\$ 164,324

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.



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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

October 16, 2012

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, 2012. 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, 2012.

Internal Control Over Compliance

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 *deficiency* in 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 *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.

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 deficiencies, 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.

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 FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified 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 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: 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, 2012

FINDINGS FINANCIAL STATEMENT AUDIT

None

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

1011 – 1 Lack of Segregation of Functions

Findings were adequately addressed in 11-12.