

**HESPERIA
COMMUNITY
SCHOOLS**

FINANCIAL STATEMENTS

JUNE 30, 2010

**KARL L. DRAKE
CERTIFIED PUBLIC ACCOUNTANT**

HESPERIA COMMUNITY SCHOOLS

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2010

Board of Education

Mike Anderson	President
Todd Jacobs	Vice President
Dr. Jeffrey Thome	Secretary
Patricia Budde (Appointed by Board)	Treasurer
Karen Carter	Board Member
Jim Lavin	Board Member
Matt Joppich	Board Member
Sharron Tozer	Board Member

Management

Dean Havelka	Superintendent
Patricia Budde	Business Manager

HESPERIA COMMUNITY SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools, as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hesperia Community School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 30 through 32 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Hesperia Community Schools

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2010, on our consideration of Hesperia Community School's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

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

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

August 20, 2010

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

This section of Hesperia Community Schools' annual financial report presents discussion and analysis of the School District's financial performance during the year ended June 30, 2010. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

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

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

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund and Food Service Fund
(Required Supplemental Information)

Other Supplemental Information

Federal Financial Assistance

Reporting The School District As A Whole - District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities that appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

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

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

Reporting The School District's Most Significant Funds - Fund Financial Statements

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

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

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

Reporting The School District's Fiduciary Responsibilities - The School District As Trustee

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

The School District As A Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2010 and 2009:

TABLE I	Governmental Activities	
	(In Millions)	
	2010	2009
ASSETS		
Current and other assets	\$ 9.7	\$ 16.8
Capital assets - Net of accumulated depreciation	15.0	6.5
TOTAL ASSETS	24.7	23.3
LIABILITIES		
Current liabilities	2.9	2.7
Long-term liabilities	20.6	20.5
TOTAL LIABILITIES	23.5	23.2
NET ASSETS		
Invested in property and equipment - Net of related debt	0.3	-0.5
Restricted	0.2	0.1
Unrestricted	0.7	0.5
TOTAL NET ASSETS	\$ 1.2	\$ 0.1

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$1.2 million at June 30, 2010. Capital assets, net of related debt totaling 0.3 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the

acquisition of those 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 separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$0.7 was unrestricted.

The balance in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2010 and 2009.

TABLE 2	Governmental Activities (In Millions)	
	2010	2009
REVENUE		
Program Revenue		
Charges for services	\$ 0.2	\$ 0.3
Grants and categoricals	2.6	2.5
General Revenue		
Property taxes	1.8	1.7
State foundation allowance	6.9	6.9
Other	0.0	0.3
TOTAL REVENUE	\$ 11.5	\$ 11.7
FUNCTION/PROGRAM EXPENSES		
Instruction	\$ 6.8	\$ 6.7
Support Services	1.5	3.5
Food Services	0.5	0.5
Athletics	0.2	0.2
Interest on long-term debt	1.1	0.6
Depreciation (unallocated)	0.3	0.4
Community Service	0.0	0.1
TOTAL FUNCTION/PROGRAM EXPENSES	10.4	12.0
INCREASE <DECREASE> IN NET ASSETS	\$ 1.1	\$ -0.3

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all governmental activities this year was \$10.4 million. Certain activities were partially funded from those who benefited from the programs (\$0.2 million) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$2.6 million). The remaining "public benefit" portion of the governmental activities was paid with \$1.8 million in taxes, \$6.9 million in State Foundation Allowance, and with other revenues such as interest and general entitlements.

The School District experienced an increase in net assets of \$1.1 million. The key reasons for the change in net assets were the control of expenditures and school construction financing. The increase in net assets differs from the change in fund balance and reconciliation appears on page 15.

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

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$8.1 million, which is a decrease of \$7.3 million from last year. The primary reason for the decrease was payments from the capital project fund for school construction. The General Fund, the principal operating fund, saw the fund balance increase \$74,936 to \$898,480.

- The Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$52,596.
- Combined, the Debt Service Funds showed a fund balance increase of approximately \$12,557. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.
- The Capital Projects Fund finished the year with a balance of \$6,944,936. These funds will be used to pay for school construction improvements in the next fiscal year.

General Fund Budgetary Highlights

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

- Budgeted revenue was decreased in total by \$188,930, which is the result of changes to the various revenue accounts. The main differences were in state aid and federal grant amounts. Many of the grant amounts are not known when the original budget is adopted, therefore need to be amended after those amounts are disclosed. The District also saw an increase of approximately 37 students from what the original budget was based on, which resulted in an increase in state aid from the original budget amount. Actual revenue received compared to final budget amended decreased by \$155,717. This is a result of the utilization of deferred revenue, receiving more tax dollars than anticipated due to the change in the personal commercial property tax collections, and receiving less in federal grants due to under-spending of federal grant monies prior to year-end.
- Budgeted expenditures comparing original budget to final amended budget were decreased \$114,953 to adjust for carryover amounts that were not known at the time the original budget was adopted. The District also added some instructional staff created by the shared-time program and made major textbook purchases. Actual expenditures compared to the final amended budget decreased by \$277,832. This decrease resulted from a net of the following summarized items: grants not being totally spent and general under-spending.

When reviewing the fund balance, the final amended budget estimated the fund balance to be \$755,496 and the actual fund balance is \$898,480. This represents a variance of \$142,984 between the budgeted amount of fund balance and the actual fund balance.

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

Capital Asset And Debt Administration

Capital Asset

At June 30, 2010, the School District had \$15.0 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of approximately \$8,469,734 or 230 percent, from last year.

	2010	2009
Construction in-progress	\$ 8,350,424	\$ ---
Buildings	8,760,091	8,737,622
Buses and Other Vehicles	1,245,527	1,216,828
Furniture and Equipment	3,997,646	3,718,502
Total Capital Assets	22,353,688	13,672,952
Less Accumulated Depreciation	7,339,013	7,128,011
Net Capital Assets	\$ 15,014,675	\$ 6,544,941

The additions for this year included two buses and general equipment purchases. QZAB debt was issued for these additions. The District has construction in-progress related to bond issues.

Debt

At the end of this year, the School District had \$21.5 million in bonds and notes outstanding versus \$21.3 million in the previous year - an increase of 1 percent. Those bonds and notes consisted of the following:

	2010	2009
General Obligation Bonds	\$ 21,468,333	\$ 21,165,295
Notes Payable	61,972	121,355
Total	\$ 21,530,305	\$ 21,286,650

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$21.5 million is below the statutorily imposed limit.

Other obligations include employee-compensated absences. More detailed information about long-term liabilities is presented in the notes to the financial statements.

Economic Factors And Next Year's Budgets And Rates

The elected officials and administration considered many factors when setting the School District's 2010-11 fiscal year budget. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2010-11 fiscal year is 25 percent of the February 2010 student count and 75 percent of the September 2010 student count. The 2010-11 fiscal year budget was adopted in June 2010, based on an estimate of students that will be enrolled in September 2010. Approximately 75 to 80 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2010-11 school year, we anticipate that the fall student count will be higher than the estimates used in creating the 2010-11 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts. The District has estimated no increase to the 2010-11 foundation allowance over the amount given in the 2009-10 foundation allowance and used an estimate of 1163 students. Retirement has increased from 16.94% to 16.94% beginning in October of 2010. We have current contracts for both the HESP (Support Union) which expired on June 30, 2010 and the HEA (Teachers Union) which will expire on August 31, 2010. We have started negotiations during the 2009-2010 school year for the school year starting 2010-11.

The budget situation will continue to be monitored very closely in the 2010-11 school year. The State's revenue picture, as well as the Federal Budget picture, will have a dramatic effect on the budget if the revenue is not available as projected in the State Aid Act, and budget estimates for federal revenue come in less than estimated. We are currently preparing strategy to deal with any budget shortfalls anticipated to occur in the 2010-2011, and will be working on the 2011-12 budgets early in the 2010-2011 school year.

Contacting The School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Hesperia Community School with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 96 S. Division Street, Hesperia, Michigan 49421.

HESPERIA COMMUNITY SCHOOLS

District-Wide Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash and Investments	\$ 8,157,680
Due From Other Governmental Units	1,430,115
Prepaid Expenses	28,800
Inventories	51,413
Total Current Assets	<u>9,668,008</u>
Non-Current Assets	
Capital Assets	22,353,688
Less: Accumulated Depreciation	<u>-7,339,013</u>
Total Non-Current Assets	<u>15,014,675</u>
TOTAL ASSETS	<u>\$ 24,682,683</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 53,623
Accrued Salaries and Expenses	1,113,061
Accrued Interest	142,114
Deferred Revenue	375,128
Bonds and Notes Payable, Due within One Year	<u>1,226,467</u>
Total Current Liabilities	<u>2,910,393</u>
Non-Current Liabilities	
Bonds and Notes Payable	20,530,444
Compensated Absences and Severance Pay	<u>62,500</u>
Total Non-Current Liabilities	<u>20,592,944</u>
TOTAL LIABILITIES	<u>23,503,337</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	287,192
Restricted for Debt Service	158,387
Unrestricted	<u>733,767</u>
TOTAL NET ASSETS	<u>1,179,346</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,682,683</u>

See Accompanying Notes to Financial Statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

		Program Revenue		Governmental Activities
FUNCTIONS/PROGRAMS	Expenses	Charges For Services	Operating Grants	Net <Expense> Revenue and Changes in Net Assets
Governmental Activities				
Instruction	\$ 6,757,688	\$ ---	\$ 1,989,969	\$ -4,767,719
Support Services	1,463,262	48,585	83,560	-1,331,117
Food Services	505,461	153,959	403,979	52,477
Athletics	252,089	32,577	---	-219,512
Community Services	53,060	5,380	63,658	15,978
Interest on Long-Term Debt	1,086,423	---	9,071	-1,077,352
Depreciation (Unallocated)	345,832	---	---	-345,832
Total Governmental Activities	\$ 10,463,815	\$ 240,501	\$ 2,550,237	-7,673,077
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				856,067
Property Taxes, Levied for Debt Service				929,138
State of Michigan Aid, Unrestricted				6,871,946
Interest Earnings				28,467
Other				36,520
Total General Revenue				8,722,138
CHANGE IN NET ASSETS				1,049,061
NET ASSETS - BEGINNING OF YEAR				130,285
NET ASSETS - END OF YEAR				\$ 1,179,346

See Accompanying Notes to Financial Statements.

HESPERIA COMMUNITY SCHOOLS

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2010

	General	Food Service	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 1,079,033	\$ 36,695	\$ 7,041,952	\$ 8,157,680
Accounts Receivable	---	---	---	---
Due from Other Governmental Units	1,430,115	---	---	1,430,115
Due from Other Funds	1,962	87,295	63,333	152,590
Inventories	47,655	3,758	---	51,413
Prepaid Expenditures	28,800	---	---	28,800
TOTAL ASSETS	\$ 2,587,565	\$ 127,748	\$ 7,105,285	\$ 9,820,598
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 50,268	\$ 3,355	\$ ---	\$ 53,623
Accrued Salaries and Withholdings	1,113,061	---	---	1,113,061
Due to Other Funds	150,628	---	1,962	152,590
Deferred Revenue	375,128	---	---	375,128
TOTAL LIABILITIES	1,689,085	3,355	1,962	1,694,402
FUND BALANCES				
Reserved for Inventories	47,655	3,758	---	51,413
Reserved for Debt Service	---	---	158,387	158,387
Reserved for Capital Outlay	---	---	6,944,936	6,944,936
Unreserved, Designated	13,269	---	---	13,269
Unreserved and Undesignated	837,556	---	---	837,556
Unreserved and Undesignated, Food Services	---	120,635	---	120,635
Unreserved and Undesignated, Athletics	---	---	---	---
TOTAL FUND BALANCES	898,480	124,393	7,103,323	8,126,196
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,587,565	\$ 127,748	\$ 7,105,285	\$ 9,820,598
TOTAL GOVERNMENTAL FUND BALANCES				\$ 8,126,196
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:				
Cost of the Capital Assets				\$ 22,353,688
Accumulated Depreciation				-7,339,013
				<u>15,014,675</u>
Long-term Liabilities are not due and payable in the current period and are not reported in the fund.				
Bonds and Notes Payable				-21,530,305
Compensated absences				-289,106
Accrued interest is not included as a liability in governmental funds.				<u>-142,114</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES				\$ 1,179,346

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2010

	General	Food Service	Other Non-major Governmental Funds	Totals
REVENUE				
Local Sources	\$ 1,009,800	\$ 154,079	\$ 999,543	\$ 2,163,422
Interdistrict Sources	132,922	---	---	132,922
State Sources	7,593,691	33,672	3,000	7,630,363
Federal Sources	1,156,063	370,306	59,800	1,586,169
Other	---	---	---	---
TOTAL REVENUE	9,892,476	558,057	1,062,343	11,512,876
EXPENDITURES				
Current				
Instruction	6,586,688	---	252,089	6,838,777
Supporting Services	2,891,981	501,560	---	3,393,541
Community Services	53,060	---	---	53,060
Debt Service	66,299	---	7,263,955	7,330,254
Capital Outlay	---	3,901	7,516,859	7,520,760
TOTAL EXPENDITURES	9,598,028	505,461	15,032,903	25,136,392
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	294,448	52,596	-13,970,560	-13,623,516
OTHER FINANCING SOURCES <USES>				
Loan Proceeds	---	---	6,331,421	6,331,421
Operating Transfers In	---	---	219,512	219,512
Operating Transfers Out	-219,512	---	---	-219,512
TOTAL OTHER FINANCING SOURCES <USES>	-219,512	---	6,550,933	6,331,421
NET CHANGE IN FUND BALANCES	74,936	52,596	-7,419,627	-7,292,095
FUND BALANCES - BEGINNING OF YEAR	823,544	71,797	14,522,950	15,418,291
FUND BALANCES - END OF YEAR	\$ 898,480	\$ 124,393	\$ 7,103,323	\$ 8,126,196

See Accompanying Notes to Financial Statements.

HESPERIA COMMUNITY SCHOOLS

Fund Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ -7,292,095
Amounts reported for governmental activities in the statement of activities are different because:		
- Change in compensated absences are not reflected in the government funds report.		81,089
- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation Expense	-345,832	
Capital Outlay	<u>8,815,566</u>	
		8,469,734
- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		33,988
- Bond proceeds are recorded as an other financing source in governmental funds. These are recorded as a liability and not included in the statement of activities.		-6,487,486
- Repayments of bond and loan principal are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		<u>6,243,831</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 1,049,061</u>

See Accompanying Notes to Financial Statements.

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	<u>Agency Fund- Student Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 60,917
Accounts Receivable	---
Due from Other Funds	---
	<hr/>
TOTAL ASSETS	\$ 60,917
	<hr/> <hr/>
LIABILITIES	
Due to Other Funds	\$ ---
Due to Others	1,323
Due to Student Groups	59,594
	<hr/>
TOTAL LIABILITIES	\$ 60,917
	<hr/> <hr/>

See Accompanying Notes to Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY: Hesperia Community School is located in Newaygo and Oceana Counties in Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

District-Wide and Fund Financial Statements

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

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

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

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

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

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

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

GOVERNMENTAL FUNDS

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GOVERNMENTAL FUNDS - CONTINUED

Debt Service Funds - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Service Funds maintained by the School District are to retire outstanding 2009, 2009 Refunding, 2008 Series A, 2008 Series B, QZAB and Durant bonded indebtedness.

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

FIDUCIARY FUNDS

Agency Fund - The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

C. BUDGETS AND BUDGETARY ACCOUNTING: The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES: Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Newaygo and Oceana Counties. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

E. INVENTORIES: Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

F. CASH EQUIVALENTS: The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

G. FINANCIAL INSTRUMENTS: The School does not require collateral to support financial instruments subject to credit risk.

H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

I. FUND EQUITY: Reservations of fund balance represent these portions of fund equity not appropriate for expenditure or legally segregated for a specific future use.

J. CAPITAL ASSETS: Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

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

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

K. LONG-TERM OBLIGATIONS: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

L. TOTAL COLUMNS ON COMBINED STATEMENTS: Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

M. STATE CATEGORICAL REVENUE: The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

N. RISK MANAGEMENT: The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

O. ESTIMATES: The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

B. TYPES OF DEPOSITS AND INVESTMENTS: The School District maintains all of its cash deposits in four financial institutions. At June 30, 2010, the book value of the School District's deposits was \$8,218,597 and the bank balance was \$8,578,157. Of the bank balance, \$521,353 was covered by federal depository insurance and \$8,056,804 was uninsured and uncollateralized.

CASH EQUIVALENTS: There is \$3,511 in the Michigan Liquid Asset Fund Plus Account. This cash equivalent is not categorized as to risk because it is not evidenced by securities that the School owns specifically or can be identified with securities within the liquid asset account.

Carrying Value	Market Value
\$ 3,511	\$ 3,511

Total Cash:

Petty Cash	\$ 100
Deposits in Financial Institutions	8,214,986
Deposits in MLAF Account	3,511
	\$ 8,218,597

NOTE 3 - INVENTORY

The \$47,655 shown as inventory in the General Fund represents the value of supplies, bus parts and fuel on hand at June 30, 2010.

There is \$3,758 of inventory in the Special Revenue Fund - Food Service.

Total inventory of both funds at June 30, 2010, was \$51,413.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2010, is comprised of the following:

Newago County RESA	\$ 12,858
State of Michigan - State Aid	1,410,993
- Adult Basic Education	<u>6,264</u>
<u>Total Due From Other Governmental Units</u>	<u>\$ 1,430,115</u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2010, consisted of the following:

<u>Due From:</u>		<u>Due To:</u>	
General	\$ 87,295	Food Service	\$ 87,295
2009 Refunding Debt	1,962	General	1,962
General	533	2009 Refunding Debt	533
General	<u>62,800</u>	Capital Projects	<u>62,800</u>
	<u>\$ 152,590</u>		<u>\$ 152,590</u>

NOTE 6 - PREPAID EXPENDITURES

At June 30, 2010, prepaid expenditures consisted of \$28,800 of employee flex account deposits for the 2010-2011 school year deposited on June 29, 2010.

NOTE 7 - CAPITAL ASSETS

Capital asset activity of the school district's Governmental activities was as follows:

	Balance July 1, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Assets not being depreciated:				
Land	\$ ---	\$ ---	\$ ---	\$ ---
Capital assets being depreciated:				
Construction in-progress	---	8,350,424	---	8,350,424
Building and building improvements	8,737,622	22,469	---	8,760,091
Buses and other vehicles	1,216,828	163,529	134,830	1,245,527
Furniture and equipment	3,718,502	279,144	---	3,997,646
Subtotal	13,672,952	8,815,566	134,830	22,353,688
Accumulated depreciation:				
Building and building improvements	2,957,292	164,687	---	3,121,979
Buses and other vehicles	948,803	72,133	134,830	886,106
Furniture and equipment	3,221,916	109,012	---	3,330,928
Subtotal	7,128,011	345,832	134,830	7,339,013
Net capital assets being depreciated	6,544,941	8,469,734	---	15,014,675
Net capital assets	\$ 6,544,941	\$ 8,469,734	\$ ---	\$ 15,014,675

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 8 - ACCRUED SALARIES AND FRINGE BENEFITS

Salaries payable at June 30, 2010, of \$719,206 represents the unpaid portion of teacher contracts for the 2009-10 school year. On these salaries there are also fringe benefits payable at year-end totaling \$393,855.

NOTE 9 - DUE TO OTHER GOVERNMENTS

The District had no Due to Other Governmental Units at June 30, 2010.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

NOTE 10 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2010, long-term debt changed as follows:

	Balance 7/1/09	Additional Debt	2009-10 Payments	Balance 6/30/10
2009 Refunding Bond Issue	\$ ---	\$ 5,430,000	\$ 365,000	\$ 5,065,000
2008 Series A Bond Issue	9,000,000	---	100,000	8,900,000
2008 Refunding Series B Bond Issue	635,000	---	310,000	325,000
2009 Bond Issue	6,000,000	---	100,000	5,900,000
Durant Building Project	6,917	---	6,917	---
Durant Bond Issue	45,752	---	7,531	38,221
1999 Bond Issue	5,295,000	---	5,295,000	---
Bus and Technology Notes	121,355	---	59,383	61,972
QZAB Bonds	---	156,065	---	156,065
School Loan Revolving	182,626	901,421	---	1,084,047
	<u>21,286,650</u>	<u>6,487,486</u>	<u>6,243,831</u>	<u>21,530,305</u>
Teacher Buy-Outs	300,000	60,000	162,500	197,500
Severance Pay	10,780	490	---	11,270
Compensated Absences	59,415	20,921	---	80,336
	<u>\$ 21,656,845</u>	<u>\$ 6,568,897</u>	<u>\$ 6,406,331</u>	<u>\$ 21,819,411</u>

Amounts needed over the next five years are for debt principal payments are as follows:

	Durant Bonds	Other Bonds	School Loan Revolving	Bus and Technology Notes	Other	QZAB Bonds	Total
2010-11	\$ 7,889	\$ 930,000	\$ ---	\$ 61,972	\$ 226,606	\$ ---	\$ 1,226,467
2011-12	8,264	650,000	---	---	25,000	---	683,264
2012-13	22,068	675,000	---	---	25,000	---	722,068
2013-14	---	695,000	---	---	12,500	31,213	738,713
2014-15	---	725,000	---	---	---	124,852	849,852
2015-Maturity	---	16,515,000	1,084,047	---	---	---	17,599,047
	<u>\$ 38,221</u>	<u>\$ 20,190,000</u>	<u>\$ 1,084,047</u>	<u>\$ 61,972</u>	<u>\$ 289,106</u>	<u>\$ 156,065</u>	<u>\$ 21,819,411</u>

A. 1999 REFUNDING BONDS: The bonds were dated February 3, 1999, with principal due each May 1 and interest due each May 1 and November 1, beginning November 1, 1999, and ending May 1, 2025. Interest rates varied from 3.3% to 5.0%. The proceeds from these bonds were used to refund 1995 School Building and Site Bonds. These bonds were refinanced by the 2009 Refunding Bonds. The remaining bonds payable at June 30, 2010, were \$0.

B. BUS AND TECHNOLOGY INSTALLMENT PURCHASE AGREEMENTS: The School District has the following notes resulting from the purchase of buses and technology.

1. This note was executed February 15, 2006 for the purchase of 4 buses. The note requires 5 annual payments of \$57,598.43, which include principal and interest, beginning December 20, 2006 and concluding December 20, 2010. Interest is calculated at 4.44%. The original note balance was \$254,844, and the balance due on June 30, 2010 was \$55,149.
2. This note was executed February 15, 2006 for the purchase of computer technology. The note requires 5 annual payments of \$7,109.61, which include principal and interest, beginning December 20, 2006 and concluding December 20, 2010. Interest is calculated at 3.98%. The original note balance was \$32,248, and the balance due on June 30, 2010 was \$6,823.

C. COMPENSATED ABSENCES: Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation leave amounts. A liability of \$80,336 unused vacation leave exists at June 30, 2010.

D. QZAB BONDS: On July 30, 2009 the School District borrowed \$156,065 of Qualified Zone Academy Bonds for the purchase of two school buses. The bonds are interest free through Shelby State Bank. The bank requires five annual deposits into a QZAB bank account of \$29,989.20 which earn interest at two percent. This account will be used to pay the QZAB bonds beginning July 30, 2013. The balance due June 30, 2010 was \$156,065.

E. DURANT BONDS: The bonds are dated November 24, 1998, with principal and interest due annually on May 15 beginning in 1999 and ending in 2013. The proceeds from these bonds were used for classroom construction. Interest is at 4.761353%. Bond payments are funded by state-aid revenue. The balance due at June 30, 2010 was \$38,221.

F. TEACHER BUY-OUT: The School District approved the buy-out of eight staff people during the prior fiscal year as a retirement incentive. The maximum to be paid is \$50,000 for each person, over a four-year period. Total buy-outs payable at June 30, 2010, was \$197,500.

G. SEVERANCE PAY: After a teacher has 20 years of service with the School District, they are eligible for severance pay upon retirement. The pay is calculated at \$35 for each year of service. Total severance pay payable at June 30, 2010, was \$11,270.

H. DURANT BUILDING PROJECT: The School District borrowed \$110,000 for the completion of classroom construction on January 28, 2000. Under the terms of this agreement twenty semi-annual payments of principal and interest will be made on June 30 and December 31 through December 31, 2009. Payments were \$7,096.94 and included interest at 5.2%. The balance due at June 30, 2010, was \$0.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

I. SCHOOL LOAN REVOLVING: The School District approved borrowing from the School Loan Revolving Fund to help pay the 2008 and 2009 bond issue payments until the SEV increases enough to provide adequate tax revenue to pay the bond payments (projected to be 2024). The loans are dated April 24, 2009 and interest at a variable rate, which was 3.36% at June 30, 2010. Total amount outstanding at June 30, 2010 was \$1,084,047.

J. 2008 SERIES A BONDS: The bonds are dated November 25, 2008 with principal due each May 1 and interest due each May 1 and November 1, beginning May 1, 2009 and ending May 1, 2038. The original amount of the bonds was \$9,000,000. Interest rates vary from 3.75% to 5.75%. The proceeds of the bonds were used for construction projects. Total amount outstanding at June 30, 2010 was \$8,900,000.

K. 2008 REFUNDING BONDS - SERIES B: The bonds are dated November 25, 2009 with principal due each May 1 and interest due each May 1 and November 1, beginning May 1, 2009 and ending May 1, 2011. The original amount of the bonds was \$935,000. Interest rates vary from 4.0% to 4.5%. The proceeds of the bonds were used to repay School Bond Loan Fund debt. Total amount outstanding at June 30, 2010 was \$325,000.

L. 2009 BONDS: The bonds are dated February 3, 2009 with principal due each May 1 and interest due each May 1 and November 1, beginning November 1, 2009 and ending May 1, 2038. The original amount of the bonds was \$6,000,000. Interest rates vary from 3.0% to 5.0%. The proceeds of the bonds were used for construction projects. Total amount outstanding at June 30, 2010 was \$5,900,000.

M. 2009 REFUNDING BONDS: The bonds are dated September 22, 2009 with principal due each May 1 and interest due each May 1 and November 1 beginning May 1, 2010 and ending May 1, 2025. Interest rates vary from 2% to 4.3%. The proceeds from these bonds were used to refund 1999 Refunding Bonds. The remaining bonds payable at June 30, 2010 were \$5,065,000.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS 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, P.O. Box 30171, Lansing, MI 48909-7671, or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

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 benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2010 was 16.54% of payroll through September 30, 2009 and 16.94% effective October 1, 2009 through June 30, 2010. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2010, 2009 and 2008 were \$926,674, \$942, 839, and \$883,411, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-Employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

NOTE 12 - BUDGETARY ACCOUNTING

During the year ended June 30, 2010, the School incurred no expenditures that were in excess of the amounts appropriated.

NOTE 13 - FUND BALANCE

Components of Fund Balance at June 30, 2010, are as follows:

- A) \$47,655 of fund balance in the General Fund is reserved. This amount represents inventory supplies on hand at year-end and is not available for current appropriations and expenditures.
- B) \$3,758 of fund balance in the Special Revenue - Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
- C) A portion of the unreserved fund balance is designated for anticipated major expenses. The Board has elected to set aside monies as follows:

Band Uniforms	\$ 13,269
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- D) The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2010, Unreserved General Fund Balance of \$837,556 compares to June 30, 2009, Unreserved General Fund Balance of \$759,663.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

NOTE 14 - ADVANCE REFUNDING AND DEFEASANCE OF DEBT

On February 3, 1999, Hesperia Community Schools issued \$6,895,000 in General Obligation Unlimited Tax Refunding Bonds with interest rates of 3.3% to 5.0% to advance refund \$6,580,000 of outstanding 1995 Building and Site Bonds with an average interest rate of 6.6%. The net proceeds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1995 bonds. As a result, the remaining balance on the 1995 bonds is considered to be defeased. The liability for those bonds has been removed from the financial statements.

On September 22, 2009, Hesperia Community Schools issued \$5,430,000 in General Obligation Tax Refunding Bonds with interest rates of 2% to 4.3% to advance refund \$5,295,000 of outstanding 1999 General Obligation Tax Refunding Bonds with an average interest rate of 4.79%. The net proceeds were used to purchase average interest U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1999 Bonds. As a result, the remaining balance on the 1999 bonds is considered to be defeased. The liability for those bonds has been removed from the financial statements.

NOTE 15 - DEFERRED REVENUE

Components of deferred revenue (cash received for future program expenditures) include the following:

<u>Program</u>	
At Risk	\$ 31,261
Adult Education	295,954
Enrichment	3,968
Local Grants	43,945
	<u>\$ 375,128</u>

NOTE 16 - SHORT-TERM BORROWING

On September 17, 2009, Hesperia Community Schools borrowed \$941,000 via a state aid note through Shelby State Bank. Interest was at 2.15%. The entire balance of this loan plus interest of \$15,904 was repaid on June 30, 2010.

REQUIRED SUPPLEMENTAL INFORMATION

HESPERIA COMMUNITY SCHOOLS

Budgetary Comparison Schedule

GENERAL FUND

YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Local Sources	\$ 882,838	\$ 969,068	\$ 1,009,800	\$ 40,732
Interdistrict Sources	---	141,249	132,922	-8,327
State Sources	7,966,521	7,631,695	7,593,691	-38,004
Federal Sources	1,327,764	1,306,181	1,156,063	-150,118
Miscellaneous	60,000	---	---	---
TOTAL REVENUE	10,237,123	10,048,193	9,892,476	-155,717
EXPENDITURES				
Current				
Instruction				
Basic Programs	5,180,432	4,970,180	4,929,309	40,871
Added Needs	1,505,078	1,593,225	1,477,567	115,658
Adult/Continuing Education	233,638	176,913	179,812	-2,899
Supporting Services				
Pupil	287,100	280,401	271,447	8,954
Instructional Staff	201,128	281,477	249,089	32,388
Administration	540,913	565,148	557,347	7,801
Business Services	302,186	320,301	312,183	8,118
Operations	863,882	808,540	803,733	4,807
Transportation	575,349	542,747	518,359	24,388
Information Management	182,102	181,691	179,823	1,868
Community Services	63,592	58,841	53,060	5,781
Debt Service	63,982	96,396	66,299	30,097
Capital Outlay	19,308	---	---	---
Other Uses - Operating Transfers	212,504	240,381	219,512	20,869
TOTAL EXPENDITURES	10,231,194	10,116,241	9,817,540	298,701
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	5,929	-68,048	74,936	142,984
BUDGETARY FUND BALANCE - JULY 1, 2009	823,544	823,544	823,544	---
BUDGETARY FUND BALANCE - JUNE 30, 2010	\$ 829,473	\$ 755,496	\$ 898,480	\$ 142,984

FOOD SERVICE

YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Local Sources	\$ 143,220	\$ 151,360	\$ 154,079	\$ 2,719
State Sources	30,465	32,900	33,672	772
Federal Sources	350,840	369,000	370,306	1,306
Miscellaneous	---	---	---	---
TOTAL REVENUE	524,525	553,260	558,057	4,797
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	507,671	512,986	501,560	11,426
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Information Management	---	---	---	---
Community Services	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	12,893	29,000	3,901	25,099
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	520,564	541,986	505,461	36,525
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	3,961	11,274	52,596	41,322
BUDGETARY FUND BALANCE - JULY 1, 2009	71,797	71,797	71,797	---
BUDGETARY FUND BALANCE - JUNE 30, 2010	\$ 75,758	\$ 83,071	\$ 124,393	\$ 41,322

HESPERIA COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

HESPERIA COMMUNITY SCHOOLS

General Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2010

REVENUE	Budget	Actual	Favorable <Unfavorable>
LOCAL SOURCES			
Current Property Tax Levy	\$ 856,000	\$ 856,067	\$ 67
Interest and Penalties - Delinquent Taxes	---	---	---
Sale of School Property	1,660	1,660	---
Contributions from Private Sources	67,938	63,658	-4,280
Interest Earned	4,500	4,521	21
Community Service	5,000	5,380	380
Transportation	5,800	8,395	2,595
Reimbursements	---	40,190	40,190
Other	28,170	29,929	1,759
TOTAL REVENUE FROM LOCAL SOURCES	969,068	1,009,800	40,732
INTERDISTRICT SOURCES			
ISD	125,000	118,572	-6,428
GED Testing Fees	3,550	1,650	-1,900
From Other Public Schools	12,699	12,700	1
TOTAL FROM INTERDISTRICT SOURCES	141,249	132,922	-8,327
STATE SOURCES			
State Aid	6,873,362	6,871,946	-1,416
Special Education	263,214	278,438	15,224
Adult Education	185,580	165,514	-20,066
At Risk	309,539	277,793	-31,746
TOTAL REVENUE FROM STATE SOURCES	\$ 7,631,695	\$ 7,593,691	\$ -38,004

	Budget	Actual	Favorable <Unfavorable>
FEDERAL SOURCES			
IDEA	\$ 84,000	\$ 84,820	\$ 820
Title I	438,869	420,240	-18,629
Title IIA - Teacher Training and Recruiting	91,684	80,045	-11,639
Title IID - Technology Literacy Challenge	2,267	2,267	---
Title VI	45,237	39,827	-5,410
Adult Basic Education	42,300	42,300	---
Schools and Roads	20,000	20,761	761
ARRA - Educational Stabilization	320,713	320,713	---
ARRA Stimulus	261,111	145,090	-116,021
TOTAL REVENUE FROM FEDERAL SOURCES	1,306,181	1,156,063	-150,118
TOTAL REVENUE AND INCOMING TRANSFERS	\$ 10,048,193	\$ 9,892,476	\$ -155,717
EXPENDITURES			
Instruction			
BASIC PROGRAMS			
Elementary School	\$ 2,080,338	\$ 2,046,855	\$ 33,483
Middle School	1,352,886	1,345,499	7,387
High School	1,536,956	1,536,955	1
TOTAL BASIC PROGRAMS	4,970,180	4,929,309	40,871
ADDED NEEDS			
Special Education	778,548	777,722	826
Compensatory Education	814,677	699,845	114,832
TOTAL ADDED NEEDS	1,593,225	1,477,567	115,658
ADULT/CONTINUING EDUCATION			
Adult Basic Education	160,978	163,325	-2,347
High School Completion	15,935	16,487	-552
TOTAL ADULT/CONTINUING EDUCATION	176,913	179,812	-2,899
Total Instruction	\$ 6,740,318	\$ 6,586,688	\$ 153,630

HESPERIA COMMUNITY SCHOOLS

General Fund

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2010

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Supportive Services			
PUPIL			
Guidance	\$ 140,778	\$ 139,289	\$ 1,489
Health Services	41,548	41,503	45
Social Work Services	98,075	90,655	7,420
TOTAL PUPIL	280,401	271,447	8,954
INSTRUCTIONAL STAFF			
Improvement of Instruction	55,718	34,226	21,492
Educational Media Services	3,532	3,508	24
Computer Assisted Instruction	74,679	64,931	9,748
Supervision and Direction of Instruction	142,378	141,400	978
GED Testing Center	5,170	5,024	146
TOTAL INSTRUCTIONAL STAFF	281,477	249,089	32,388
ADMINISTRATION			
Board of Education	36,800	32,356	4,444
Executive Administration	105,621	103,363	2,258
Principals Offices	418,727	417,855	872
Other School Administration	4,000	3,773	227
TOTAL ADMINISTRATION	565,148	557,347	7,801
BUSINESS SERVICES			
Fiscal Services	204,982	204,928	54
Other Business Services	109,704	103,828	5,876
Operating Building Services	808,540	803,733	4,807
Security Services	1,400	1,240	160
Pupil Transportation Services	542,747	518,359	24,388
Staff/Personnel Services	4,215	2,188	2,027
Information Management Services	181,691	179,822	1,869
TOTAL BUSINESS SERVICES	1,853,279	1,814,098	39,181
Total Supportive Services	\$ 2,980,305	\$ 2,891,981	\$ 88,324

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Community Services			
Community Recreation	\$ 56,040	\$ 51,040	\$ 5,000
Custody and Care of Children	2,801	2,020	781
Total Community Services	58,841	53,060	5,781
Debt Service			
Durant Loan	7,000	6,917	83
Bus Loans	52,806	52,805	1
Other Loans	36,590	6,577	30,013
Total Debt Service	96,396	66,299	30,097
TOTAL EXPENDITURES	\$ 9,875,860	\$ 9,598,028	\$ 277,832
EXCESS REVENUE OVER EXPENDITURES	172,333	294,448	122,115
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers <Out>	-240,381	-219,512	20,869
TOTAL OTHER FINANCING SOURCES <USES>	-240,381	-219,512	20,869
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -68,048	74,936	\$ 142,984
FUND BALANCE - JULY 1, 2009		823,544	
FUND BALANCE - JUNE 30, 2010		\$ 898,480	

HESPERIA COMMUNITY SCHOOLS

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2010

	Food Service Fund	Athletic Fund	Totals
ASSETS			
Cash In Bank	\$ 36,695	\$ ---	\$ 36,695
Due From Other Governmental Units	---	---	---
Due From Other Funds	87,295	---	87,295
Prepaid Expenses	---	---	---
Inventory	3,758	---	3,758
TOTAL ASSETS	\$ 127,748	\$ ---	\$ 127,748
 LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to Other Funds	\$ ---	\$ ---	\$ ---
Accounts Payable	3,355	---	3,355
Accrued Salaries	---	---	---
Accrued Expenses	---	---	---
TOTAL LIABILITIES	3,355	---	3,355
 FUND EQUITY			
Fund Balance - Reserved for Inventory	3,758	---	3,758
Fund Balance - Unreserved	120,635	---	120,635
TOTAL FUND EQUITY	124,393	---	124,393
TOTAL LIABILITIES AND FUND EQUITY	\$ 127,748	\$ ---	\$ 127,748

HESPERIA COMMUNITY SCHOOLS

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2010

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Food Services			
Hot Lunch Receipts - Students	\$ 57,150	\$ 59,956	\$ 2,806
- Adults	2,000	2,000	---
- Ala Carte	34,000	34,847	847
- Breakfast	3,110	3,191	81
State Aid	32,900	33,672	772
Federal Aid	344,000	344,596	596
Federal USDA Commodities in Kind	25,000	25,710	710
Other Income	54,700	53,966	-734
Interest Income	400	119	-281
Athletic Activities			
Admission to Games	---	---	---
TOTAL REVENUE	553,260	558,057	4,797
EXPENDITURES			
Salaries	149,000	166,937	-17,937
Fringe Benefits	86,300	81,935	4,365
Professional Services	10,750	10,475	275
Food and Supplies	249,000	227,654	21,346
Travel and Conferences	386	386	---
Contracted Coaches	---	---	---
Miscellaneous	1,850	2,616	-766
Telephone	700	700	---
Postage	1,500	837	663
Repairs	1,500	---	1,500
Utilities and Waste	12,000	10,020	1,980
Capital Outlay	29,000	3,901	25,099
TOTAL EXPENDITURES	\$ 541,986	\$ 505,461	\$ 36,525

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 57,150	\$ 59,956	\$ 2,806
---	---	---	2,000	2,000	---
---	---	---	34,000	34,847	847
---	---	---	3,110	3,191	81
---	---	---	32,900	33,672	772
---	---	---	344,000	344,596	596
---	---	---	25,000	25,711	711
---	---	---	54,700	53,965	-735
---	---	---	400	119	-281
31,877	32,577	700	31,877	32,577	700
31,877	32,577	700	585,137	590,634	5,497
93,705	92,774	931	242,705	259,711	-17,006
35,660	35,572	88	121,960	117,507	4,453
19,000	19,734	-734	29,750	30,209	-459
9,387	9,015	372	258,387	236,669	21,718
25,147	22,921	2,226	25,533	23,307	2,226
56,221	56,220	1	56,221	56,220	1
12,585	12,509	76	14,435	15,125	-690
---	---	---	700	700	---
---	---	---	1,500	837	663
950	924	26	2,450	924	1,526
---	---	---	12,000	10,020	1,980
2,420	2,420	---	31,420	6,321	25,099
\$ 255,075	\$ 252,089	\$ 2,986	\$ 797,061	\$ 757,550	\$ 39,511

HESPERIA COMMUNITY SCHOOLS

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2010

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	<u>\$ 11,274</u>	<u>\$ 52,596</u>	<u>\$ 41,322</u>
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	<u>---</u>	<u>---</u>	<u>---</u>
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	<u>\$ 11,274</u>	52,596	<u>\$ 41,322</u>
FUND BALANCE - BEGINNING OF YEAR		<u>71,797</u>	
FUND BALANCE - END OF YEAR		<u>\$ 124,393</u>	

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ -223,198	\$ -219,512	\$ 3,686	\$ -211,924	\$ -166,916	\$ 45,008
223,198	219,512	-3,686	223,198	219,512	-3,686
---	---	---	---	---	---
223,198	219,512	-3,686	223,198	219,512	-3,686
<u>\$ ---</u>	---	<u>\$ ---</u>	<u>\$ 11,274</u>	52,596	<u>\$ 41,322</u>
	---			71,797	
	<u>\$ ---</u>			<u>\$ 124,393</u>	

HESPERIA COMMUNITY SCHOOLS

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2010

	QZAB	Refund 2009	2009	2008A	2008B	1999	1995	Durant	Totals
ASSETS									
Cash in Bank	\$ ---	\$ 52,058	\$ 30,828	\$ 47,287	\$ 29,643	\$ ---	\$ ---	\$ ---	\$ 159,816
Due from other Funds	---	533	---	---	---	---	---	---	533
Due from other Governments	---	---	---	---	---	---	---	---	---
Accounts Receivable	---	---	---	---	---	---	---	---	---
TOTAL ASSETS	\$ ---	\$ 52,591	\$ 30,828	\$ 47,287	\$ 29,643	\$ ---	\$ ---	\$ ---	\$ 160,349
LIABILITIES AND FUND EQUITY									
LIABILITIES									
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	1,962	---	---	---	---	---	---	1,962
Due to Other Governments	---	---	---	---	---	---	---	---	---
TOTAL LIABILITIES	---	1,962	---	---	---	---	---	---	1,962
FUND EQUITY									
Fund Balance	---	50,629	30,828	47,287	29,643	---	---	---	158,387
TOTAL LIABILITIES AND FUND EQUITY	\$ ---	\$ 52,591	\$ 30,828	\$ 47,287	\$ 29,643	\$ ---	\$ ---	\$ ---	\$ 160,349

HESPERIA COMMUNITY SCHOOLS

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2010

	QZAB	Refund 2009	2009	2008A	2008B
REVENUE					
Current Taxes	\$ ---	\$ 320,456	\$ 165,248	\$ 225,504	\$ 216,944
Delinquent Taxes	---	986	---	---	---
Interest and Penalties on Delinquent Property Taxes	---	---	---	---	---
Earned Interest	---	1,950	---	---	---
State Aid Revenue	---	---	---	---	---
Miscellaneous	---	4,930	---	---	---
TOTAL REVENUE	---	328,322	165,248	225,504	216,944
EXPENDITURES					
Principal on Bonds	---	365,000	100,000	100,000	310,000
Interest on Bonds	---	108,047	306,077	430,361	27,800
Principal on School Loan Rec. Fund	---	---	---	---	---
Interest on School Loan Rec. Fund	---	---	---	---	---
Agent Fees and Other	---	300	75	75	75
TOTAL EXPENDITURES	---	473,347	406,152	530,436	337,875
EXCESS REVENUE OVER <UNDER> EXPENDITURES	---	-145,025	-240,904	-304,932	-120,931
OTHER FINANCING SOURCES					
Loan Proceeds	---	194,549	271,732	327,173	107,967
Operating Transfers In	---	1,105	---	---	---
Operating Transfers Out	---	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	195,654	271,732	327,173	107,967
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	---	50,629	30,828	22,241	-12,964
FUND BALANCE - BEGINNING OF YEAR	---	---	---	25,046	42,607
FUND BALANCE - END OF YEAR	\$ ---	\$ 50,629	\$ 30,828	\$ 47,287	\$ 29,643

Debt Retirement Funds

1999	1995	Durant	Totals
\$ ---	\$ ---	\$ ---	\$ 928,152
---	---	---	986
---	---	---	---
---	2	---	1,952
---	---	9,071	9,071
---	---	---	4,930
---	2	9,071	945,091
5,295,000	---	7,531	6,177,531
126,039	---	1,540	999,864
---	---	---	---
---	---	---	---
86,035	---	---	86,560
5,507,074	---	9,071	7,263,955
-5,507,074	2	---	-6,318,864
5,430,000	---	---	6,331,421
1,105	---	---	2,210
-1,105	-1,105	---	-2,210
5,430,000	-1,105	---	6,331,421
-77,074	-1,103	---	12,557
77,074	1,103	---	145,830
\$ ---	\$ ---	\$ ---	\$ 158,387

HESPERIA COMMUNITY SCHOOLS

CAPITAL PROJECT FUND

COMBINING BALANCE SHEET

JUNE 30, 2010

ASSETS

Cash and Investments	\$ 6,882,136
Due from other Funds	62,800
Due from other Governments	---
Accounts Receivable	---

TOTAL ASSETS

\$ 6,944,936

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts Payable	\$ ---
Due to Other Funds	---
Due to Other Governments	---

TOTAL LIABILITIES

FUND EQUITY

Fund Balance	<u>6,944,936</u>
--------------	------------------

TOTAL LIABILITIES AND FUND EQUITY

\$ 6,944,936

Capital Project Fund**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL****FISCAL YEAR ENDED JUNE 30, 2010**

	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ ---	\$ ---	\$ ---
Federal Grants	---	59,800	59,800
State Grants	---	3,000	3,000
Investment Income	---	21,875	21,875
Miscellaneous	---	---	---
TOTAL REVENUE	---	84,675	84,675
EXPENDITURES			
Cost of Issuance	---	---	---
Construction in Progress	13,262,038	7,516,859	5,745,179
Debt Service	---	---	---
Other	---	---	---
TOTAL EXPENDITURES	13,262,038	7,516,859	5,745,179
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-13,262,038	-7,432,184	5,829,854
OTHER FINANCING SOURCES			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -13,262,038	-7,432,184	\$ 5,829,854
FUND BALANCE - BEGINNING OF YEAR		<u>14,377,120</u>	
FUND BALANCE - END OF YEAR		<u>\$ 6,944,936</u>	

HESPERIA COMMUNITY SCHOOLS

AGENCY FUNDS

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2010

ASSETS

Cash in Bank	\$ 60,917
Due From General Fund	---
TOTAL ASSETS	<u>\$ 60,917</u>

LIABILITIES

Due to General Fund	\$ ---
Due to Students Groups	59,594
Due to Others	1,323
TOTAL LIABILITIES	<u>\$ 60,917</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2010

	Balance 6/30/09	Receipts	Disbursements	Balance 6/30/10
ASSETS				
Cash	\$ 61,812	\$ 169,804	\$ 170,699	\$ 60,917
Due from General Fund	815	---	815	---
TOTAL ASSETS	<u>\$ 62,627</u>	<u>\$ 169,804</u>	<u>\$ 171,514</u>	<u>\$ 60,917</u>
LIABILITIES				
Due to General Fund	\$ 900	\$ ---	\$ 900	\$ ---
Due to Others				
Community Education	2,744	4,389	5,810	1,323
Student Groups				
High School Internal	5,524	6,678	8,522	3,680
Middle School Internal	3,837	904	2,011	2,730
Elementary Internal	2,037	5,360	5,266	2,131
Central Office Internal	47,585	152,473	149,005	51,053
Total Student Groups	58,983	165,415	164,804	59,594
TOTAL LIABILITIES	<u>\$ 62,627</u>	<u>\$ 169,804</u>	<u>\$ 171,514</u>	<u>\$ 60,917</u>

HESPERIA COMMUNITY SCHOOLS

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2010

ACTIVITY	Balance 6/30/09	Receipts	Disbursements	Balance 6/30/10
Elementary				
Elementary Art Mural	\$ 207	\$ ---	\$ 129	\$ 78
Elementary Library Fund	673	487	529	631
Elementary P.E. Classes	---	5,472	3,594	1,878
Elementary Playground	268	295	---	563
Elementary School Store	99	---	---	99
Elementary Student Council	30	---	30	---
Elementary Yearbook	223	---	223	---
Boys Youth Basketball	38	---	38	---
Girls Youth Basketball	4	265	4	265
Class of 2018	---	---	40	-40
Total	1,542	6,519	4,587	3,474
Middle School				
5 th Grade School Store	1,651	2,047	2,206	1,492
5 th and 6 th Grade Student Council	126	---	---	126
7 th /8 th Grade Student Council	649	---	---	649
8 th Grade Reserve Account	1,040	40	700	380
7 th Grade Reserve Account	940	---	---	940
Class of 2016	---	15,266	14,460	806
6 th Grade Reserve Account	1,563	1,750	925	2,388
Amusement Park Physics	870	460	625	705
M.S. Rocketry Club	100	---	---	100
M.S. Track and Field	28	---	---	28
M.S. Wrestling	53	---	---	53
Class of 2017	---	4,284	3,993	291
Extended Day Program	26	---	26	---
Class of 2012	522	784	453	853
Class of 2013	520	1,395	373	1,542
Class of 2014	427	7,121	7,494	54
Class of 2015	1,239	6,080	6,868	451
Total	\$ 9,754	\$ 39,227	\$ 38,123	\$ 10,858

	Balance 6/30/09	Receipts	Disbursements	Balance 6/30/10
High School				
Band	\$ 7,219	\$ 19,756	\$ 21,928	\$ 5,047
H.S. Art/Photography	504	445	682	267
Choir	143	---	---	143
Color Guard	483	---	142	341
Drama	392	---	---	392
Forensics	863	---	---	863
H.S. Library	84	---	---	84
H.S. Pride/Bright Friends	17	---	---	17
H.S. Scholarship Fund	1,750	2,250	1,250	2,750
H.S. Science	200	---	200	---
H.S. Student Council	2,557	844	2,615	786
Industrial Arts	173	701	655	219
Journalism	128	7	---	135
National Honor Society	870	695	262	1,303
Panther Yearbook	306	8,007	2,915	5,398
Ski Club	461	---	---	461
Spanish Club	---	---	---	---
Wild Joe Cappuccino Store	608	---	---	608
Class of 2008	824	---	824	---
Class of 2009	588	---	588	---
Class of 2010	3,066	560	2,876	750
Class of 2011	1,197	2,424	3,089	532
Total	22,433	35,689	38,026	20,096
High School Athletics				
Baseball Club	4,289	13,621	15,535	2,375
Boys Basketball	179	200	74	305
Cheerleaders	1,215	261	---	1,476
Cross Country	-3	10,636	10,122	511
Football Club	12	5,375	5,494	-107
Girls Softball	32	1,867	1,899	---
Girls Varsity Basketball	1,456	200	---	1,656
Golf Team	1,428	200	1,363	265
H.S. Boys Track	73	200	---	273
H.S. Girls Track	941	8,481	7,019	2,403
Varsity Club	2,280	1,120	48	3,352
Varsity Wrestling	94	17,620	17,206	508
Volleyball Club	35	7,625	6,203	1,457
Total	\$ 12,031	\$ 67,406	\$ 64,963	\$ 14,474

HESPERIA COMMUNITY SCHOOLS

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2010

	Balance 6/30/09	Receipts	Disbursements	Balance 6/30/10
Community Education				
Community Ed. Art Club	\$ 29	\$ ---	\$ ---	\$ 29
C.E. Tumbling	49	---	---	49
C.E. Youth Basketball	20	---	---	20
Experiential Education	45	---	---	45
Hesperia Alternative Ed	77	---	---	77
Panther Cub/Club Day Care	249	---	---	249
Youth Ed-Ventures	41	---	---	41
Fifty Plus Club	103	---	---	103
7 th and 8 th Grade Rocket Football	-462	2,422	1,987	-27
Mug Partnership Program	161	---	---	161
Total	312	2,422	1,987	747
General Accounts				
Due from General Fund	815	---	815	---
Due to General Fund	-900	900	---	---
Interest Earned	2,498	310	1,404	1,404
Elementary Checking	2,037	5,360	5,266	2,131
Community Ed. Checking	2,744	4,389	5,810	1,323
High School Checking	5,524	6,678	8,522	3,680
Middle School Checking	3,837	904	2,011	2,730
Total	16,555	18,541	23,828	11,268
TOTAL ACTIVITY	\$ 62,627	\$ 169,804	\$ 171,514	\$ 60,917

STATEMENTS OF BONDED INDEBTEDNESS

HESPERIA COMMUNITY SCHOOLS

Statement Of Bonded Indebtedness

DURANT DEBT

YEAR ENDED JUNE 30, 2010

Issue Dated November 28, 1998 in the amount of	\$ 129,170
Less:	
Bonds paid in prior years	83,418
Bonds due and paid May 1, 2010	<u>7,531</u>
Balance outstanding - June 30, 2010	<u><u>\$ 38,221</u></u>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
Prior	4.761%	\$ 4,730	\$ 13,410	\$ ---
2011	4.761%	1,182	7,889	9,071
2012	4.761%	806	8,264	9,070
2013	4.761%	412	8,658	27,210
		<u>\$ 7,130</u>	<u>\$ 38,221</u>	<u>\$ 45,351</u>

2009 REFUNDING DEBT

YEAR ENDED JUNE 30, 2010

Issue Dated September 22, 2009 in the amount of	\$ 5,430,000
Less:	
Bonds paid in prior years	---
Bonds due and paid May 1, 2010	365,000
Balance outstanding - June 30, 2010	\$ 5,065,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2011	2.000%	\$ 170,311	\$ 390,000	\$ 560,311
2012	2.000%	162,511	380,000	542,511
2013	2.250%	154,911	370,000	524,911
2014	2.750%	146,586	360,000	506,586
2015	3.000%	136,686	350,000	486,686
2016	3.250%	126,186	345,000	471,186
2017	3.500%	114,974	335,000	449,974
2018	3.750%	103,249	335,000	438,249
2019	4.000%	90,686	325,000	415,686
2020	4.000%	77,686	325,000	402,686
2021	4.000%	64,686	315,000	379,686
2022	4.125%	52,086	315,000	367,086
2023	4.200%	39,093	315,000	354,093
2024	4.250%	25,863	305,000	330,863
2025	4.300%	12,900	300,000	312,900
		<u>\$ 1,478,414</u>	<u>\$ 5,065,000</u>	<u>\$ 6,543,414</u>

HESPERIA COMMUNITY SCHOOLS

Statement Of Bonded Indebtedness

2008 DEBT (SERIES A)

YEAR ENDED JUNE 30, 2010

Issue Dated November 25, 2008 in the amount of **\$ 9,000,000**

Less:

Bonds paid in prior years ---

Bonds due and paid May 1, 2010 100,000

Balance outstanding - June 30, 2010

\$ 8,900,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2011	3.750%	\$ 424,486	\$ 100,000	\$ 524,486
2012	3.875%	419,802	145,000	564,802
2013	3.875%	413,796	165,000	578,796
2014	4.000%	406,999	180,000	586,999
2015	5.500%	397,761	205,000	602,761
2016	5.500%	386,074	220,000	606,074
2017	5.500%	373,286	245,000	618,286
2018	5.500%	359,124	270,000	629,124
2019	4.000%	345,899	290,000	635,899
2020	4.200%	333,694	305,000	638,694
2021	4.250%	320,489	320,000	640,489
2022	4.300%	306,594	330,000	636,594
2023	4.400%	291,909	345,000	636,909
2024	4.450%	276,198	365,000	641,198
2025	4.500%	259,526	380,000	639,526
2026	4.500%	242,426	380,000	622,426
2027	5.000%	224,376	380,000	604,376
2028	4.650%	206,041	380,000	586,041
2029	5.000%	187,706	380,000	567,706
2030	5.000%	168,581	385,000	553,581
2031	5.000%	149,206	390,000	539,206
2032	5.000%	129,706	390,000	519,706
2033	5.000%	110,331	385,000	495,331
2034	5.125%	90,713	390,000	480,713
2035	5.125%	70,725	390,000	460,725
2036	5.125%	50,609	395,000	445,609
2037	5.125%	30,366	395,000	425,366
2038	5.125%	10,122	395,000	405,122
		<u>\$ 6,986,545</u>	<u>\$ 8,900,000</u>	<u>\$ 15,886,545</u>

2008 DEBT (SERIES B)

YEAR ENDED JUNE 30, 2010

Issue Dated November 25, 2008 in the amount of \$ 935,000

Less:

Bonds paid in prior years 300,000

Bonds due and paid May 1, 2010 310,000

Balance outstanding - June 30, 2010 **\$ 325,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2011	4.50%	\$ 14,625	\$ 325,000	\$ 339,625

2009 QZAB DEBT

YEAR ENDED JUNE 30, 2010

Issue Dated July 30, 2009 in the amount of \$ 156,065

Less:

Bonds paid in prior years ---

Bonds due and paid July 30, 2010 ---

Balance outstanding - June 30, 2010 **\$ 156,065**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2014	0%	\$ ---	\$ 31,213	\$ 31,213
2015	0%	---	124,852	124,852
		\$ ---	\$ 156,065	\$ 156,065

HESPERIA COMMUNITY SCHOOLS

Statement Of Bonded Indebtedness

2009 DEBT

YEAR ENDED JUNE 30, 2010

Issue Dated February 3, 2009 in the amount of **\$ 6,000,000**

Less:

Bonds paid in prior years ---
Bonds due and paid May 1, 2010 100,000

Balance outstanding - June 30, 2010 **\$ 5,900,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2011	3.000%	\$ 241,230	\$ 115,000	\$ 356,230
2012	3.000%	237,630	125,000	362,630
2013	3.000%	233,655	140,000	373,655
2014	3.000%	229,230	155,000	384,230
2015	3.000%	224,355	170,000	394,355
2016	3.000%	218,955	190,000	408,955
2017	3.000%	213,030	205,000	418,030
2018	3.250%	206,543	210,000	416,543
2019	3.500%	199,367	215,000	414,367
2020	4.000%	191,305	215,000	406,305
2021	4.000%	182,605	220,000	402,605
2022	4.000%	173,805	220,000	393,805
2023	4.000%	164,905	225,000	389,905
2024	4.000%	155,905	225,000	380,905
2025	4.000%	146,905	225,000	371,905
2026	4.000%	137,805	230,000	367,805
2027	4.200%	128,375	230,000	358,375
2028	4.250%	118,658	230,000	348,658
2029	4.300%	108,825	230,000	338,825
2030	5.000%	98,005	235,000	333,005
2031	5.000%	86,255	235,000	321,255
2032	5.000%	74,505	235,000	309,505
2033	5.000%	62,755	235,000	297,755
2034	4.800%	51,240	235,000	286,240
2035	4.800%	39,960	235,000	274,960
2036	4.800%	28,680	235,000	263,680
2037	4.800%	17,280	240,000	257,280
2038	4.800%	5,760	240,000	245,760
		<u>\$ 3,977,528</u>	<u>\$ 5,900,000</u>	<u>\$ 9,877,528</u>

FEDERAL FINANCIAL ASSISTANCE

HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2010

Program Title	Federal CFDA Number	Contract Number	Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Pass Through Michigan Department of Education:			
- Title I	*84.010	915300809	\$ 415,889
- Title I	*84.010	1015300910	438,869
- ARRA Title I	*84.389	1015350910	261,111
- Adult Basic Education	84.002	91130910567	62,000
- Adult Basic Education	84.002	101130101567	42,300
- Title VI Rural and Low-Income Grant	84.358B	906600809	55,810
- Title VI Rural and Low-Income Grant	84.358B	1006600910	45,237
- Title IIA Teacher Training and Recruiting	84.367	905200809	104,756
- Title IIA Teacher Training and Recruiting	84.367	1005200910	82,780
- Title IID Enhancing Education through Technology	84.318	1042900910	2,267
- ARRA Education Stabilization	*84.394	1025250910	320,713
- ARRA Education Stabilization	*84.394	0925250809	425,303
- ARRA Title IID Formula Grants	84.386	1042950910	8,904
Pass Through Newago County RESA			
- IDEA	84.027A		84,820
- ARRA Preschool Grant	84.392A		9,800
TOTAL U.S. DEPARTMENT OF EDUCATION			

* Designates a major program.

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2009	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2010
\$ 396,135	\$ 44,964	\$ 44,964	\$ ---	\$ ---
---	---	420,240	420,240	---
396,135	44,964	465,204	420,240	---
---	--	137,046	137,046	---
62,000	15,000	15,000	---	---
---	---	36,036	42,300	6,264
62,000	15,000	51,036	42,300	6,264
39,665	15,968	15,968	---	---
---	---	39,827	39,827	---
39,665	15,968	55,795	39,827	---
104,756	17,282	17,282	---	---
---	---	80,045	80,045	---
104,756	17,282	97,327	80,045	---
---	---	2,267	2,267	---
---	---	320,713	320,713	---
425,303	425,303	425,303	---	---
425,303	425,303	746,016	320,713	---
---	---	8,044	8,044	---
---	---	84,820	84,820	---
---	---	9,800	9,800	---
	\$ 518,517	\$ 1,657,355	\$ 1,145,102	\$ 6,264

HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2010

Program Title	Federal CFDA Number	Contract Number	Program or Award Amount
U.S. DEPARTMENT OF AGRICULTURE			
Rural Development Playground Equipment	10.766		\$ 50,000
Pass Through Oceana County			
- Schools and Roads	10.665		20,761
U.S.D.A. Food Distribution:			
- Entitlement Commodities	10.555	Various	24,644
- Bonus Commodities	10.555	Various	4,979
Pass Through State Department of Education:			
- National School Lunch Program	10.555	101950, 101960, 91950, 91960	245,827
- Special Breakfast	10.553	101970,91970	98,769
- Fresh Fruit and Vegetable Program	10.582	90950	28,070
TOTAL U.S. DEPARTMENT OF AGRICULTURE			

TOTAL FEDERAL FINANCIAL ASSISTANCE

*Designates a major program

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2009	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2010
\$ ---	\$ ---	\$ 50,000	\$ 50,000	\$ ---
---	---	20,761	20,761	---
---	---	20,731	20,731	---
---	---	4,979	4,979	---
---	---	245,827	245,827	---
---	---	271,537	271,537	---
---	---	98,769	98,769	---
27,173	4,510	4,510	---	---
\$ 27,173	4,510	445,577	441,067	---
	\$ 523,027	\$ 2,102,932	\$ 1,586,169	\$ 6,264

HESPERIA COMMUNITY SCHOOLS

FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2010

NOTE 1 - MAJOR PROGRAMS

The School has two major programs - ARRA Educational Stabilization (ARRA) and Title I Part A Cluster. Total expenditures during the year ended June 30, 2010 were \$320,713 and \$557,286 respectively.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Federal Awards was prepared using the modified accrual basis of accounting. For grants from the Departments of Education and Agriculture, revenue is recognized when the related expense is incurred. Amounts spent but not yet received at June 30, 2010 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2010 are recorded as deferred revenue.

NOTE 3 - ANNUAL GRANT REPORTS

For the grants from the Departments of Education and Agriculture, management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports.

NOTE 4 - SCHEDULE PREPARATION

Management has utilized the Grants Section Audit Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

NOTE 5 - INVENTORY VALUES

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any is included in expenditures.

**SCHEDULE OF RECONCILIATION OF REVENUE WITH EXPENDITURES
FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

YEAR ENDED JUNE 30, 2010

	<u>Financial Statement</u>	<u>Awards Schedule</u>
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	\$ 420,240	\$ 420,240
IDEA	84,820	84,820
Adult Basic Education	42,300	42,300
Title VI	39,827	39,827
ARRA Educational Stabilization	320,713	320,713
ARRA - Title I	137,046	137,046
Teacher Training and Recruiting	80,045	80,045
Technology Literacy Challenge	2,267	2,267
ARRA - Title 2D Formula Grants	8,044	8,044
TOTAL	<u>1,135,302</u>	<u>1,135,302</u>
CAPITAL PROJECTS FUND		
IDEA	<u>9,800</u>	<u>9,800</u>
TOTAL DEPARTMENT OF EDUCATION GRANTS	<u>1,145,102</u>	<u>1,145,102</u>
DEPARTMENT OF AGRICULTURE GRANTS		
SCHOOL LUNCH FUND		
Commodities	25,710	25,710
National School Lunch	245,827	245,827
Special Breakfast	98,769	98,769
SUB-TOTAL	<u>370,306</u>	<u>370,306</u>
CAPITAL PROJECTS FUND		
Playground Equipment	<u>50,000</u>	<u>50,000</u>
GENERAL FUND		
Schools and Roads	<u>20,761</u>	<u>20,761</u>
TOTAL DEPARTMENT OF AGRICULTURE GRANTS	<u>441,067</u>	<u>441,067</u>
GRAND TOTAL	<u><u>\$ 1,586,169</u></u>	<u><u>\$ 1,586,169</u></u>

**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***

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

We have audited the financial statements of Hesperia Community Schools, as of and for the year ended June 30, 2010, and have issued our report thereon dated August 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 Hesperia Community School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hesperia Community School'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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Our consideration of the 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 the internal control over financial reporting 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

As part of obtaining reasonable assurance about whether Hesperia Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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



Karl L. Drake, PC
Certified Public Accountant

August 20, 2010

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

Independent Auditor's Report

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

Compliance

We have audited Hesperia Community School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. Hesperia Community School'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 referred to above is the responsibility of Hesperia Community School's management. Our responsibility is to express an opinion on Hesperia Community School'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 compliance requirements referred to above that could have a material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hesperia Community School'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 on Hesperia Community School's compliance with those requirements.

In our opinion, Hesperia Community Schools complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of Hesperia Community School 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 Hesperia Community School's internal control over compliance that could have a direct and material effect on a major program to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 the Hesperia Community School'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.

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 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 is not intended to be and should not be used by anyone other than these specified parties.



Karl L. Drake, PC
Certified Public Accountant

August 20, 2010

HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2010

Summary of Auditor's Results

1. The auditor issued an unqualified report on the financial statements of Hesperia Community Schools.
2. The audit disclosed no noncompliance that is material to the financial statements of Hesperia Community Schools.
3. The auditor issued an unqualified opinion on compliance for major programs.
4. The audit disclosed no audit findings that are required to be reported under Section 510(a).
5. Hesperia Community Schools had two major programs - ARRA Educational Stabilization and Title I Part A Cluster.
6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Hesperia Community Schools qualified as a low risk auditee under Section 530.

Findings Related to the Financial Statement

NONE

Findings and Questioned Costs for Federal Awards

NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2010

There were no prior audit findings.

Karl L. Drake, P.C.
Certified Public Accountant

3775 Kimmel Road
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax
Email: kdrakecpa@gmail.com

August 20, 2010

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hesperia Community Schools for the year ended June 30, 2010, and have issued our report thereon dated August 20, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 16, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated September 16, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hesperia Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during this fiscal year. We noted no transactions entered into by the governmental unit, during the year, for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future

events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation is based on useful life of the assets. We evaluated the key factors and assumptions used to develop the estimate, in determining that it is reasonable, in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

the disclosure of long-term debt in Note 10 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. None of the misstatements detected as a result of audit procedures, and corrected by management, were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 20, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. The primary discussions held this year revolved around the segregation of responsibilities in the School District office. These discussions occurred in the normal course of our professional relationship, however, and our responses were not a condition to our retention.

We would like to take this opportunity to discuss various comments and recommendations related to this year's audit.

- During this past fiscal year, the federal grants that are billed through the State of Michigan were invoiced infrequently. This revenue source totals over \$1,000,000, and can be invoiced as frequently as desired. The billings are based on the monies that have previously been expended for federal grant programs. By invoicing monthly or bi-monthly, the cash flow position of the District would be improved, limiting the amount of borrowing currently necessary for cash flow. The State of Michigan was slow in approving the Consolidated Application this year, delaying the ability of the District to draw down grant funds for the first several months of the fiscal year.
- Over five years ago, the final payment on the 1995 Debt Obligation was made. At the time of the audit, the 1995 Debt Service bank account continued to maintain a balance. This account should be closed, and the balance transferred to the 2009 Refunding Debt Service account.
- At the time of the audit, the District had a large amount of money in the bank that exceeded FDIC insurance limits. In these challenging financial times, the placement of District cash resources should be reviewed, and the District's exposure to local bank challenges should be reduced when possible. We recommend that the District spread their cash accounts to several different banks to minimize exposure.

This information is intended solely for the use of Hesperia Community Schools, management of Hesperia Community Schools and the Michigan Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.