

HESPERIA COMMUNITY SCHOOLS

FINANCIAL STATEMENTS

JUNE 30, 2009

KARL L. DRAKE
CERTIFIED PUBLIC ACCOUNTANT

HESPERIA COMMUNITY SCHOOLS

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2009

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
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Management

Dean Havelka	Superintendent
Patricia Budde	Business Manager
Karl L. Drake, PC	Auditor
Thrun Law Firm	Attorney
Clark Hill PLC	Attorney

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, 2009, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, 2009, 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

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 general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose 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 6, 2009

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, 2009. 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, 2009 and 2008:

TABLE I	Governmental Activities (In Millions)	
	2009	2008
ASSETS		
Current and other assets	\$ 16.8	\$ 2.4
Capital assets - Net of accumulated depreciation	6.5	6.8
TOTAL ASSETS	23.3	9.2
LIABILITIES		
Current liabilities	2.7	2.2
Long-term liabilities	20.5	6.6
TOTAL LIABILITIES	23.2	8.8
NET ASSETS		
Invested in property and equipment - Net of related debt	-0.5	0.1
Restricted	0.1	0.1
Unrestricted	0.5	0.2
TOTAL NET ASSETS	\$ 0.1	\$ 0.4

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 \$0.1 million at June 30, 2009. Capital assets, net of related debt totaling \$-0.5 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 \$0.5 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 2009 and 2008.

TABLE 2	Governmental Activities (In Millions)	
	2009	2008
REVENUE		
Program Revenue		
Charges for services	\$ 0.3	\$ 0.4
Grants and categoricals	2.5	1.9
General Revenue		
Property taxes	1.7	1.7
State foundation allowance	6.9	7.3
Other	0.3	0.1
TOTAL REVENUE	\$ 11.7	\$ 11.4
FUNCTION/PROGRAM EXPENSES		
Instruction	\$ 6.7	\$ 6.2
Support Services	3.5	2.8
Food Services	0.5	0.5
Athletics	0.2	0.2
Interest on long-term debt	0.6	0.3
Depreciation (unallocated)	0.4	0.4
Community Service	0.1	0.1
TOTAL FUNCTION/PROGRAM EXPENSES	12.0	10.5
INCREASE <DECREASE> IN NET ASSETS	\$ -0.3	\$ 0.9

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all governmental activities this year was \$12.0 million. Certain activities were partially funded from those who benefited from the programs (\$0.3 million) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$2.5 million). The remaining "public benefit" portion of the governmental activities was paid with \$1.7 million in taxes, \$6.9 million in State Foundation Allowance, and with other revenues such as interest and general entitlements.

The School District experienced a decrease in net assets of \$0.3 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 \$15.4 million, which is an increase of \$0.3 million from last year. The primary reasons for the increase were establishment of a capital project fund for school construction and controlling expenditures. The General Fund, the principal operating fund, saw the fund balance increase \$174,787 to \$823,544.

- The Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$22,273.
- Combined, the Debt Service Funds showed a fund balance increase of approximately \$3,919. 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 was started this year and finished the year with a balance of \$14,377,120. 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 increased in total by \$312,598, 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 increased by \$33,854. 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 increased \$310,158 to cover additional grants received after the beginning of the school year and to budget 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 \$193,270. 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 \$596,422 and the actual fund balance is \$823,546. This represents a variance of \$227,124 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, 2009, the School District had \$6.5 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$317,769 or 5 percent, from last year.

	2009	2008
Land	\$ ---	\$ ---
Buildings	8,737,622	8,734,612
Buses and Other Vehicles	1,216,828	1,141,648
Furniture and Equipment	3,718,502	3,707,884
Total Capital Assets	<u>13,672,952</u>	<u>13,584,144</u>
Less Accumulated Depreciation	<u>7,128,011</u>	<u>6,781,434</u>
Net Capital Assets	<u>\$ 6,544,941</u>	<u>\$ 6,802,710</u>

The additions for this year included a bus and general equipment purchases. No debt was issued for these additions. The District has begun construction related to new bond issues which will be reflected in next year's financial report.

Debt

At the end of this year, the School District had \$21.3 million in bonds and notes outstanding versus \$6.7 million in the previous year - an increase of 317 percent. Those bonds and notes consisted of the following:

	2009	2008
General Obligation Bonds	\$ 21,165,295	\$ 6,515,392
Notes Payable	121,355	198,466
Total	<u>\$ 21,286,650</u>	<u>\$ 6,713,858</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$21.3 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 2009-10 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 2009-10 fiscal year is 25 percent of the February 2009 student count and 75 percent of the September 2009 student count. The 2009-10 fiscal year budget was adopted in June 2009, based on an estimate of students that will be enrolled in September 2009. 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 2009-10 school year, we anticipate that the fall student count will be higher than the estimates used in creating the 2009-10 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 2009-10 foundation allowance over the amount given in the 2008-09 foundation allowance and used an estimate of 1163 students. Retirement has increased from 16.54% to 16.94% beginning in October of 2009. We have current contracts for both the HESP (Support Union) which will expire on June 30, 2010 and the HEA (Teachers Union) which will expire on August 31, 2010. We will be starting 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 2009-10 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 2009-2010, and will be working on the 2010-11 budgets early in the 2009-2010 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, 2009

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash and Investments	\$ 15,116,473
Due From Other Governmental Units	1,586,902
Accounts Receivable	85
Inventories	53,670
Total Current Assets	<u>16,757,130</u>
Non-Current Assets	
Capital Assets	13,672,952
Less: Accumulated Depreciation	<u>-7,128,011</u>
Total Non-Current Assets	<u>6,544,941</u>
TOTAL ASSETS	<u>\$ 23,302,071</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 203,634
Accrued Salaries and Expenses	792,309
Accrued Interest	176,102
Deferred Revenue	342,896
Bonds and Notes Payable, Due within One Year	1,151,524
Total Current Liabilities	<u>2,666,465</u>
Non-Current Liabilities	
Bonds and Notes Payable	20,367,821
Compensated Absences and Severance Pay	137,500
Total Non-Current Liabilities	<u>20,505,321</u>
TOTAL LIABILITIES	<u>23,171,786</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	-540,691
Restricted for Debt Service	145,830
Unrestricted	525,146
TOTAL NET ASSETS	<u>130,285</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,302,071</u>

See Accompanying Notes to Financial Statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

		Program Revenue		Governmental Activities
FUNCTIONS/PROGRAMS	Expenses	Charges For Services	Operating Grants	Net <Expense> Revenue and Changes in Net Assets
Governmental Activities				
Instruction	\$ 6,686,183	\$ ---	\$ 2,015,169	\$ -4,671,014
Support Services	3,501,268	117,939	18,630	-3,364,699
Food Services	536,440	157,361	401,214	22,135
Athletics	254,800	33,202	---	-221,598
Community Services	26,970	7,842	47,875	28,747
Interest on Long-Term Debt	587,126	---	---	-587,126
Depreciation (Unallocated)	362,135	---	---	-362,135
Total Governmental Activities	\$ 11,954,922	\$ 316,344	\$ 2,482,888	-9,155,690
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				815,787
Property Taxes, Levied for Debt Service				903,450
State of Michigan Aid, Unrestricted				6,940,489
Interest Earnings				190,299
Other				41,171
Total General Revenue				8,891,196
CHANGE IN NET ASSETS				-264,494
NET ASSETS - BEGINNING OF YEAR				394,779
NET ASSETS - END OF YEAR				\$ 130,285

See Accompanying Notes to Financial Statements.

HESPERIA COMMUNITY SCHOOLS

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2009

	General	Food Service	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 569,084	\$ 22,702	\$ 14,524,687	\$ 15,116,473
Accounts Receivable	---	---	---	---
Due from Other Governmental Units	1,586,902	---	---	1,586,902
Due from Other Funds	2,637	49,710	67,653	120,000
Inventories	50,612	3,058	---	53,670
TOTAL ASSETS	\$ 2,209,235	\$ 75,470	\$ 14,592,340	\$ 16,877,045
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 199,961	\$ 3,673	\$ ---	\$ 203,634
Accrued Salaries and Withholdings	792,309	---	---	792,309
Due to Other Funds	50,525	---	69,390	119,915
Deferred Revenue	342,896	---	---	342,896
TOTAL LIABILITIES	1,385,691	3,673	69,390	1,458,754
FUND BALANCES				
Reserved for Inventories	50,612	3,058	---	53,670
Reserved for Debt Service	---	---	145,830	145,830
Reserved for Capital Outlay	---	---	14,377,120	14,377,120
Unreserved, Designated	13,269	---	---	13,269
Unreserved and Undesignated	759,663	---	---	759,663
Unreserved and Undesignated, Food Services	---	68,739	---	68,739
Unreserved and Undesignated, Athletics	---	---	---	---
TOTAL FUND BALANCES	823,544	71,797	14,522,950	15,418,291
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,209,235	\$ 75,470	\$ 14,592,340	\$ 16,877,045
TOTAL GOVERNMENTAL FUND BALANCES				\$ 15,418,291
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				\$ 13,672,952
Accumulated Depreciation				-7,128,011
				<u>6,544,941</u>
Long-term Liabilities are not due and payable in the current period and are not reported in the fund.				
Bonds and Notes Payable				-21,286,650
Compensated absences				-370,195
Accrued interest is not included as a liability in governmental funds.				<u>-176,102</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES				\$ 130,285

See Accompanying Notes to Financial Statements.

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

YEAR ENDED JUNE 30, 2009

	General	Food Service	Other Non-major Governmental Funds	Totals
REVENUE				
Local Sources	\$ 1,037,986	\$ 157,499	\$ 1,128,212	\$ 2,323,697
State Sources	7,793,907	32,640	---	7,826,547
Federal Sources	1,172,567	367,617	---	1,540,184
Other	---	---	---	---
TOTAL REVENUE	10,004,460	557,756	1,128,212	11,690,428
EXPENDITURES				
Current				
Instruction	6,515,178	---	254,800	6,769,978
Supporting Services	2,995,729	535,122	---	3,530,851
Community Services	26,970	---	---	26,970
Debt Service	70,198	---	1,998,032	2,068,230
Capital Outlay	---	361	833,565	833,926
TOTAL EXPENDITURES	9,608,075	535,483	3,086,397	13,229,955
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	396,385	22,273	-1,958,185	-1,539,527
OTHER FINANCING SOURCES <USES>				
Loan Proceeds	---	---	16,117,626	16,117,626
Operating Transfers In	---	---	221,598	221,598
Operating Transfers Out	-221,598	---	---	-221,598
TOTAL OTHER FINANCING SOURCES <USES>	-221,598	---	16,339,224	16,117,626
NET CHANGE IN FUND BALANCES	174,787	22,273	14,381,039	14,578,099
FUND BALANCES - BEGINNING OF YEAR	648,757	49,524	141,911	840,192
FUND BALANCES - END OF YEAR	\$ 823,544	\$ 71,797	\$ 14,522,950	\$ 15,418,291

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, 2009

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 14,578,099
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.	83,795
- 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	-362,135
Capital Outlay	<u>104,366</u>
	-257,769
- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	-85,837
- 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.	-16,117,626
- 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>1,534,844</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ -264,494</u>

See Accompanying Notes to Financial Statements.

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	<u>Agency Fund- Student Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 61,812
Accounts Receivable	---
Due from Other Funds	<u>815</u>
TOTAL ASSETS	<u><u>\$ 62,627</u></u>
 LIABILITIES	
Due to Other Funds	\$ 900
Due to Others	2,744
Due to Student Groups	<u>58,983</u>
TOTAL LIABILITIES	<u><u>\$ 62,627</u></u>

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 1999, 2008 Series A, 2008 Series B, 2009 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.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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, 2009, the book value of the School District's deposits was \$15,178,285 and the bank balance was \$15,719,900. Of the bank balance, \$509,195 was covered by federal depository insurance and \$15,210,705 was uninsured and uncollateralized.

CASH EQUIVALENTS: There is \$3,508 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
\$ 3,508	\$ 3,508

Total Cash:

Petty Cash	\$ 100
Deposits in Financial Institutions	15,174,677
Deposits in MLAF Account	3,508
	\$ 15,178,285

NOTE 3 - INVENTORY

The \$50,612 shown as inventory in the General Fund represents the value of supplies, bus parts and fuel on hand at June 30, 2009.

There is \$3,058 of inventory in the Special Revenue Fund - Food Service.

Total inventory of both funds at June 30, 2009, was \$53,670.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2009, is comprised of the following:

State of Michigan - State Aid	\$ 1,063,875
- Title I	44,964
- Title II-A	17,282
- Title II-D	---
- Adult Basic Education	15,000
- State Stabilization (ARRA)	425,303
- Title VI	15,968
- Fresh Fruits and Vegetables	4,510
	<u>4,510</u>
<u>Total Due From Other Governmental Units</u>	<u>\$ 1,586,902</u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2009, consisted of the following:

<u>Due From:</u>		<u>Due To:</u>	
Trust and Agency	\$ 900	General	\$ 900
General	49,710	Food Service	49,710
1999 Debt	1,737	General	1,737
General	815	Trust and Agency	815
1999 Debt	25,046	2008A Debt	25,046
1999 Debt	42,607	2008B Debt	42,607
	<u>42,607</u>		<u>42,607</u>
	<u>\$ 120,815</u>		<u>\$ 120,815</u>

NOTE 6 - PREPAID EXPENDITURES

At June 30, 2009, there were no prepaid expenditures.

NOTE 7 - CAPITAL ASSETS

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

	Balance July 1, 2008	Additions	Disposals and Adjustments	Balance June 30, 2009
Assets not being depreciated:				
Land	\$ ---	\$ ---	\$ ---	\$ ---
Capital assets being depreciated:				
Building and building improvements	8,734,612	3,010	---	8,737,622
Buses and other vehicles	1,141,648	75,180	---	1,216,828
Furniture and equipment	3,707,884	26,176	15,558	3,718,502
Subtotal	13,584,144	104,366	15,558	13,672,952
Accumulated depreciation:				
Building and building improvements	2,792,713	164,579	---	2,957,292
Buses and other vehicles	876,806	71,997	---	948,803
Furniture and equipment	3,111,915	125,559	15,558	3,221,916
Subtotal	6,781,434	362,135	15,558	7,128,011
Net capital assets being depreciated	6,802,710	-257,769	---	6,544,941
Net capital assets	\$ 6,802,710	\$ -257,769	\$ ---	\$ 6,544,941

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, 2009, of \$512,822 represents the unpaid portion of teacher contracts for the 2008-09 school year. On these salaries there are also fringe benefits payable at year-end totaling \$279,487.

NOTE 9 - DUE TO OTHER GOVERNMENTS

The District had no Due to Other Governmental Units at June 30, 2009.

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, 2009, long-term debt changed as follows:

	Balance 7/1/08	Additional Debt	2008-09 Payments	Balance 6/30/09
2008 Series A Bond Issue	\$ ---	\$ 9,000,000	\$ ---	\$ 9,000,000
2008 Refunding Series B Bond Issue	---	935,000	300,000	635,000
2009 Bond Issue	---	6,000,000	---	6,000,000
Durant Building Project	20,226	---	13,309	6,917
Durant Bond Issue	52,941	---	7,189	45,752
1999 Bond Issue	5,610,000	---	315,000	5,295,000
Bus and Technology Notes	178,240	---	56,885	121,355
School Bond Loan	852,451	---	852,451	---
School Loan Revolving	---	182,626	---	182,626
	6,713,858	16,117,626	1,544,834	21,286,650
Teacher Buy-Outs	400,000	50,000	150,000	300,000
Severance Pay	2,170	8,610	---	10,780
Compensated Absences	41,830	17,585	---	59,415
	<u>\$ 7,157,858</u>	<u>\$ 16,193,821</u>	<u>\$ 1,694,834</u>	<u>\$ 21,656,845</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	Durant Building Project	Total
2009-10	\$ 7,531	\$ 845,000	\$ ---	\$ 59,381	\$ 232,695	\$ 6,917	\$ 1,151,524
2010-11	7,889	885,000	---	61,974	112,500	---	1,067,363
2011-12	8,264	615,000	---	---	12,500	---	635,764
2012-13	22,068	645,000	---	---	12,500	---	679,568
2013-14	---	675,000	---	---	---	---	675,000
2014-Maturity	---	17,265,000	182,626	---	---	---	17,447,626
	<u>\$ 45,752</u>	<u>\$ 20,930,000</u>	<u>\$ 182,626</u>	<u>\$ 121,355</u>	<u>\$ 370,195</u>	<u>\$ 6,917</u>	<u>\$ 21,656,845</u>

A. 1999 REFUNDING BONDS: The bonds are 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 vary from 3.3% to 5.0%. The proceeds from these bonds were used to refund 1995 School Building and Site Bonds. The remaining bonds payable at June 30, 2009, were \$5,295,000.

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, 2009 was \$107,955.
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, 2009 was \$13,400.

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 \$59,415 unused vacation leave exists at June 30, 2009.

D. SCHOOL BOND LOANS: The School District approved borrowing from the School Bond Loan Fund to help pay the 1995 School Building and Site bond loan payments until the SEV increases enough to provide adequate tax revenue to pay the bond payments. The loans are dated March 18, 1996. Repayment of the debt started in the fiscal year ended June 30, 2008. Interest is calculated at a variable rate, currently 5.75%. Total amount outstanding at June 30, 2008, was \$852,451. The total amount was paid off using proceeds from 2008 Refunding Series B Bonds.

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, 2009 was \$45,752.

F. TEACHER BUY-OUT: The School District approved the buy-out of eight staff people during the 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, 2009, was \$300,000.

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, 2009, was \$10,780.

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 are \$7,096.94 and include interest at 5.2%. The balance due at June 30, 2009, was \$6,917.

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 5.77% at June 30, 2009. Total amount outstanding at June 30, 2009 was \$182,626.

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, 2009 was \$9,000,000.

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, 2009 was \$635,000.

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, 2009 was \$6,000,000.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. 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, 2009 was 16.72% of payroll through September 30, 2008 and 16.54% effective October 1, 2008 through June 30, 2009. 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, 2009, 2008 and 2007 were \$942,839, \$883,411 and \$973,006, 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, 2009, the School incurred no expenditures that were in excess of the amounts appropriated.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

NOTE 13 - FUND BALANCE

Components of Fund Balance at June 30, 2009, are as follows:

- A) \$50,612 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) \$3,058 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:

Track Replacement	\$ ---
Band Uniforms	13,269
	<u>\$ 13,269</u>

- D) The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2009, Unreserved General Fund Balance of \$759,663 compares to June 30, 2008, Unreserved General Fund Balance of \$551,620.

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. The District anticipates refunding these 1999 Bonds in September of 2009.

NOTE 15 - DEFERRED REVENUE

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

<u>Program</u>	
Adult Education	\$ 269,647
Enrichment	4,253
Local Grants	68,996
	<u>\$ 342,896</u>

REQUIRED SUPPLEMENTAL INFORMATION

HESPERIA COMMUNITY SCHOOLS

Budgetary Comparison Schedule

GENERAL FUND

YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Local Sources	\$ 839,306	\$ 983,459	\$ 1,037,986	\$ 54,527
State Sources	7,958,256	7,791,334	7,793,907	2,573
Federal Sources	801,118	1,195,813	1,172,567	-23,246
Miscellaneous	59,328	---	---	---
TOTAL REVENUE	9,658,008	9,970,606	10,004,460	33,854
EXPENDITURES				
Current				
Instruction				
Basic Programs	4,618,508	4,964,546	4,927,741	36,805
Added Needs	1,507,141	1,484,563	1,453,495	31,068
Adult/Continuing Education	86,901	106,941	133,942	-27,001
Supporting Services				
Pupil	278,096	280,596	279,926	670
Instructional Staff	219,588	217,799	218,480	-681
Administration	576,050	599,370	590,244	9,126
Business Services	327,259	331,154	301,183	29,971
Operations	905,654	861,324	839,911	21,413
Transportation	696,586	618,269	595,041	23,228
Information Management	177,818	174,189	170,944	3,245
Community Services	15,871	74,708	26,970	47,738
Debt Service	67,142	70,199	70,198	1
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers	236,169	239,284	221,598	17,686
TOTAL EXPENDITURES	9,712,783	10,022,942	9,829,673	193,269
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	-54,775	-52,336	174,787	227,123
BUDGETARY FUND BALANCE - JULY 1, 2008	648,757	648,757	648,757	---
BUDGETARY FUND BALANCE - JUNE 30, 2009	\$ 593,982	\$ 596,421	\$ 823,544	\$ 227,123

FOOD SERVICE

YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Local Sources	\$ 151,720	\$ 156,720	\$ 157,499	\$ 779
State Sources	31,005	30,000	32,640	2,640
Federal Sources	328,538	354,246	367,617	13,371
Miscellaneous	---	---	---	---
TOTAL REVENUE	511,263	540,966	557,756	16,790
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	507,051	532,793	535,122	-2,329
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Information Management	---	---	---	---
Community Services	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	4,212	4,212	361	3,851
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	511,263	537,005	535,483	1,522
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	---	3,961	22,273	18,312
BUDGETARY FUND BALANCE - JULY 1, 2008	49,524	49,524	49,524	---
BUDGETARY FUND BALANCE - JUNE 30, 2009	\$ 49,524	\$ 53,485	\$ 71,797	\$ 18,312

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, 2009

REVENUE	Budget	Actual	Favorable <Unfavorable>
LOCAL SOURCES			
Current Property Tax Levy	\$ 784,881	\$ 815,787	\$ 30,906
Interest and Penalties - Delinquent Taxes	---	---	---
Sale of School Property	6,154	6,154	---
Contributions from Private Sources	53,432	47,875	-5,557
Interest Earned	6,800	7,672	872
Community Service	10,592	7,542	-3,050
Transportation	17,000	28,534	11,534
Reimbursements	79,000	89,405	10,405
Other	25,600	35,017	9,417
TOTAL REVENUE FROM LOCAL SOURCES	983,459	1,037,986	54,527
STATE SOURCES			
State Aid	6,937,519	6,940,489	2,970
Special Education	303,704	303,704	---
Adult Education	209,513	215,787	6,274
At Risk	340,598	333,927	-6,671
TOTAL REVENUE FROM STATE SOURCES	\$ 7,791,334	\$ 7,793,907	\$ 2,573

	Budget	Actual	Favorable <Unfavorable>
FEDERAL SOURCES			
Title I	\$ 415,889	\$ 396,135	\$ -19,754
Title IIA - Teacher Training and Recruiting	105,382	104,756	-626
Title IID - Technology Literacy Challenge	3,429	1,078	-2,351
Title VI	55,810	39,665	-16,145
Adult Basic Education	47,000	62,000	15,000
IDEA	125,000	125,000	---
Schools and Roads	18,000	18,630	630
ARRA State Stabilization	425,303	425,303	---
TOTAL REVENUE FROM FEDERAL SOURCES	1,195,813	1,172,567	-23,246
TOTAL REVENUE AND INCOMING TRANSFERS	\$ 9,970,606	\$ 10,004,460	\$ 33,854
EXPENDITURES			
Instruction			
BASIC PROGRAMS			
Elementary School	\$ 1,917,196	\$ 1,910,058	\$ 7,138
Middle School	1,441,656	1,437,093	4,563
High School	1,605,694	1,580,590	25,104
TOTAL BASIC PROGRAMS	4,964,546	4,927,741	36,805
ADDED NEEDS			
Special Education	834,169	804,232	29,937
Compensatory Education	650,394	649,263	1,131
TOTAL ADDED NEEDS	1,484,563	1,453,495	31,068
ADULT/CONTINUING EDUCATION			
Adult Basic Education	92,744	119,624	-26,880
High School Completion	14,197	14,318	-121
TOTAL ADULT/CONTINUING EDUCATION	106,941	133,942	-27,001
Total Instruction	\$ 6,556,050	\$ 6,515,178	\$ 40,872

HESPERIA COMMUNITY SCHOOLS

General Fund

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

FISCAL YEAR ENDED JUNE 30, 2009

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Supportive Services			
PUPIL			
Guidance	\$ 148,632	\$ 148,367	\$ 265
Health Services	36,656	34,055	2,601
Social Work Services	95,308	97,504	-2,196
TOTAL PUPIL	280,596	279,926	670
INSTRUCTIONAL STAFF			
Improvement of Instruction	43,457	38,572	4,885
Educational Media Services	4,900	4,241	659
Supervision and Direction of Instruction	169,442	175,667	-6,225
TOTAL INSTRUCTIONAL STAFF	217,799	218,480	-681
ADMINISTRATION			
Board of Education	43,767	42,442	1,325
Executive Administration	157,370	156,589	781
Principals Offices	394,133	387,290	6,843
Other School Administration	4,100	3,923	177
TOTAL ADMINISTRATION	599,370	590,244	9,126
BUSINESS SERVICES			
Fiscal Services	195,997	194,818	1,179
Other Business Services	124,282	97,368	26,914
Operating Building Services	861,324	839,911	21,413
Security Services	1,900	1,890	10
Pupil Transportation Services	618,269	595,041	23,228
Staff/Personnel Services	8,975	7,107	1,868
Information Management Services	174,189	170,944	3,245
TOTAL BUSINESS SERVICES	1,984,936	1,907,079	77,857
Total Supportive Services	\$ 3,082,701	\$ 2,995,729	\$ 86,972

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Community Services			
Community Recreation	\$ 62,789	\$ 20,634	\$ 42,155
Custody and Care of Children	11,919	6,336	5,583
Total Community Services	74,708	26,970	47,738
Debt Service			
Durant Loan	13,313	13,313	---
Bus Loans	50,561	50,560	1
Other Loans	6,325	6,325	---
Total Debt Service	70,199	70,198	1
TOTAL EXPENDITURES	\$ 9,783,658	\$ 9,608,075	\$ 175,583
EXCESS REVENUE OVER EXPENDITURES	186,948	396,385	209,437
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers <Out>	-239,284	-221,598	17,686
TOTAL OTHER FINANCING SOURCES <USES>	-239,284	-221,598	17,686
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	\$ -52,336	174,787	\$ 227,123
FUND BALANCE - JULY 1, 2008		648,757	
FUND BALANCE - JUNE 30, 2009		\$ 823,544	

HESPERIA COMMUNITY SCHOOLS

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2009

	Food Service Fund	Athletic Fund	Totals
ASSETS			
Cash In Bank	\$ 22,702	\$ ---	\$ 22,702
Due From Other Governmental Units	---	---	---
Due From Other Funds	49,710	---	49,710
Prepaid Expenses	---	---	---
Inventory	3,058	---	3,058
TOTAL ASSETS	\$ 75,470	\$ ---	\$ 75,470
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to Other Funds	\$ ---	\$ ---	\$ ---
Accounts Payable	3,673	---	3,673
Accrued Salaries	---	---	---
Accrued Expenses	---	---	---
TOTAL LIABILITIES	3,673	---	3,673
FUND EQUITY			
Fund Balance - Reserved for Inventory	3,058	---	3,058
Fund Balance - Unreserved	68,739	---	68,739
TOTAL FUND EQUITY	71,797	---	71,797
TOTAL LIABILITIES AND FUND EQUITY	\$ 75,470	\$ ---	\$ 75,470

HESPERIA COMMUNITY SCHOOLS

Special Revenue Funds

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

FISCAL YEAR ENDED JUNE 30, 2009

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Food Services			
Hot Lunch Receipts - Students	\$ 63,000	\$ 63,069	\$ 69
- Adults	2,720	2,390	-330
- Ala Carte	37,000	37,784	784
- Breakfast	5,100	6,918	1,818
State Aid	30,000	32,640	2,640
Federal Aid	323,840	338,168	14,328
Federal USDA Commodities in Kind	30,406	30,406	---
Other Income	48,500	47,200	-1,300
Interest Income	400	138	-262
Athletic Activities			
Admission to Games	---	---	---
TOTAL REVENUE	540,966	558,713	17,747
EXPENDITURES			
Salaries	149,000	154,468	-5,468
Fringe Benefits	85,700	88,767	-3,067
Professional Services	35,586	34,994	592
Food and Supplies	247,052	241,636	5,416
Travel and Conferences	340	340	---
Contracted Coaches	---	---	---
Miscellaneous	1,415	1,928	-513
Telephone	700	1,078	-378
Postage	1,500	744	756
Repairs	500	478	22
Utilities and Waste	11,000	11,646	-646
Capital Outlay	4,212	361	3,851
TOTAL EXPENDITURES	\$ 537,005	\$ 536,440	\$ 565

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 63,000	\$ 63,069	\$ 69
---	---	---	2,720	2,390	-330
---	---	---	37,000	37,784	784
---	---	---	5,100	6,918	1,818
---	---	---	30,000	32,640	2,640
---	---	---	323,840	338,168	14,328
---	---	---	30,406	30,406	---
---	---	---	48,500	47,200	-1,300
---	---	---	400	138	-262
33,000	33,202	202	33,000	33,202	202
33,000	33,202	202	573,966	591,915	17,949
90,232	91,022	-790	239,232	245,490	-6,258
35,612	32,426	3,186	121,312	121,193	119
19,400	20,191	-791	54,986	55,185	-199
7,926	7,925	1	254,978	249,561	5,417
19,734	20,035	-301	20,074	20,375	-301
55,000	55,279	-279	55,000	55,279	-279
15,500	16,453	-953	16,915	18,381	-1,466
---	---	---	700	1,078	-378
---	---	---	1,500	744	756
2,100	1,673	427	2,600	2,151	449
---	---	---	11,000	11,646	-646
10,000	9,796	204	14,212	10,157	4,055
\$ 255,504	\$ 254,800	\$ 704	\$ 792,509	\$ 791,240	\$ 1,269

HESPERIA COMMUNITY SCHOOLS

Special Revenue Funds

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

FISCAL YEAR ENDED JUNE 30, 2009

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	<u>\$ 3,961</u>	<u>\$ 22,273</u>	<u>\$ 18,312</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><u>\$ 3,961</u></u>	<u>22,273</u>	<u><u>\$ 18,312</u></u>
FUND BALANCE - BEGINNING OF YEAR		<u>49,524</u>	
FUND BALANCE - END OF YEAR		<u><u>\$ 71,797</u></u>	

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ -222,504	\$ -221,598	\$ 906	\$ -218,543	\$ -199,325	\$ 19,218
222,504	221,598	-906	222,504	221,598	-906
---	---	---	---	---	---
222,504	221,598	-906	222,504	221,598	-906
<u>\$ ---</u>	---	<u>\$ ---</u>	<u>\$ 3,961</u>	22,273	<u>\$ 18,312</u>
	---			49,524	
	<u>\$ ---</u>			<u>\$ 71,797</u>	

HESPERIA COMMUNITY SCHOOLS

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2009

	2009	2008A	2008B	1999	1995	Durant	Totals
ASSETS							
Cash in Bank	\$ ---	\$ ---	\$ ---	\$ 146,464	\$ 1,103	\$ ---	\$ 147,567
Due from other Funds	---	25,046	42,607	---	---	---	67,653
Due from other Governments	---	---	---	---	---	---	---
Accounts Receivable	---	---	---	---	---	---	---
TOTAL ASSETS	\$ ---	\$ 25,046	\$ 42,607	\$ 146,464	\$ 1,103	\$ ---	\$ 215,220
LIABILITIES AND FUND EQUITY							
LIABILITIES							
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	---	---	69,390	---	---	69,390
Due to Other Governments	---	---	---	---	---	---	---
TOTAL LIABILITIES	---	---	---	69,390-	---	---	69,390
FUND EQUITY							
Fund Balance	---	25,046	42,607	77,074	1,103	---	145,830
TOTAL LIABILITIES AND FUND EQUITY	\$ ---	\$ 25,046	\$ 42,607	\$ 146,464	\$ 1,103	\$ ---	\$ 215,220

HESPERIA COMMUNITY SCHOOLS

Debt Retirement Funds

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

FISCAL YEAR ENDED JUNE 30, 2009

	2009	2008A	2008B	1999	1995	Durant	Totals
REVENUE							
Current Taxes	\$ ---	\$ 179,713	\$ 305,718	\$ 418,019	\$ ---	\$ ---	\$ 903,450
Delinquent Taxes	---	---	---	---	---	---	---
Interest and Penalties on Delinquent Property Taxes	---	---	---	---	---	---	---
Earned Interest	---	411	700	1,280	16	---	2,407
State Aid Revenue	---	---	---	---	---	9,071	9,071
Miscellaneous	---	---	---	---	---	---	---
TOTAL REVENUE	---	180,124	306,418	419,299	16	9,071	914,928
EXPENDITURES							
Principal on Bonds	---	---	300,000	315,000	---	7,189	622,189
Interest on Bonds	---	186,490	17,247	265,377	---	1,882	470,996
Principal on School Loan Rec. Fund	---	---	---	---	---	---	---
Interest on School Loan Rec. Fund	---	---	---	---	---	---	---
Agent Fees and Other	---	---	---	450	---	---	450
TOTAL EXPENDITURES	---	186,490	317,247	580,827	---	9,071	1,093,635
EXCESS REVENUE OVER <UNDER> EXPENDITURES	---	-6,366	-10,829	-161,528	16	---	-178,707
OTHER FINANCING SOURCES							
Loan Proceeds	---	31,412	53,436	97,778	---	---	182,626
Operating Transfers In	---	---	---	---	---	---	---
Operating Transfers Out	---	---	---	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	31,412	53,436	97,778	---	---	182,626
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	---	25,046	42,607	-63,750	16	---	3,919
FUND BALANCE - BEGINNING OF YEAR	---	---	---	140,824	1,087	---	141,911
FUND BALANCE - END OF YEAR	\$ ---	\$ 25,046	\$ 42,607	\$ 77,074	\$ 1,103	\$ ---	\$ 145,830

CAPITAL PROJECT FUND

HESPERIA COMMUNITY SCHOOLS

Capital Project Fund

COMBINING BALANCE SHEET

JUNE 30, 2009

ASSETS

Cash and Investments	\$ 14,377,120
Due from other Funds	---
Due from other Governments	---
Accounts Receivable	---

TOTAL ASSETS \$ 14,377,120

LIABILITIES AND FUND EQUITY

LIABILITIES

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

TOTAL LIABILITIES ---

FUND EQUITY

Fund Balance	<u>14,377,120</u>
--------------	-------------------

TOTAL LIABILITIES AND FUND EQUITY \$ 14,377,120

Capital Project Fund

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

FISCAL YEAR ENDED JUNE 30, 2009

	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ ---	\$ ---	\$ ---
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	---	---	---
Investment Income	---	180,082	180,082
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	---	180,082	180,082
EXPENDITURES			
Cost of Issuance	---	190,990	-190,990
Construction in Progress	15,000,000	642,575	14,357,425
Debt Service	---	904,397	-904,397
Other	---	---	---
TOTAL EXPENDITURES	15,000,000	1,737,962	13,262,038
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-15,000,000	-1,557,880	13,442,120
OTHER FINANCING SOURCES			
Loan Proceeds	15,000,000	15,935,000	935,000
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	15,000,000	15,935,000	935,000
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ ---	14,377,120	\$ 14,377,120
FUND BALANCE - BEGINNING OF YEAR		---	
FUND BALANCE - END OF YEAR		\$ 14,377,120	

HESPERIA COMMUNITY SCHOOLS

AGENCY FUNDS

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2009

ASSETS

Cash in Bank	\$ 61,812
Due From General Fund	815
TOTAL ASSETS	\$ 62,627

LIABILITIES

Due to General Fund	\$ 900
Due to Students Groups	58,983
Due to Others	2,744
TOTAL LIABILITIES	\$ 62,627

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2009

	Balance 6/30/08	Receipts	Disbursements	Balance 6/30/09
ASSETS				
Cash	\$ 59,751	\$ 181,608	\$ 179,547	\$ 61,812
Due from General Fund	---	815	---	815
TOTAL ASSETS	\$ 59,751	\$ 182,423	\$ 179,547	\$ 62,627
LIABILITIES				
Due to General Fund	\$ ---	\$ 900	\$ ---	\$ 900
Due to Others				
Community Education	174	15,389	12,819	2,744
Student Groups				
High School Internal	5,163	9,133	8,772	5,524
Middle School Internal	4,299	1,463	1,925	3,837
Elementary Internal	1,400	5,734	5,097	2,037
Central Office Internal	48,715	149,804	150,934	47,585
Total Student Groups	59,577	166,134	166,728	58,983
TOTAL LIABILITIES	\$ 59,751	\$ 182,423	\$ 179,547	\$ 62,627

HESPERIA COMMUNITY SCHOOLS

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2009

ACTIVITY	Balance 6/30/08	Receipts	Disbursements	Balance 6/30/09
Elementary				
Elementary Art Mural	\$ 207	\$ ---	\$ ---	\$ 207
Elementary Library Fund	472	275	74	673
Elementary Playground	268	---	---	268
Elementary School Store	99	---	---	99
Elementary Student Council	30	---	---	30
Elementary Yearbook	223	---	---	223
Boys Youth Basketball	38	---	---	38
Girls Youth Basketball	4	---	---	4
Class of 2016	---	870	---	870
Total	1,341	1,145	74	2,412
Middle School				
5 th Grade School Store	615	5,126	4,960	781
5th and 6th Grade Student Council	126	---	---	126
7 th /8th Grade Student Council	649	---	---	649
8 th Grade Reserve Account	1,040	---	---	1,040
7 th Grade Reserve Account	1,085	---	145	940
6 th Grade Reserve Account	1,972	1,400	1,809	1,563
Amusement Park Physics	347	992	469	870
M.S. Combined Fund Raising	---	---	140	---
M.S. Rocketry Club	240	---	---	100
M.S. Track and Field	28	---	---	28
M.S. Wrestling	53	---	---	53
Extended Day Program	26	---	---	26
Class of 2012	15	540	33	522
Class of 2013	760	6,418	6,658	520
Class of 2014	407	4,840	4,820	427
Class of 2015	---	16,832	15,593	1,239
Total	7,363	36,148	34,627	8,884

	Balance 6/30/08	Receipts	Disbursements	Balance 6/30/09
High School				
Band	\$ 7,184	\$ 21,917	\$ 21,882	\$ 7,219
H.S. Art/Photography	391	1,030	917	504
Choir	143	---	---	143
Color Guard	483	---	---	483
Drama	543	---	151	392
Forensics	863	---	---	863
H.S. Library	84	---	---	84
H.S. Pride/Bright Friends	17	---	---	17
H.S. Scholarship Fund	750	2,000	1,000	1,750
H.S. Science	---	200	---	200
H.S. Student Council	3,114	967	1,524	2,557
Industrial Arts	731	416	974	173
Journalism	128	---	---	128
National Honor Society	923	649	702	870
Panther Yearbook	293	10,254	10,241	306
Ski Club	461	---	---	461
Spanish Club	---	---	---	---
Wild Joe Cappuccino Store	208	400	---	608
Class of 2008	824	---	---	824
Class of 2009	1,597	50	1,059	588
Class of 2010	1,774	2,042	750	3,066
Class of 2011	677	520	---	1,197
Total	21,188	40,445	39,200	22,433
High School Athletics				
Baseball Club	2,278	19,001	16,990	4,289
Boys Basketball	154	200	175	179
Cheerleaders	1,015	200	---	1,215
Cliff Nordin Memorial	---	6,500	6,500	---
Cross Country	26	7,947	7,976	-3
Football Club	1,546	4,535	6,069	12
Girls Softball	125	1,640	1,733	32
Girls Varsity Basketball	1,086	650	280	1,456
Golf Team	2,059	2,940	3,571	1,428
H.S. Boys Track	516	200	643	73
H.S. Girls Track	935	1,238	1,232	941
Varsity Club	1,111	1,254	85	2,280
Varsity Wrestling	566	17,861	18,333	94
Volleyball Club	1,812	4,542	6,319	35
Total	13,229	68,708	69,906	12,031

HESPERIA COMMUNITY SCHOOLS

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES(CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2009

	Balance 6/30/08	Receipts	Disbursements	Balance 6/30/09
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	425	116	438	103
7 th and 8 th Grade Rocket Football	577	3,138	4,177	-462
Mug Partnership Program	161	---	---	161
Total	1,673	3,254	4,615	312
General Accounts				
Due from General Fund	---	815	---	815
Due to General Fund	---	---	900	-900
Interest Earned	3,921	189	1,612	2,498
Elementary Checking	1,400	5,734	5,097	2,037
Community Ed. Checking	174	15,389	12,819	2,744
High School Checking	5,163	9,133	8,772	5,524
Middle School Checking	4,299	1,463	1,925	3,837
Total	14,957	32,723	31,125	16,555
TOTAL ACTIVITY	\$ 59,751	\$ 182,423	\$ 179,547	\$ 62,627

STATEMENTS OF BONDED INDEBTEDNESS

HESPERIA COMMUNITY SCHOOLS

Statement Of Bonded Indebtedness

DURANT DEBT

YEAR ENDED JUNE 30, 2009

Issue Dated November 28, 1998 in the amount of	\$ 129,170
Less:	
Bonds paid in prior years	76,229
Bonds due and paid May 1, 2009	<u>7,189</u>
Balance outstanding - June 30, 2009	<u><u>\$ 45,752</u></u>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
Prior	4.761%	\$ 4,730	\$ 13,410	\$ ---
2010	4.761%	1,540	7,531	9,071
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>\$ 8,670</u>	<u>\$ 45,752</u>	<u>\$ 54,422</u>

1999 DEBT

YEAR ENDED JUNE 30, 2009

Issue Dated February 3, 1999 in the amount of	\$ 6,895,000
Less:	
Bonds paid in prior years	1,285,000
Bonds due and paid May 1, 2009	315,000
	<hr/>
Balance outstanding - June 30, 2009	\$ 5,295,000
	<hr/> <hr/>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2010	4.40%	\$ 244,708	\$ 335,000	\$ 579,708
2011	4.45%	229,661	345,000	574,661
2012	4.50%	214,222	345,000	559,222
2013	4.55%	198,725	340,000	538,725
2014	4.60%	183,170	340,000	523,170
2015	4.65%	167,561	335,000	502,561
2016	4.70%	151,900	335,000	486,900
2017	4.75%	136,190	330,000	466,190
2018	4.80%	120,433	330,000	450,433
2019	4.85%	104,631	325,000	429,631
2020	5.00%	88,625	325,000	413,625
2021	5.00%	72,500	320,000	392,500
2022	5.00%	56,375	325,000	381,375
2023	5.00%	40,125	325,000	365,125
2024	5.00%	24,000	320,000	344,000
2025	5.00%	8,000	320,000	328,000
		<hr/>	<hr/>	<hr/>
		\$ 2,040,826	\$ 5,295,000	\$ 7,335,826
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

HESPERIA COMMUNITY SCHOOLS

Statement Of Bonded Indebtedness

2008 DEBT (SERIES A)

YEAR ENDED JUNE 30, 2009

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

Less:

Bonds paid in prior years	---
Bonds due and paid May 1, 2009	---

Balance outstanding - June 30, 2009 \$ 9,000,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2010	4.000%	\$ 428,361	\$ 100,000	\$ 528,361
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>\$ 7,414,906</u>	<u>\$ 9,000,000</u>	<u>\$ 16,414,906</u>

2008 DEBT (SERIES B)

YEAR ENDED JUNE 30, 2009

Issue Dated November 25, 2008 in the amount of	\$ 935,000
Less:	
Bonds paid in prior years	---
Bonds due and paid May 1, 2009	300,000
Balance outstanding - June 30, 2009	\$ 635,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2010	4.25%	\$ 21,213	\$ 310,000	\$ 331,213
2011	4.50%	7,312	325,000	332,312
		\$ 28,525	\$ 635,000	\$ 663,525

HESPERIA COMMUNITY SCHOOLS

Statement Of Bonded Indebtedness

2009 DEBT

YEAR ENDED JUNE 30, 2009

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

Less:

Bonds paid in prior years ---

Bonds due and paid May 1, 2009 ---

Balance outstanding - June 30, 2009 **\$ 6,000,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2010	3.000%	\$ 244,455	\$ 100,000	\$ 344,455
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
		\$ 4,221,983	\$ 6,000,000	\$ 10,221,983

FEDERAL FINANCIAL ASSISTANCE

HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2009

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 Carry-over	*84.010	815300708	388,502
- Title I	*84.010	715300607	297,729
- Title I School-wide Planning	*84.010	715200708	3,000
- Title V Innovative Programs	84.298	802500708	2,488
- Adult Basic Education	84.002	91130910567	62,000
- Adult Basic Education	84.002	81130810567	47,000
- Adult Basic Education	84.002	811208500177	16,900
- Adult Basic Education	84.002	711207500177	16,900
- Adult Basic Education	84.002	71130710567	48,200
- Title VI Rural and Low-Income Grant	84.358B	906600809	55,810
- Title VI Rural and Low-Income Grant	84.358B	806600708	34,217
- Title VI Rural and Low-Income Grant	84.358B	706600607	16,125
- Title IIA Teacher Training and Recruiting	84.367	905200809	104,756
- Title IIA Teacher Training and Recruiting	84.367	805200708	58,591
- Title IIA Teacher Training and Recruiting	84.367	705200607	80,206
- Title IID Enhancing Education through Technology	84.318	942900809	3,345
- State Stabilization (ARRA)	*84.394		425,303
Pass Through Newago County RESA			
- IDEA	84.027		125,000
TOTAL U.S. DEPARTMENT OF EDUCATION			

* Designates a major program.

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2008	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2009
\$ ---	\$ ---	\$ 351,171	\$ 396,135	\$ 44,964
368,100	10,322	10,322	---	---
281,763	---	---	---	---
3,000	1,500	1,500	---	---
652,863	11,822	362,993	396,135	44,964
2,488	--	---	---	---
---	---	47,000	62,000	15,000
47,000	4,058	4,058	---	---
---	---	---	---	---
16,900	---	---	---	---
48,200	---	---	---	---
112,100	4,058	51,058	62,000	15,000
---	---	23,697	39,665	15,968
24,966	192	192	---	---
10,247	---	---	---	---
35,213	192	23,889	39,665	15,968
---	---	87,474	104,756	17,282
58,218	---	---	---	---
80,206	---	---	---	---
138,424	---	87,474	104,756	17,282
---	---	1,078	1,078	---
---	---	---	425,303	425,303
---	---	125,000	125,000	---
	\$ 16,072	\$ 651,492	\$ 1,153,937	\$ 518,517

HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2009

Program Title	Federal CFDA Number	Contract Number	Program or Award Amount
U.S. DEPARTMENT OF AGRICULTURE			
Pass Through Oceana County			
- Schools and Roads	10.665		\$ 18,630
U.S.D.A. Food Distribution:			
- Entitlement Commodities	*10.555	Various	25,591
- Bonus Commodities	*10.555	Various	4,815
Pass Through State Department of Education:			
- National School Lunch Program	*10.555	81950, 81960, 81965, 91950, 91960	234,302
- Special Breakfast	*10.553	81970,91970	72,483
- Fresh Fruit and Vegetable Program	10.582	90950	28,070
- Fresh Fruit and Vegetable Program	10.582	80950	37,564

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, 2008	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2009
\$ ---	\$ ---	\$ 18,630	\$ 18,630	\$ ---
---	---	24,721	24,721	---
---	---	4,728	4,728	---
---	---	234,302	234,302	---
---	---	263,751	263,751	---
---	---	72,483	72,483	---
---	---	22,663	27,173	4,510
32,836	17,032	21,242	4,210	---
32,836	17,032	43,905	31,383	4,510
\$ 32,836	17,032	398,769	386,247	4,510
	\$ 33,104	\$ 1,050,261	\$ 1,540,184	\$ 523,027

HESPERIA COMMUNITY SCHOOLS

FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2009

NOTE 1 - MAJOR PROGRAMS

The School has three major programs - State Stabilization (ARRA), Title I and Child Nutrition. Total expenditures during the year ended June 30, 2009 were \$425,303, \$396,135 and \$336,234 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, 2009 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2009 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, 2009

	Financial Statement	Awards Schedule
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	\$ 396,135	\$ 396,135
IDEA	125,000	125,000
Adult Basic Education	62,000	62,000
Title VI	39,665	39,665
State Stabilization (ARRA)	425,303	425,303
Teacher Training and Recruiting	104,756	104,756
Technology Literacy Challenge	1,078	1,078
	1,153,937	1,153,937
TOTAL	1,153,937	1,153,937
 DEPARTMENT OF AGRICULTURE GRANTS		
SCHOOL LUNCH FUND		
Fresh Fruit and Vegetables	31,383	31,383
Commodities	29,449	29,449
Federal Aid	306,785	306,785
	367,617	367,617
SUB-TOTAL	367,617	367,617
 GENERAL FUND		
Schools and Roads	18,630	18,630
	386,247	386,247
TOTAL	386,247	386,247
 GRAND TOTAL	\$ 1,540,184	\$ 1,540,184

**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 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, 2009, which collectively comprise Hesperia Community School's basic financial statements, and have issued our report thereon dated August 6, 2009. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hesperia Community School'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 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hesperia Community School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Hesperia Community School's financial statements that is more than inconsequential will not be prevented or detected by Hesperia Community School's internal control.

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 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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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 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 6, 2009

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

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

Compliance

We have audited the compliance of Hesperia Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 of laws, regulations, contracts and grant agreements applicable to each of its major federal programs 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 United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 these requirements.

In our opinion, Hesperia Community School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The 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 with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hesperia Community School's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

This report is intended 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 6, 2009

HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2009

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 three major programs - State Stabilization (ARRA), Title I and Child Nutrition.
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, 2009

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 6, 2009

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, 2009, and have issued our report thereon dated August 6, 2009. 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 January 15, 2009, 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 January 15, 2009.

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 6, 2009.

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 \$600,000, 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 1999 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.
- During this fiscal year, three new debt service funds (2008 Series A, 2008 Series B, and 2009) were created. The bond agreements related to these funds specify that separate depository accounts need to be maintained for each fund. This was not done by the time of the audit, and needs to be done as quickly as possible to comply with the bond agreements.

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,



Karl L. Drake, P.C.