

**HESPERIA COMMUNITY
SCHOOLS**



**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**



HESPERIA COMMUNITY SCHOOLS

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2013

Board of Education

Todd Jacobs	President
Matt Joppich	Vice President
Dr. Jeffrey Thome	Secretary
Patricia Budde (Appointed by Board)	Treasurer
Kimberly McClernan	Board Member
Jim Lavin	Board Member
Ryan Good	Board Member
Mike Anderson	Board Member

Management

Jeffrey Haase	Superintendent
Patricia Budde	Business Manager



HESPERIA COMMUNITY SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise Hesperia Community School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flow thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Board of Education
Hesperia Community Schools

Other Matters

Accounting Changes

As described in Note 16 to the financial statements, the District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources, and Net Position*. Our opinions are not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis and budgetary comparison information* on pages 3-10 and 30-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hesperia Community School's basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

August 15, 2013



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, 2013. 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 position, 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 position 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 help 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.



Management's Discussion and Analysis

These two statements report the School District's net position - the difference between assets and liabilities, as reported in the statement of net position - 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 position - 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 position 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 position 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 position. 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 position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2013 and 2012:

TABLE 1	Governmental Activities	
	(In Millions)	
	2013	2012
ASSETS		
Current and other assets	\$ 3.3	\$ 3.3
Capital assets - Net of accumulated depreciation	17.5	17.9
TOTAL ASSETS	20.8	21.2
LIABILITIES		
Current liabilities	2.6	2.6
Long-term liabilities	21.2	21.0
TOTAL LIABILITIES	23.8	23.6
NET POSITION <DEFICIT>		
Invested in property and equipment - Net of related debt	-4.3	-3.8
Restricted	0.5	0.8
Unrestricted	0.8	0.6
TOTAL NET POSITION <DEFICIT>	\$ -3.0	\$ -2.4

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position <deficit> was \$-3.0 million at June 30, 2013. Capital assets, net of related debt totaling \$-4.3 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those



Management's Discussion and Analysis

assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position (\$0.8 million) was unrestricted.

The balance in unrestricted net position 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 position 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 position for fiscal years 2013 and 2012.

TABLE 2	Governmental Activities (In Millions)	
	2013	2012
REVENUE		
Program Revenue		
Charges for services	\$ 0.2	\$ 0.2
Grants and categoricals	2.2	2.3
General Revenue		
Property taxes	1.7	1.7
State foundation allowance	7.3	7.2
Other	0.5	0.1
TOTAL REVENUE	\$ 11.9	\$ 11.5
FUNCTION/PROGRAM EXPENSES		
Instruction	\$ 7.5	\$ 6.8
Support Services	2.9	3.3
Food Services	0.5	0.5
Interest on long-term debt	1.0	0.9
Depreciation (unallocated)	0.6	0.6
Community Service	0.0	0.1
TOTAL FUNCTION/PROGRAM EXPENSES	12.5	12.2
INCREASE <DECREASE> IN NET POSITION	\$ -0.6	\$ -0.7



HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all governmental activities this year was \$12.5 million. Certain activities were partially funded from those who benefited from the programs (\$0.2 million) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$2.2 million). The remaining "public benefit" portion of the governmental activities was paid with \$1.7 million in taxes, \$7.3 million in State Foundation Allowance, and with other revenue such as interest and general entitlements.

The School District experienced a decrease in net position of \$0.6 million. The key reason for the change in net position was School Loan Revolving Fund borrowing. The decrease in net position 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 \$1.9 million, which is an increase of \$0.6 million from last year. The primary reason for the increase was controlling expenditures. The General Fund, the principal operating fund, saw the fund balance increase \$39,579 to \$1,370,073.

- The Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$21,763.
- Combined, the Debt Service Funds showed a fund balance increase of approximately \$62,319. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.
- The Capital Projects Fund finished the year with a balance of \$0. These funds were used to pay for school improvements.



Management's Discussion and Analysis

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 \$231,587, which is the result of changes to the various revenue accounts in the original budget. 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, and therefore need to be amended after those amounts are disclosed. Actual revenue received compared to final budget amended decreased by \$95,242. This is a result of the utilization of deferred revenue, 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 by \$108,901 to adjust for carryover items that were not known when the original budget was adopted and adding capital outlay projects during the year. Actual expenditures compared to the final amended budget decreased by \$343,390. 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 \$1,121,927 and the actual fund balance is \$1,370,073. This represents a variance of \$248,146 between the budgeted amount of fund balance and the actual fund balance.

Capital Asset and Debt Administration

Capital Asset

At June 30, 2013, the School District had \$17.5 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 \$453,487 or 3 percent, from last year.

	2013	2012
Land	\$ 75,012	\$ 59,504
Buildings	19,610,504	19,556,004
Buses and Other Vehicles	1,245,461	1,433,184
Furniture and Equipment	2,312,751	2,301,691
Total Capital Assets	23,243,728	23,350,383
Less Accumulated Depreciation	5,779,565	5,432,733
Net Capital Assets	\$ 17,464,163	\$ 17,917,650



HESPERIA COMMUNITY SCHOOLS

Management’s Discussion and Analysis

Capital Asset and Debt Administration (Continued)

Capital Asset (Continued)

The additions for this year included building improvements, one bus, and computer switches. QZAB debt was issued for some of these additions.

Debt

At the end of this year, the School District had \$21.8 million in bonds and notes outstanding versus \$21.7 million in the previous year - an increase of 1 percent. Those bonds and notes consisted of the following:

	2013	2012
General Obligation Bonds	\$ 21,751,771	\$ 21,715,408
Notes Payable	---	---
Total	\$ 21,751,771	\$ 21,715,408

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 \$21.8 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 2013-14 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 2013-14 fiscal year is 10 percent of the February 2013 student count and 90 percent of the October 2013 student count. The 2013-14 fiscal year budget was adopted in June 2013, based on an estimate of students that will be enrolled on count day in October 2013. 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 2013-14 school year, we anticipate that the fall student count will be higher than the estimates used in creating the 2013-14 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.



Management's Discussion and Analysis

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 a minimal increase to the amount given in the 2013-2014 fiscal year in state aid and used a conservative number for student membership. Maintaining structural balance with continually increasing program and reporting mandates leads to tough programming and personnel decisions. This creates a delicate balance of doing what is best for students and being fiscally responsible.

The District is again facing increased retirement contributions as determined by the State to maintain the Michigan Public School Employees Retirement System. What has been initially proposed for 2013-2014 represents a significant cost to the District with no additional funding. Reforms that have been introduced have made the process of payroll reporting for retirement purposes extremely detailed and difficult.

Increasing employee insurance premiums have been a major issue. With the passing of Public Act 152, mandating employee health insurance contributions which have capped our costs, we have some relief, but providing adequate health care for our employees within our budget resources poses a challenge for the future. The National Health Care Reform Act will also add an additional burden to payroll to implement (without any additional funding) and comply with the required administrative rules.

The HESP (Support Union) contract expired on June 30, 2013. We are currently working on negotiations with that group. The HEA (Teachers Union) has just ratified a new contract which will expire on August 24, 2014. We will start the negotiating process early in 2014 for both contracts.

The main challenge to our district is maintaining an acceptable fund balance with revenue decreasing and expenditures increasing. We need to have an acceptable fund balance to cover any anticipated or unanticipated expenditures. We need to focus on increasing student achievement as future funding increases will be tied to student achievement. We also need to have funds to cover building repair and maintenance, update technology and curriculum, and keep our bus fleet current. Establishing priorities and making hard decisions will be critical in our planning process.

The budget situation will continue to be monitored very closely in the 2013-14 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 2013-2014, and will be working on the 2014-15 budgets early in 2014.

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, P.O. Box 338, 96 S. Division Street, Hesperia, Michigan 49421.



HESPERIA COMMUNITY SCHOOLS

District-Wide Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities
ASSETS	
Current Assets	
Cash and Investments	\$ 1,544,121
Accounts Receivable	1,754,547
Inventories	41,436
Total Current Assets	<u>3,340,104</u>
Non-Current Assets	
Capital Assets	23,243,728
Less: Accumulated Depreciation	<u>-5,779,555</u>
Total Non-Current Assets	<u>17,464,173</u>
TOTAL ASSETS	<u>\$ 20,804,277</u>
LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts Payable	\$ 362,097
Accrued Salaries and Expenses	963,765
Accrued Interest	372,402
Deferred Revenue	162,265
Bonds and Notes Payable, Due within One Year	<u>796,352</u>
Total Current Liabilities	<u>2,656,881</u>
Non-Current Liabilities	
Bonds and Notes Payable	20,955,419
Compensated Absences and Severance Pay	<u>204,456</u>
Total Non-Current Liabilities	<u>21,159,875</u>
TOTAL LIABILITIES	<u>23,816,756</u>
NET POSITION <DEFICIT>	
Invested in Capital Assets, Net of Related Debt	-4,287,598
Restricted	479,630
Unrestricted	<u>795,489</u>
TOTAL NET POSITION <DEFICIT>	<u>-3,012,479</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 20,804,277</u>

See Accompanying Notes to Financial Statements.



District-Wide Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

FUNCTIONS/PROGRAMS	Expenses	Program Revenue		Governmental
		Charges For Services	Operating Grants	Activities
				Net <Expense> Revenue and Changes in Net Position
Governmental Activities				
Instruction	\$ 7,517,931	\$ ---	\$ 1,680,283	\$ -5,837,648
Support Services	2,861,378	85,553	87,280	-2,688,545
Food Services	502,641	102,743	431,898	32,000
Community Services	20,825	1,411	---	-19,414
Interest on Long-Term Debt	970,872	---	27,210	-943,662
Depreciation (Unallocated)	614,605	---	---	-614,605
Total Governmental Activities	\$ 12,488,252	\$ 189,707	\$ 2,226,671	-10,071,874
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				799,902
Property Taxes, Levied for Debt Service				886,136
State of Michigan Aid, Unrestricted				7,334,882
Interest Earnings				9,149
Other				409,762
Total General Revenue				9,439,831
CHANGE IN NET POSITION				-632,043
NET POSITION - BEGINNING OF YEAR				-2,380,436
NET POSITION <DEFICIT>- END OF YEAR				\$ -3,012,479

See Accompanying Notes to Financial Statements.



HESPERIA COMMUNITY SCHOOLS

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

	General	Food Service	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 1,148,836	\$ 76,649	\$ 318,636	\$ 1,544,121
Accounts Receivable	1,545	---	---	1,545
Due from Other Governmental Units	1,736,234	11,011	---	1,747,245
Due from Other Funds	1,962	81,130	74,373	157,465
Inventories	39,162	2,274	---	41,436
Prepaid Expenditures	---	---	---	---
TOTAL ASSETS	\$ 2,927,739	\$ 171,064	\$ 393,009	\$ 3,491,812
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 355,276	\$ 6,306	\$ 515	\$ 362,097
Accrued Salaries and Withholdings	963,765	---	---	963,765
Due to Other Funds	76,360	---	75,348	151,708
Deferred Revenue	162,265	---	---	162,265
TOTAL LIABILITIES	1,557,666	6,306	75,863	1,639,835
FUND BALANCES				
Non-spendable - Inventories	39,162	2,274	---	41,436
Restricted	---	162,484	317,146	479,630
Assigned	16,934	---	---	16,934
Unassigned	1,313,977	---	---	1,313,977
TOTAL FUND BALANCES	1,370,073	164,758	317,146	1,851,977
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,927,739	\$ 171,064	\$ 393,009	\$ 3,491,812
TOTAL GOVERNMENTAL FUND BALANCES				\$ 1,851,977
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:				
Cost of the Capital Assets				\$ 23,243,728
Accumulated Depreciation				-5,779,555
				<u>17,464,173</u>
Long-term Liabilities are not due and payable in the current period and are not reported in the fund.				
Bonds and Notes Payable				-21,751,771
Compensated Absences				-204,456
Accrued interest is not included as a liability in governmental funds.				<u>-372,402</u>
NET POSITION <DEFICIT> OF GOVERNMENTAL ACTIVITIES				\$ -3,012,479

See Accompanying Notes to Financial Statements.



Fund Financial Statements

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

YEAR ENDED JUNE 30, 2013

	General	Food Service	Other Non-major Governmental Funds	Totals
REVENUE				
Local Sources	\$ 1,029,264	\$ 102,819	\$ 888,482	\$ 2,020,565
Inter-District Sources	141,951	---	---	141,951
State Sources	8,318,736	25,192	27,210	8,371,138
Federal Sources	647,635	406,706	---	1,054,341
Other	15,074	---	71,429	86,503
TOTAL REVENUE	10,152,660	534,717	987,121	11,674,498
EXPENDITURES				
Current				
Instruction	7,010,993	---	---	7,010,993
Supporting Services	2,861,378	502,641	---	3,364,019
Community Services	20,825	---	---	20,825
Debt Service	105,225	---	1,510,318	1,615,543
Capital Outlay	296,371	10,313	67,325	374,009
TOTAL EXPENDITURES	10,294,792	512,954	1,577,643	12,385,389
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-142,132	21,763	-590,522	-710,891
OTHER FINANCING SOURCES <USES>				
Loan Proceeds	181,711	---	585,517	767,228
Operating Transfers In	---	---	---	---
Operating Transfers Out	---	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	181,711	---	585,517	767,228
NET CHANGE IN FUND BALANCES	39,579	21,763	-5,005	56,337
FUND BALANCES - BEGINNING OF YEAR	1,330,494	142,995	322,151	1,795,640
FUND BALANCES - END OF YEAR	\$ 1,370,073	\$ 164,758	\$ 317,146	\$ 1,851,977

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, 2013

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 56,337
Amounts reported for governmental activities in the statement of activities are different because:	
- Change in compensated absences is not reflected in the government funds report.	-112,336
- 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	-614,605
Capital Outlay	<u>161,118</u>
	-453,487
- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	-86,194
- Bond and loan 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.	-767,228
- 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>730,865</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ -632,043</u>

See Accompanying Notes to Financial Statements.



Fiduciary Funds

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	<u>Agency Fund - Student Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 74,643
Accounts Receivable	---
Due from Other Funds	---
TOTAL ASSETS	<u>\$ 74,643</u>
LIABILITIES	
Due to Other Funds	\$ 5,757
Due to Others	68,010
Due to Student Groups	876
TOTAL LIABILITIES	<u>\$ 74,643</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 Position and the statement of changes in Net Position) 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.



Notes to 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 Fund maintained by the School District is the Food Service Fund.

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

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

FIDUCIARY FUNDS

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



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. EQUITY:

Net position

Net position represents the difference between assets and deferred outflow of resources, less liabilities and deferred inflow of resources. The District reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflow of resources attributable to the acquisition, construction, or improvement of those assets, and increases by balances of deferred outflow or resources related to those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the District's debt. Restricted net position is reduced by liabilities and deferred inflow of resources related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the District.



Notes to Financial Statements

Fund equity

Governmental funds report restricted fund balance when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The District Board of Education has delegated the authority to assign fund balance to the Superintendent. Unassigned fund balance is the residual classification for the General Fund. When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use the restricted fund balance first, followed by assigned fund balance, and, finally, unassigned fund balance.

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 Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

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

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



HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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.

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

In the fund financial statements, governmental funds report the following components of fund balance:

- Non-spendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- Committed - Amounts that have been formally set aside by the board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board.
- Assigned - Intent to spend resources on specific purposes expressed by the board.
- Unassigned - Balances that do not otherwise fall into one of the above categories.

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.



Notes to Financial Statements

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, 2013, the book value of the School District's deposits was \$1,618,764 and the bank balance was \$1,681,498. Of the bank balance, \$329,336 was covered by federal depository insurance and \$1,352,162 was uninsured and uncollateralized.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does have a policy for custodial credit risk, requiring diligence and prudence of investment officials when considering investments in obligations other than those of an agency of the United States. At year end, the School District had no investment securities that were uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the School District's name.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the School District had no such investments.

Concentration of Credit Risk - The School District does limit the amount that it may invest in any one issuer. The School District currently has no one investment which exceeds 20 percent of its total investments.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The School District restricts the amount of investments in foreign currency and, thus, at year end had no securities subject to foreign currency risk.

CASH EQUIVALENTS: There is \$3,519 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.

<u>Carrying Value</u>	<u>Market Value</u>
\$ 3,519	\$ 3,519
Total Cash:	
Petty Cash	\$ 100
Deposits in Financial Institutions	1,681,498
Deposits in MLAF Account	3,519
	<u>\$ 1,685,117</u>



HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

NOTE 3 - INVENTORY

The \$39,162 shown as inventory in the General Fund represents the value of supplies, bus parts and fuel on hand at June 30, 2013.

There is \$2,274 of inventory in the Special Revenue Fund - Food Service.

Total inventory of both funds at June 30, 2013, was \$41,436.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2013, is comprised of the following:

Newago County RESA	\$ 94,797
Newago Public Schools	500
State of Michigan - State Aid	1,588,822
- Adult Basic Education	2,706
- Title 2A	3,050
- Title 6	91
- Title 1	57,279
TOTAL DUE FROM OTHER GOVERNMENTAL UNITS	\$ 1,747,245

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2013, consisted of the following:

<u>Due To:</u>		<u>Due From:</u>	
General	\$ 1,962	2009 Refunding Debt	\$ 1,962
Food Service	75,373	General	75,373
2009 Refunding Debt	987	General	987
2009 Debt	29,516	2009 Refunding Debt	29,516
2009 Refunding Debt	1,105	2009 Debt	1,105
Food Service	5,757	Agency Fund	5,757
2008 A Debt	42,765	2009 Refunding Debt	42,765
	<u>\$ 157,465</u>		<u>\$ 157,465</u>



Notes to Financial Statements

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2012	Additions	Disposals and Adjustments	Balance June 30, 2013
Assets not being depreciated:				
Land	\$ 59,504	\$ 15,508	\$ ---	\$ 75,012
Capital assets being depreciated:				
Building and building improvements	19,556,004	54,500	---	19,610,504
Buses and other vehicles	1,433,184	24,285	212,008	1,245,461
Furniture and equipment	2,301,691	66,825	55,765	2,312,751
Subtotal	23,290,879	145,610	267,773	23,168,716
Accumulated depreciation:				
Building and building improvements	3,313,624	361,266	---	3,674,890
Buses and other vehicles	954,504	88,967	212,008	831,463
Furniture and equipment	1,164,605	164,372	55,765	1,273,212
Subtotal	5,432,733	614,605	267,773	5,779,565
Net capital assets being depreciated	17,858,146	-468,995	---	17,389,151
Net capital assets	\$ 17,917,650	\$ -453,487	\$ ---	\$ 17,464,163

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

NOTE 7 - ACCRUED SALARIES AND FRINGE BENEFITS

At June 30, 2013, \$561,210 represents salaries payable, which is the unpaid portion of teacher contracts for the 2012-13 school year. On these salaries, there are also fringe benefits payable at year-end totaling \$382,058.

NOTE 8 - DUE TO OTHER GOVERNMENTS

The District had no Due to Other Governmental Units at June 30, 2013.

NOTE 9 - BUDGETARY ACCOUNTING

During the year ended June 30, 2013, the School incurred no expenditures that were in excess of the amounts appropriated.



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, 2013, long-term debt changed as follows:

	Balance 7/1/12	Additional Debt	2012-13 Payments	Balance 6/30/13
2009 Refunding Bond Issue	\$ 4,295,000	\$ ---	\$ 370,000	\$ 3,925,000
2008 Series A Bond Issue	8,655,000	---	165,000	8,490,000
2009 Bond Issue	5,660,000	---	140,000	5,520,000
Durant Bond Issue	22,068	---	22,068	---
QZAB Bonds	540,178	181,711	33,797	688,092
School Loan Revolving	2,543,162	585,517	---	3,128,679
	21,715,408	767,228	730,865	21,751,771
Teacher Buy-Outs	37,500	150,000	25,000	162,500
Severance Pay	12,250	---	3,115	9,135
Compensated Absences	42,360	---	9,539	32,821
	\$ 21,807,518	\$ 917,228	\$ 768,519	\$ 21,956,227

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

	Other Bonds	School Loan Revolving	Other	QZAB Bonds	Total
2013-14	\$ 695,000	\$ ---	\$ 62,500	\$ 101,352	\$ 858,852
2014-15	725,000	---	50,000	238,017	1,013,017
2015-16	755,000	---	50,000	242,243	1,047,243
2016-17	785,000	---	---	70,137	855,137
2017-18	815,000	---	---	36,343	851,343
2018-Maturity	14,160,000	3,128,679	41,956	---	17,330,635
	\$ 17,935,000	\$ 3,128,679	\$ 204,456	\$ 688,092	\$ 21,956,227

A. 2012 QZAB BONDS: On June 30, 2013, the School District borrowed \$83,424 of Qualified Zone Academy Bonds for the purchase of a school bus. The bonds bear interest at 4.24% with interest payable on June 20 and December 20 and principal of \$16,684.80 due each June 20. The payments began on December 20, 2012 and the final payment is due on June 20, 2017. The balance due at June 30, 2013 was \$66,739.



Notes to Financial Statements

On June 20, 2012, the School District borrowed \$85,558 of Qualified Zone Academy Bonds for the purchase of technology. The bonds bear interest at 4.24% with interest payable on June 20 and December 20 and principal of \$17,111.60 due each June 20. The payments began on December 20, 2012 and the final payment is due on June 20, 2017. The balance due at June 30, 2013 was \$68,446.

B. 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 \$32,821 unused vacation leave exists at June 30, 2013.

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

D. 2011 QZAB BONDS: On May 25, 2011 the School District borrowed \$130,871 of Qualified Zone Academy Bonds for the purchase of two school buses. The bonds are interest free through Shelby State Bank. The bank requires five annual deposits into a QZAB bank account of approximately \$27,765 which earn interest at two percent. This account will be used to pay the QZAB bonds beginning May 25, 2015. The balance due June 30, 2013 was \$130,871.

On June 30, 2011 the School District borrowed \$84,260 of Qualified Zone Academy Bonds for the purchase of technology. The bonds are interest free through Shelby State Bank. The bank requires five annual deposits into a QZAB bank account of approximately \$17,875 which earn interest at two percent. This account will be used to pay the QZAB bonds beginning June 30, 2015. The balance due June 30, 2013 was \$84,260.

E. DURANT BONDS: The bonds were 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 was at 4.761353%. Bond payments were funded by state-aid revenue. The balance due at June 30, 2013 was \$0.

F. TEACHER BUY-OUT: The School District approved the buy-out of eight staff people during a prior fiscal year as a retirement incentive. The maximum to be paid is \$50,000 for each person, over a four-year period. In the fiscal year ended June 30, 2013, there were 5 staff people that accepted buy-outs of \$30,000, paid over 3 years. Total buy-outs payable at June 30, 2013, was \$162,500.

G. SEVERANCE PAY: After a teacher has 20 years of service with the School District, they are eligible for severance pay upon retirement. The pay is calculated at \$35 for each year of service. Total severance pay payable at June 30, 2013, was \$9,135.

H. 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 2026). The initial loans are dated April 24, 2009 and interest accrues at a variable rate, which was 3.53328% at June 30, 2013. Total amount outstanding at June 30, 2013 was \$3,128,679.

I. 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, 2013 was \$8,490,000.



HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

J. 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, 2013 was \$5,520,000.

K. 2009 REFUNDING BONDS: The bonds are dated September 22, 2009 with principal due each May 1 and interest due each May 1 and November 1 beginning May 1, 2010 and ending May 1, 2025. Interest rates vary from 2% to 4.3%. The proceeds from these bonds were used to refund 1999 Refunding Bonds. The remaining bonds payable at June 30, 2013 were \$3,925,000.

L. 2013 QZAB BONDS: On June 26, 2013, the School District borrowed \$85,806 of Qualified Zone Academy Bonds for the purchase of a school bus. The Bonds are interest free through Shelby State Bank. Annual payments of \$17,161 are due beginning June 26, 2014 and continue through June 26, 2018. The balance due at June 30, 2013 was \$85,806.

On June 30, 2013, the School District borrowed \$95,905 of Qualified Zone Academy Bonds for the purchase of computer switches. The bonds are interest free through Shelby State Bank. Annual payments of \$19,181 are due beginning June 26, 2014 and continue through June 26, 2018. The balance due at June 30, 2013 was \$95,905.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

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

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

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

The District is required to contribute an 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 ending June 30, 2013 was based on the individual's personal choice during the pension reform. The rate range is 24.32% to 26.96% of payroll through September 30, 2013 and 25.52% to 29.35% through June 30, 2014. The contribution requirements of plan members and the District are



Notes to Financial Statements

established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2013, 2012 and 2011 were \$1,833,754, \$1,870,268 and \$1,719,507 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 - FUND BALANCE

Components of Fund Balance at June 30, 2013, are as follows:

- A) \$39,162 of fund balance in the General Fund is non-spendable. This amount represents inventory supplies on hand at year-end and is not available for current appropriations and expenditures.
- B) \$2,274 of fund balance in the Special Revenue - Food Service Fund is non-spendable. 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 Food Service Fund.
- C) A portion of the fund balance is assigned for anticipated major expenses. The Board has elected to assign monies as follows:

Band Uniforms	\$ 13,269
Next year budget deficit	3,665
	<u>\$ 16,934</u>

- D) The balance of the Fund Balance is unassigned and is available to fund future School operations. The June 30, 2013, Unassigned General Fund Balance of \$1,313,977 compares to June 30, 2012, Unassigned General Fund Balance of \$1,268,591.

NOTE 13 - SHORT-TERM BORROWING

On October 12, 2012, Hesperia Community Schools borrowed \$800,000 via a state aid note through Shelby State Bank. Interest was at 0.4425%. The entire balance of this loan plus interest of \$2,517 was repaid on June 28, 2013.

NOTE 14 - ADVANCE REFUNDING AND DEFEASANCE OF DEBT

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

On September 22, 2009, Hesperia Community Schools issued \$5,430,000 in General Obligation Tax Refunding Bonds with interest rates of 2% to 4.3% to advance refund \$5,295,000 of outstanding



HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

NOTE 14 - ADVANCE REFUNDING AND DEFEASANCE OF DEBT (CONTINUED)

1999 General Obligation Tax Refunding Bonds with an average interest rate of 4.79%. The net proceeds were used to purchase average interest U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1999 Bonds. As a result, the remaining balance on the 1999 bonds is considered to be defeased. The liability for those bonds has been removed from the financial statements.

NOTE 15 - DEFERRED REVENUE

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

Program	
At Risk	\$ 1,604
Adult Education	132,946
Evaluation Training	600
Local Grants	15,515
Technology Readiness	11,600
	<u>\$ 162,265</u>

NOTE 16- ADOPTION OF NEW ACCOUNTING POLICIES

Effective April 1, 2012, the District adopted the provisions of the following accounting pronouncements:

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989, that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. Adoption of this standard did not result in restatement or reclassification of opening net position (formerly net assets) or fund balances.

GASB Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of resources, and Net Position*. This Statement incorporates deferred outflow of resources and deferred inflow of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This Statement also provides a new statement of the net position format to report all assets, deferred outflow of resources, liabilities, deferred inflow of resources, and net position. Adoption of this standard did not result in restatement or reclassification of opening net position or fund balances.

NOTE 17 - PENDING ACCOUNTING PRONOUNCEMENTS

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflow of resources and deferred inflow of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflow of resources ore inflow of resources, certain items that were previously reported as assets and liabilities. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning July 1, 2013.



REQUIRED SUPPLEMENTAL INFORMATION



HESPERIA COMMUNITY SCHOOLS

Budgetary Comparison Schedule

GENERAL FUND

YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 988,782	\$ 985,516	\$ 1,029,264	\$ 43,748
Inter-District Sources	---	105,000	141,951	36,951
State Sources	7,958,442	8,414,305	8,318,736	-95,569
Federal Sources	976,821	728,008	647,635	-80,373
Other Financing Sources	273,982	196,785	196,785	---
TOTAL REVENUE	10,198,027	10,429,614	10,334,371	-95,243
EXPENDITURES				
Current				
Instruction				
Basic Programs	5,447,887	5,422,475	5,322,316	100,159
Added Needs	1,879,278	1,645,712	1,586,074	59,638
Adult/Continuing Education	98,430	117,943	102,603	15,340
Supporting Services				
Pupil	277,467	270,982	255,885	15,097
Instructional Staff	172,817	183,775	144,575	39,200
Administration	492,363	601,197	581,441	19,756
Business Services	281,683	282,740	264,787	17,953
Operations	578,541	636,198	623,108	13,090
Transportation	637,509	599,248	594,652	4,596
Information Management	272,609	187,724	165,016	22,708
Athletics	226,340	243,128	231,914	11,214
Community Services	79,919	34,571	20,825	13,746
Debt Service	72,181	105,226	105,225	1
Capital Outlay	---	306,026	296,371	9,655
Other Uses - Operating Transfers	12,256	1,235	---	1,235
TOTAL EXPENDITURES	10,529,280	10,638,180	10,294,792	343,388
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-331,253	-208,566	39,579	248,145
BUDGETARY FUND BALANCE - JULY 1, 2012				
	1,330,494	1,330,494	1,330,494	---
BUDGETARY FUND BALANCE - JUNE 30, 2013	\$ 999,241	\$ 1,121,928	\$ 1,370,073	\$ 248,145



Budgetary Comparison Schedule

FOOD SERVICE FUND

YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Local Sources	\$ 87,500	\$ 72,500	\$ 102,819	\$ 30,319
State Sources	21,000	20,072	25,192	5,120
Federal Sources	377,760	389,916	406,706	16,790
Miscellaneous	50,400	30,200	---	-30,200
TOTAL REVENUE	536,660	512,688	534,717	22,029
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	523,210	522,919	502,641	20,278
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Information Management	---	---	---	---
Community Services	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	65,000	10,700	10,313	387
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	588,210	533,619	512,954	20,665
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-51,550	-20,931	21,763	42,694
BUDGETARY FUND BALANCE - JULY 1, 2012	142,995	142,995	142,995	---
BUDGETARY FUND BALANCE - JUNE 30, 2013	\$ 91,445	\$ 122,064	\$ 164,758	\$ 42,694



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, 2013

REVENUE	Budget	Actual	Favorable <Unfavorable>
LOCAL SOURCES			
Current Property Tax Levy	\$ 802,000	\$ 799,902	\$ -2,098
Interest and Penalties - Delinquent Taxes	---	---	---
Contributions from Private Sources	79,462	78,947	-515
Interest Earned	2,000	850	-1,150
Community Service	500	1,411	911
Transportation	17,398	36,348	18,950
Athletics	49,206	49,205	-1
Other	34,950	62,601	27,651
TOTAL LOCAL SOURCES	985,516	1,029,264	43,748
INTER-DISTRICT SOURCES			
ISD	95,000	131,951	36,951
MSRP Reimbursement	10,000	10,000	---
TOTAL INTER-DISTRICT SOURCES	105,000	141,951	36,951
STATE SOURCES			
State Aid	7,086,695	7,047,295	-39,400
Special Education	284,142	284,142	---
Adult Education	384,339	333,129	-51,210
At Risk	374,518	366,583	-7,935
Best Practices	59,865	62,804	2,939
MPSERS Offset	224,746	224,783	37
TOTAL STATE SOURCES	\$ 8,414,305	\$ 8,318,736	\$ -95,569



General Fund

	Budget	Actual	Favorable <Unfavorable>
FEDERAL SOURCES			
IDEA	\$ 125,000	\$ 125,000	\$ ---
Title I A	419,326	384,156	-35,170
Title IIA - Teacher Training and Recruiting	102,373	53,442	-48,931
Title VI B	24,789	23,838	-951
Adult Basic Education	43,820	42,624	-1,196
Treasury Interest	---	5,877	5,877
Schools and Roads	12,700	12,698	-2
TOTAL FEDERAL SOURCES	728,008	647,635	-80,373
TOTAL REVENUE	\$ 10,232,829	\$ 10,137,586	\$ -95,243
EXPENDITURES			
Instruction			
BASIC PROGRAMS			
Elementary School	\$ 2,410,790	\$ 2,343,119	\$ 67,671
Middle School	1,538,617	1,527,304	11,313
High School	1,473,068	1,451,893	21,175
TOTAL BASIC PROGRAMS	5,422,475	5,322,316	100,159
ADDED NEEDS			
Special Education	882,870	864,080	18,790
Compensatory Education	762,842	721,994	40,848
TOTAL ADDED NEEDS	1,645,712	1,586,074	59,638
ADULT/CONTINUING EDUCATION			
Adult Basic Education	75,852	60,972	14,880
High School Completion	42,091	41,631	460
TOTAL ADULT/CONTINUING EDUCATION	117,943	102,603	15,340
Total Instruction	\$ 7,186,130	\$ 7,010,993	\$ 175,137



HESPERIA COMMUNITY SCHOOLS

General Fund

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

FISCAL YEAR ENDED JUNE 30, 2013

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Supportive Services			
PUPIL			
Guidance	\$ 158,544	\$ 150,170	\$ 8,374
Health Services	41,092	37,500	3,592
Social Work Services	71,346	68,215	3,131
TOTAL PUPIL	270,982	255,885	15,097
INSTRUCTIONAL STAFF			
Improvement of Instruction	27,133	21,219	5,914
Educational Media Services	28,155	27,178	977
Computer Assisted Instruction	5,375	5,081	294
Supervision and Direction of Instruction	117,470	86,483	30,987
GED Testing Center	5,642	4,614	1,028
TOTAL INSTRUCTIONAL STAFF	183,775	144,575	39,200
ADMINISTRATION			
Board of Education	39,671	39,671	---
Executive Administration	120,217	114,026	6,191
Principals Offices	437,309	423,807	13,502
Other School Administration	4,000	3,937	63
TOTAL ADMINISTRATION	601,197	581,441	19,756
BUSINESS SERVICES			
Fiscal Services	200,286	185,034	15,252
Internal Services	1,200	1,200	---
Other Business Services	81,254	78,553	2,701
TOTAL BUSINESS SERVICES	282,740	264,787	17,953
OPERATION AND MAINTENANCE			
Operating Building Services	623,875	610,172	13,703
Security Services	12,323	12,936	-613
TOTAL OPERATION AND MAINTENANCE	636,198	623,108	13,090
TRANSPORTATION			
Pupil Transportation Services	\$ 599,248	\$ 594,652	\$ 4,596



General Fund

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
INFORMATION MANAGEMENT			
Staff/Personnel Services	\$ 4,899	\$ 4,841	\$ 58
Information Management Services	131,723	109,095	22,628
Pupil Accounting	25,440	25,418	22
Other Central Services	25,662	25,662	---
TOTAL INFORMATION MANAGEMENT	187,724	165,016	22,708
ATHLETICS	243,128	231,914	11,214
Total Supportive Services	3,004,992	2,861,378	143,614
Community Services			
Community Recreation	20,213	11,210	9,003
Community Activities	5,000	865	4,135
Custody and Care of Children	9,358	8,750	608
Total Community Services	34,571	20,825	13,746
Debt Service	105,226	105,225	1
Capital Outlay	306,026	296,371	9,655
TOTAL EXPENDITURES	\$ 10,636,945	\$ 10,294,792	\$ 342,153
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-404,116	-157,206	246,910
OTHER FINANCING SOURCES <USES>			
Sale of Assets	15,074	15,074	---
Loan Proceeds	181,711	181,711	---
Operating Transfers In	---	---	---
Operating Transfers <Out>	-1,235	---	1,235
TOTAL OTHER FINANCING SOURCES <USES>	195,550	196,785	1,235
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -208,566	39,579	\$ 248,145
FUND BALANCE - JULY 1, 2012		1,330,494	
FUND BALANCE - JUNE 30, 2013		\$ 1,370,073	



HESPERIA COMMUNITY SCHOOLS

SPECIAL REVENUE FUND



Special Revenue Fund

BALANCE SHEET

JUNE 30, 2013

	Food Service Fund
ASSETS	
Cash In Bank	\$ 76,649
Due From Other Governmental Units	11,011
Due From Other Funds	81,130
Prepaid Expenses	---
Inventory	2,274
TOTAL ASSETS	\$ 171,064
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Due to Other Funds	\$ ---
Accounts Payable	6,306
Accrued Salaries	---
Accrued Expenses	---
TOTAL LIABILITIES	6,306
FUND EQUITY	
Fund Balance - Non-spendable - Inventory	2,274
Fund Balance - Restricted for Food Service	162,484
TOTAL FUND EQUITY	164,758
TOTAL LIABILITIES AND FUND EQUITY	\$ 171,064



HESPERIA COMMUNITY SCHOOLS

Special Revenue Fund

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

FISCAL YEAR ENDED JUNE 30, 2013

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Food Services			
Hot Lunch Receipts - Students	\$ 56,000	\$ 53,234	\$ -2,766
- Adults	1,500	614	-886
- Ala Carte	15,000	11,178	-3,822
State Aid	20,072	25,192	5,120
Federal Aid	364,916	376,147	11,231
Federal USDA Commodities in Kind	25,000	30,559	5,559
Other Income	30,000	37,717	7,717
Interest Income	200	76	-124
TOTAL REVENUE	512,688	534,717	22,029
EXPENDITURES			
Salaries	143,000	144,456	-1,456
Fringe Benefits	70,163	60,070	10,093
Professional Services	1,000	842	158
Contracted Services	40,028	37,756	2,272
Food and Supplies	242,785	240,698	2,087
Professional Development	1,400	---	1,400
Dues and Fees	386	370	16
Miscellaneous	3,957	5,137	-1,180
Telephone	700	---	700
Postage	1,500	285	1,215
Repairs	5,000	3,582	1,418
Utilities	13,000	9,445	3,555
Capital Outlay	10,700	10,313	387
TOTAL EXPENDITURES	\$ 533,619	\$ 512,954	\$ 20,665



Special Revenue Fund

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

FISCAL YEAR ENDED JUNE 30, 2013

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	<u>\$ -20,931</u>	<u>\$ 21,763</u>	<u>\$ 42,694</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>\$ -20,931</u></u>	<u>21,763</u>	<u><u>\$ 42,694</u></u>
FUND BALANCE - BEGINNING OF YEAR		<u>142,995</u>	
FUND BALANCE - END OF YEAR		<u><u>\$ 164,758</u></u>	



HESPERIA COMMUNITY SCHOOLS

DEBT RETIREMENT FUNDS



Debt Retirement Funds

COMBINING BALANCE SHEET

JUNE 30, 2013

	QZAB	Refund 2009	2009	2008A	Durant	Totals
ASSETS						
Cash in Bank	\$ 175,501	\$ 131,780	\$ 5,123	\$ 5,717	\$ ---	\$ 318,121
Due from other Funds	---	2,092	29,516	42,765	---	74,373
Due from other Governments	---	---	---	---	---	---
State Aid Revenue	---	---	---	---	---	---
Accounts Receivable	---	---	---	---	---	---
TOTAL ASSETS	\$ 175,501	\$ 133,872	\$ 34,639	\$ 48,482	\$ ---	\$ 392,494
LIABILITIES AND FUND EQUITY						
LIABILITIES						
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	74,243	1,105	---	---	75,348
Due to Other Governments	---	---	---	---	---	---
TOTAL LIABILITIES	---	74,243	1,105	---	---	75,348
FUND EQUITY						
Fund Balance	175,501	59,629	33,534	48,482	---	317,146
TOTAL LIABILITIES AND FUND EQUITY	\$ 175,501	\$ 133,872	\$ 34,639	\$ 48,482	\$ ---	\$ 392,494



HESPERIA COMMUNITY SCHOOLS

Debt Retirement Funds

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

FISCAL YEAR ENDED JUNE 30, 2013

	QZAB	Refund 2009	2009	2008A
REVENUE				
Current Taxes	\$ ---	\$ 368,727	\$ 211,285	\$ 306,124
Delinquent Taxes	---	---	---	---
Interest and Penalties on Delinquent Property Taxes	---	---	---	---
Earned Interest	2,052	269	10	14
State Aid Revenue	---	---	---	---
Miscellaneous	71,429	---	---	---
TOTAL REVENUE	73,481	368,996	211,295	306,138
EXPENDITURES				
Principal on Bonds	---	370,000	140,000	165,000
Interest on Bonds	---	154,911	235,755	416,992
Principal on School Loan Rec. Fund	---	---	---	---
Interest on School Loan Rec. Fund	---	---	---	---
Agent Fees and Other	---	150	150	150
TOTAL EXPENDITURES	---	525,061	375,905	582,142
EXCESS REVENUE OVER <UNDER> EXPENDITURES	73,481	-156,065	-164,610	-276,004
OTHER FINANCING SOURCES				
Loan Proceeds	---	148,767	163,226	273,524
Operating Transfers In	---	---	---	---
Operating Transfers Out	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	148,767	163,226	273,524
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	73,481	-7,298	-1,384	-2,480
FUND BALANCE - BEGINNING OF YEAR	102,020	66,927	34,918	50,962
FUND BALANCE - END OF YEAR	\$ 175,501	\$ 59,629	\$ 33,534	\$ 48,482



Debt Retirement Funds

Durant	Totals
\$ ---	\$ 886,136
---	---
---	---
---	2,345
27,210	27,210
---	71,429
27,210	987,120
22,068	697,068
5,142	812,800
---	---
---	---
---	450
27,210	1,510,318
---	-523,198
---	585,517
---	---
---	---
---	585,517
---	62,319
---	254,827
\$ ---	\$ 317,146



HESPERIA COMMUNITY SCHOOLS

CAPITAL PROJECT FUND

COMBINING BALANCE SHEET

JUNE 30, 2013

ASSETS	
Cash and Investments	\$ 515
Due from other Funds	---
Due from other Governments	---
Accounts Receivable	---
TOTAL ASSETS	\$ 515
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts Payable	\$ 515
Due to Other Funds	---
Due to Other Governments	---
TOTAL LIABILITIES	515
FUND EQUITY	
Fund Balance	---
TOTAL LIABILITIES AND FUND EQUITY	\$ 515



Capital Project Fund

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

FISCAL YEAR ENDED JUNE 30, 2013

	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ ---	\$ ---	\$ ---
Federal Grants	---	---	---
State Grants	---	---	---
Investment Income	---	1	1
Miscellaneous	---	---	---
TOTAL REVENUE	---	1	1
EXPENDITURES			
Cost of Issuance	---	---	---
Construction in Progress	67,325	67,325	---
Debt Service	---	---	---
Other	---	---	---
TOTAL EXPENDITURES	67,325	67,325	---
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-67,325	-67,324	1
OTHER FINANCING SOURCES			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -67,325	-67,324	\$ 1
FUND BALANCE - BEGINNING OF YEAR		67,324	
FUND BALANCE - END OF YEAR		\$ ---	



HESPERIA COMMUNITY SCHOOLS

AGENCY FUNDS

**STATEMENT OF ASSETS AND LIABILITIES****JUNE 30, 2013**

ASSETS	
Cash in Bank	\$ 74,643
Due From General Fund	---
TOTAL ASSETS	\$ 74,643
LIABILITIES	
Due to Food Service Fund	\$ 5,757
Due to Students Groups	68,010
Due to Others	876
TOTAL LIABILITIES	\$ 74,643

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**FISCAL YEAR ENDED JUNE 30, 2013**

	Balance 6/30/12	Receipts	Disbursements	Balance 6/30/13
ASSETS				
Cash	\$ 62,863	\$ 177,835	\$ 166,055	\$ 74,643
Due from General Fund	---	---	---	---
TOTAL ASSETS	\$ 62,863	\$ 177,835	\$ 166,055	\$ 74,643
LIABILITIES				
Due to Food Service Fund	\$ ---	\$ 5,757	\$ ---	\$ 5,757
Due to Others				
Community Education	1,391	1,340	1,855	876
Student Groups				
High School Internal	3,219	3,298	3,794	2,723
Middle School Internal	2,078	926	2,488	516
Elementary Internal	2,905	945	2,139	1,711
Central Office Internal	53,270	165,569	155,779	63,060
Total Student Groups	61,472	170,738	164,200	68,010
TOTAL LIABILITIES	\$ 62,863	\$ 177,835	\$ 166,055	\$ 74,643



HESPERIA COMMUNITY SCHOOLS

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2013

ACTIVITY	Balance 6/30/12	Receipts	Disbursements	Balance 6/30/13
Elementary				
Elementary Art Mural	\$ 78	\$ ---	\$ ---	\$ 78
Elementary Library Fund	724	244	193	775
Elementary P.E. Classes	542	1,625	1,513	654
Elementary Playground	563	---	---	563
Elementary School Store	99	12	---	111
Class of 2021	---	60	60	---
Class of 2022	---	2,388	2,358	30
Class of 2023	---	243	242	1
Class of 2024	6	1,010	845	171
Class of 2025	---	1,290	1,290	---
Total	2,012	6,872	6,501	2,383
Middle School				
5 th Grade School Store	299	3,841	2,814	1,326
5 th and 6 th Grade Student Council	379	328	303	404
7 th and 8 th Grade Student Council	649	1,346	1,600	395
8 th Grade Reserve Account	4	300	---	304
7 th Grade Reserve Account	878	875	576	1,177
6 th Grade Reserve Account	2,539	3,395	3,806	2,128
Amusement Park Physics	335	586	678	243
M.S. Carnival	---	1,990	866	1,124
M.S. Rocketry Club	100	---	98	2
M.S. Track and Field	28	---	---	28
M.S. Wrestling	53	---	---	53
M.S. Yearbook	768	250	732	286
Class of 2017	552	4,870	3,824	1,598
Class of 2018	258	6,197	5,824	631
Class of 2019	473	12,545	12,740	278
Class of 2020	---	5,856	5,513	343
Total	\$ 7,315	\$ 42,379	\$ 39,374	\$ 10,320



Agency Funds

	Balance 6/30/12	Receipts	Disbursements	Balance 6/30/13
High School				
Band	\$ 3,625	\$ 26,491	\$ 28,189	\$ 1,927
H.S. Art/Photography	737	40	---	777
Choir	143	---	---	143
Color Guard	341	---	---	341
Drama	689	854	810	733
Forensics	863	---	863	---
H.S. Library Fund	114	83	18	179
H.S. Student Activities	17	863	245	635
H.S. Scholarship Fund	1,250	752	1,005	997
H.S. Student Council	32	2,656	2,641	47
Industrial Arts	1	---	1	---
Journalism	135	---	---	135
National Honor Society	96	249	159	186
Panther Yearbook	3,693	7,452	7,633	3,512
Ski Club	461	---	---	461
Spanish Club	---	---	---	---
Wild Joe Cappuccino Store	535	---	134	401
Class of 2009	---	---	---	---
Class of 2012	749	---	749	---
Class of 2013	2,788	---	881	1,907
Class of 2014	1,216	1,455	1,854	817
Class of 2015	976	1,458	950	1,484
Class of 2016	3,924	401	396	3,929
Total	22,385	42,754	46,528	18,611
High School Athletics				
Baseball Club	2,866	17,071	16,215	3,722
Boys Basketball	1,128	1,595	1,751	972
Cheerleaders	421	788	782	427
Cheerleading (Enrichment)	78	78	70	86
C.E. Youth Basketball	174	1,455	1,319	310
C.E. 7/8 Rocket Football	---	219	---	219
Cross Country	236	6,360	5,986	610
Football Club	1,127	3,130	2,585	1,672
Girls Softball	237	2,943	1,871	1,309
Girls Varsity Basketball	1,619	2,791	2,414	1,996
Golf Team	171	200	---	371
H.S. Boys Track	573	200	---	773
H.S. Girls Track	1,482	953	1,200	1,235
Mat Maids	---	276	153	123
Varsity Club	3,991	11,693	7,193	8,491
Varsity Wrestling	3,462	16,365	16,032	3,795
Volleyball Club	1,447	7,366	5,716	3,097
Weight Room Equipment	500	---	---	500
Total	\$ 19,512	\$ 73,483	\$ 63,287	\$ 29,708



HESPERIA COMMUNITY SCHOOLS

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2013

	Balance 6/30/12	Receipts	Disbursements	Balance 6/30/13
Community Education				
Community Ed Art Club	\$ 29	\$ ---	\$ ---	\$ 29
Hesperia Alternative Ed	17	---	17	---
Youth Ed-Ventures	41	---	41	---
50 Plus Club	103	---	31	72
Mug Partnership Program	---	---	---	---
Total	190	---	89	101
Central Office				
Key/Card Replacement	10	10	---	20
Total	10	10	---	20
General Accounts				
Due from General Fund	---	---	---	---
Due to General fund	---	5,757	---	5,757
Interest Earned	1,846	71	---	1,917
Elementary Checking	2,905	945	2,139	1,711
Community Ed Checking	1,391	1,340	1,855	876
High School Checking	3,219	3,298	3,794	2,723
Middle School Checking	2,078	926	2,488	516
Total	11,439	12,337	10,276	13,500
TOTAL ACTIVITY	\$ 62,863	\$ 177,835	\$ 166,055	\$ 74,643



STATEMENTS OF BONDED INDEBTEDNESS



HESPERIA COMMUNITY SCHOOLS

Statement of Bonded Indebtedness

2009 REFUNDING DEBT

YEAR ENDED JUNE 30, 2013

Issue Dated September 22, 2009 in the amount of	\$ 5,430,000
Less:	
Bonds paid in prior years	1,135,000
Bonds due and paid May 1, 2013	370,000
Balance outstanding - June 30, 2013	\$ 3,925,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2014	2.750%	\$ 146,586	\$ 360,000	\$ 506,586
2015	3.000%	136,686	350,000	486,686
2016	3.250%	126,186	345,000	471,186
2017	3.500%	114,974	335,000	449,974
2018	3.750%	103,249	335,000	438,249
2019	4.000%	90,686	325,000	415,686
2020	4.000%	77,686	325,000	402,686
2021	4.000%	64,686	315,000	379,686
2022	4.125%	52,086	315,000	367,086
2023	4.200%	39,093	315,000	354,093
2024	4.250%	25,863	305,000	330,863
2025	4.300%	12,900	300,000	312,900
		\$ 990,681	\$ 3,925,000	\$ 4,915,681



Statement of Bonded Indebtedness

2008 DEBT (SERIES A)

YEAR ENDED JUNE 30, 2013

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

Less:

Bonds paid in prior years 345,000

Bonds due and paid May 1, 2013 165,000

Balance outstanding - June 30, 2013 **\$ 8,490,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
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>\$ 5,728,461</u>	<u>\$ 8,490,000</u>	<u>\$ 14,218,461</u>



HESPERIA COMMUNITY SCHOOLS

Statement of Bonded Indebtedness

2009 QZAB DEBT

YEAR ENDED JUNE 30, 2013

Issue Dated July 30, 2009 in the amount of					\$ 156,065
Less: Bonds paid in prior years					---
Bonds due and paid July 30, 2012					---
Balance outstanding - June 30, 2013					\$ 156,065
Balance payable as follows:					
	Rate	Interest	Principal	Total	
2014	0%	\$ ---	\$ 31,213	\$ 31,213	
2015	0%	---	124,852	124,852	
		\$ ---	\$ 156,065	\$ 156,065	

2011 QZAB DEBT

YEAR ENDED JUNE 30, 2013

Issue Dated May 25, 2011 in the amount of					\$ 130,871
Less: Bonds paid in prior years					---
Bonds due and paid July 30, 2012					---
Balance outstanding - June 30, 2013					\$ 130,871
Balance payable as follows:					
	Rate	Interest	Principal	Total	
2015	0%	\$ ---	\$ 26,174	\$ 26,174	
2016	0%	---	104,697	104,697	
		\$ ---	\$ 130,871	\$ 130,871	

Issue Dated June 30, 2011 in the amount of					\$ 84,260
Less: Bonds paid in prior years					---
Bonds due and paid July 30, 2012					---
Balance outstanding - June 30, 2013					\$ 84,260
Balance payable as follows:					
	Rate	Interest	Principal	Total	
2015	0%	\$ ---	\$ 16,852	\$ 16,852	
2016	0%	---	67,408	67,408	
		\$ ---	\$ 84,260	\$ 84,260	



Statement of Bonded Indebtedness

2012 QZAB DEBT YEAR ENDED JUNE 30, 2013

Issue Dated June 20, 2012 in the amount of				\$ 83,424
Less: Bonds paid in prior years				---
Bonds due and paid July 30, 2012				16,685
Balance outstanding - June 30, 2013				\$ 66,739
Balance payable as follows:	Rate	Interest	Principal	Total
2014	4.24%	\$ 2,830	\$ 16,685	\$ 19,515
2015	4.24%	2,122	16,685	18,807
2016	4.24%	1,415	16,685	18,100
2017	4.24%	707	16,684	17,391
		<u>\$ 7,074</u>	<u>\$ 66,739</u>	<u>\$ 73,813</u>

Issue Dated June 20, 2012 in the amount of				\$ 85,558
Less: Bonds paid in prior years				---
Bonds due and paid July 30, 2012				17,112
Balance outstanding - June 30, 2013				\$ 68,446
Balance payable as follows:	Rate	Interest	Principal	Total
2014	4.24%	\$ 2,902	\$ 17,112	\$ 20,014
2015	4.24%	2,177	17,112	19,289
2016	4.24%	1,451	17,111	18,562
2017	4.24%	726	17,111	17,837
		<u>\$ 7,256</u>	<u>\$ 68,446</u>	<u>\$ 75,702</u>

The interest shown on the 2012 QZAB Debt is expected to be off-set by related federal revenue, making the net interest paid each year equal to -0-.



HESPERIA COMMUNITY SCHOOLS

Statement of Bonded Indebtedness

2013 QZAB DEBT

YEAR ENDED JUNE 30, 2013

Issue Dated June 26, 2013 in the amount of					\$ 85,806
Less: Bonds paid in prior years					---
Bonds due and paid June 26, 2013					---
Balance outstanding - June 30, 2013					\$ 85,806
Balance payable as follows:					
	Rate	Interest	Principal	Total	
2014	0.0%	\$ ---	\$ 17,161	\$ 17,161	
2015	0.0%	---	17,161	17,161	
2016	0.0%	---	17,161	17,161	
2017	0.0%	---	17,161	17,161	
2018	0.0%	---	17,162	17,162	
		\$ ---	\$ 85,806	\$ 85,806	

Issue Dated June 26, 2013 in the amount of					\$ 95,905
Less: Bonds paid in prior years					---
Bonds due and paid June 26, 2013					---
Balance outstanding - June 30, 2013					\$ 95,905
Balance payable as follows:					
	Rate	Interest	Principal	Total	
2014	0.0%	\$ ---	\$ 19,181	\$ 19,181	
2015	0.0%	---	19,181	19,181	
2016	0.0%	---	19,181	19,181	
2017	0.0%	---	19,181	19,181	
2018	0.0%	---	19,181	19,181	
		\$ ---	\$ 95,905	\$ 95,905	



Statement of Bonded Indebtedness

2009 DEBT

YEAR ENDED JUNE 30, 2013

Issue Dated February 3, 2009 in the amount of	\$ 6,000,000
Less:	
Bonds paid in prior years	340,000
Bonds due and paid May 1, 2013	140,000
	<hr/>
Balance outstanding - June 30, 2013	\$ 5,520,000
	<hr/>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
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
		<hr/>	<hr/>	<hr/>
		\$ 3,265,013	\$ 5,520,000	\$ 8,785,013
		<hr/>	<hr/>	<hr/>

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

INTERNAL AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hesperia Community School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Hesperia Community School's compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.



Report on Internal Control over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Hesperia Community Schools as of and for the year ended June 30, 2013, and have issued our report thereon dated August 15, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Karl L. Drake, PC
Certified Public Accountant

August 15, 2013



HESPERIA COMMUNITY SCHOOLS

FEDERAL FINANCIAL ASSISTANCE

SCHEDULE O EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

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	1315301213	\$ 385,163
- Title I	*84.010	1115301011	439,778
- Title I	*84.010	1215301112	640,595
- Adult Basic Education	84.002	131130131567	43,820
- Adult Basic Education	84.002	121130121567	43,820
- Title VI Rural and Low-Income Grant	84.358	1206601112	34,425
- Title VI Rural and Low-Income Grant	84.358	1306601213	24,789
- Title IIA Teacher Training and Recruiting	84.367	1305201213	102,373
- Title IIA Teacher Training and Recruiting	84.367	1205201112	98,430
Pass Through Newago County RESA			
- IDEA	*84.027A		125,000
TOTAL U.S. DEPARTMENT OF EDUCATION			

* Designates a major program.



Federal Financial Assistance

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2012	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2013
\$ ---	\$ ---	\$ 326,877	\$ 384,156	\$ 57,279
226,683	---	-850	-850	---
609,431	94,441	94,441	---	---
836,114	94,441	420,468	383,306	57,279
---	---	39,918	42,624	2,706
41,597	7,388	7,388	---	---
41,597	7,388	47,306	42,624	2,706
31,194	9	9	---	---
---	---	23,747	23,838	91
31,194	9	23,756	23,838	91
---	---	50,392	53,442	3,050
63,608	17,375	17,375	---	---
63,608	17,375	67,767	53,442	3,050
---	61,266	124,457	125,000	61,809
	\$ 180,479	\$ 683,754	\$ 628,210	\$ 124,935



HESPERIA COMMUNITY SCHOOLS

FEDERAL FINANCIAL ASSISTANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2013

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		12,698
U.S.D.A. Food Distribution:			
- Entitlement Commodities	10.555	Various	30,280
- Bonus Commodities	10.555	Various	279
Pass Through State Department of Education:			
- National School Lunch Program	10.555	121960, 131960	260,690
- Special Breakfast	10.553	131970, 121970	115,457
TOTAL U.S. DEPARTMENT OF AGRICULTURE			
TOTAL FEDERAL FINANCIAL ASSISTANCE			
*Designates a major program			



Federal Financial Assistance

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2012	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2013
\$ ---	\$ ---	\$ 12,698	\$ 12,698	\$ ---
---	---	30,280	30,280	---
---	---	279	279	---
---	5,903	262,171	260,690	4,422
---	5,903	292,730	291,249	4,422
---	3,906	116,006	115,457	3,357
\$ ---	9,809	421,434	419,404	7,779
	\$ 190,288	\$ 1,105,188	\$ 1,047,614	\$ 132,714



HESPERIA COMMUNITY SCHOOLS

FEDERAL FINANCIAL ASSISTANCE

FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2013

NOTE 1 - MAJOR PROGRAMS

The School has two major programs - Title I Part A Cluster and IDEA. Total expenditures during the year ended June 30, 2013 were \$383,306 and \$125,000 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, 2013 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2013 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.



Federal Financial Assistance

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

YEAR ENDED JUNE 30, 2013

	<u>Financial Statement</u>	<u>Awards Schedule</u>
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	\$ 384,156	\$ 383,306
IDEA	125,000	125,000
Adult Basic Education	42,624	42,624
Title VI	23,838	23,838
Teacher Training and Recruiting	53,442	53,442
TOTAL DEPARTMENT OF EDUCATION GRANTS	<u>629,060</u>	<u>628,210</u>
DEPARTMENT OF AGRICULTURE GRANTS		
SCHOOL LUNCH FUND		
Commodities	30,559	30,559
National School Lunch	260,690	260,690
Special Breakfast	115,457	115,457
SUB-TOTAL	<u>406,706</u>	<u>406,706</u>
GENERAL FUND		
Schools and Roads	<u>12,698</u>	<u>12,698</u>
TOTAL DEPARTMENT OF AGRICULTURE GRANTS	<u>419,404</u>	<u>419,404</u>
INTERNAL REVENUE SERVICE		
U. S. Treasury Interest	<u>5,877</u>	<u>---</u>
GRAND TOTAL	<u>\$ 1,054,341</u>	<u>\$ 1,047,614</u>



HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2013

Summary of Auditor's Results

1. The auditor issued an unqualified report on the financial statements of Hesperia Community Schools.
2. The audit disclosed no noncompliance that is material to the financial statements of Hesperia Community Schools.
3. The auditor issued an unqualified opinion on compliance for major programs.
4. The audit disclosed no audit findings that are required to be reported under Section 510(a).
5. Hesperia Community Schools had two major programs - Title I Part A Cluster and IDEA.
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, 2013

There were no prior audit findings.

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

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August 15, 2013

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, 2013, and have issued our report thereon dated August 15, 2013. 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, 2013, 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, 2013.

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. 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 15, 2013.

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.

Federal Grant Invoicing

The District has the ability, once the consolidated application is approved, to invoice the State of Michigan for monies expended related to federal grant programs as often as desired. Most districts invoice on a monthly basis. We recommend that the Business Office increase its invoicing for federal programs to monthly, to assist the District's cash flow.

Internal Accounts

Currently, it is the District's policy with its internal accounts to receive deposits in sealed envelopes with transmittals on which the deposits are broken down by cash and check totals. Often these deposits are received "net" of various expenses, or with very little substantiation regarding the composition of the deposits (number of participants, number of items sold, etc.). We recommend that the transmittals be modified to gather more information regarding the details of the deposit. We also recommend that the policy be changed regarding "netting". Money received should be deposited in total and all expenditures managed through the Business Office disbursement system. Various examples of deposit transmittals are available on-line, and several were discussed with the Business Office at the time of the audit.

Accounting Policy Changes

During the fiscal year ended June 30, 2013, the District adopted GASB Statements number 62 and 63. These Statements changed the wording of the auditor's opinion and various aspects of the audited financial statement presentation.

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.