

**HESPERIA COMMUNITY
SCHOOLS**



FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014



HESPERIA COMMUNITY SCHOOLS

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2014

Board of Education

Matt Joppich	President
Jim Lavin	Vice President
Ryan Good	Secretary
Patricia Budde (Appointed by Board)	Treasurer
Kimberly McClernan	Board Member
Scot Wenberg	Board Member
Karen Kasankiewicz	Board Member
Cheryl Rose	Board Member

Management

Jeffrey Haase	Superintendent
Patricia Budde	Business Manager



TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3-10
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements:	
Statement of Net Position.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds.....	14
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Fiduciary Fund:	
Statement of Fiduciary Net Position.....	16
Notes to Financial Statements.....	17-29
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule - General Fund.....	31
- Food Service.....	32
OTHER SUPPLEMENTAL INFORMATION	
GENERAL FUND	
Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual.....	35-38
SPECIAL REVENUE FUND	
Balance Sheet.....	40
Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual.....	41-42



TABLE OF CONTENTS

	<u>PAGE</u>
DEBT RETIREMENT FUNDS	
Combining Balance Sheet.....	44
Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual.....	45
AGENCY FUNDS	
Statement of Assets and Liabilities.....	47
Combining Statement of Changes in Assets and Liabilities.....	47
Statement Of Changes In Assets And Liabilities.....	48-50
STATEMENTS OF BONDED INDEBTEDNESS.....	52-58
FEDERAL FINANCIAL ASSISTANCE	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	59-60
FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	61
SCHEDULE OF RECONCILIATION OF REVENUE WITH EXPENDITURES FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS.....	62
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STATNDARDS.....	63-64
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133.....	65-66
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	67
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	68

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, 2014, 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, 2014, 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. 65, *Items Previously Reported as Assets and Liabilities*. 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 and schedule of expenditures of federal awards (as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*) are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information and schedule of expenditures of federal awards (as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*) are the responsibility of management and were derived from and relate 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 and schedule of expenditures of federal awards (as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*) are 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 14, 2014



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, 2014. 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, 2014 and 2013:

TABLE 1	Governmental Activities (In Millions)	
	2014	2013
ASSETS		
Current and other assets	\$ 2.9	\$ 3.3
Capital assets - Net of accumulated depreciation	17.0	17.5
TOTAL ASSETS	19.9	20.8
LIABILITIES		
Current liabilities	2.6	2.6
Long-term liabilities	20.8	21.2
TOTAL LIABILITIES	23.4	23.8
NET POSITION <DEFICIT>		
Net investment in capital assets	-4.6	-4.3
Restricted	0.6	0.5
Unrestricted	0.5	0.8
TOTAL NET POSITION <DEFICIT>	\$ -3.5	\$ -3.0

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 \$-3.5 million at June 30, 2014. Capital assets, net of related debt totaling \$-4.6 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 (\$0.5 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 2014 and 2013.

TABLE 2	Governmental Activities (In Millions)	
	2014	2013
REVENUE		
Program Revenue		
Charges for services	\$ 0.2	\$ 0.2
Grants and categoricals	1.7	2.2
General Revenue		
Property taxes	1.7	1.7
State foundation allowance	7.2	7.3
Other	0.6	0.5
TOTAL REVENUE	\$ 11.4	\$ 11.9
FUNCTION/PROGRAM EXPENSES		
Instruction	\$ 6.9	\$ 7.5
Support Services	2.9	2.9
Food Services	0.5	0.5
Interest on long-term debt	1.0	1.0
Depreciation (unallocated)	0.6	0.6
Community Service	0.0	0.0
TOTAL FUNCTION/PROGRAM EXPENSES	11.9	12.5
INCREASE <DECREASE> IN NET POSITION	\$ -0.5	\$ -0.6



HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all governmental activities this year was \$11.9 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 (\$1.7 million). The remaining "public benefit" portion of the governmental activities was paid with \$1.7 million in taxes, \$7.2 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 \$0.5 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 \$1.8 million, which is a decrease of \$0.1 million from last year. The primary reason for the decrease was reductions in adult education funding. The General Fund, the principal operating fund, saw the fund balance decrease \$191,648 to \$1,178,425.
- The Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$48,105.
- Combined, the Debt Service Funds showed a fund balance increase of approximately \$42,166. 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.

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



Management's Discussion and Analysis

supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenue was decreased in total by \$511,926, which is the result of changes to the various revenue accounts in the original budget. The main differences were in state aid, federal grant amounts and incoming transfers. 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. The fall 2013 student membership numbers were down from what was estimated for pupil membership which resulted in less state aid. Actual revenue received compared to final budget amended decreased by \$63,167. 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 decreased by \$144,223 to reflect for staffing changes that occurred during the year and to adjust for under spending of the grant amounts. Actual expenditures compared to the final amended budget decreased by \$242,888. This decrease resulted from a net of the grants not being totally spent and general under-spending
- When reviewing the fund balance, the final amended budget estimated the fund balance to be \$998,705 and the actual fund balance is \$1,178,425. This represents a positive variance of \$179,720 between the budgeted amount of fund balance and the actual fund balance. The fund balance ending June 30, 2013, was \$1,370,073 and the fund balance ending June 30, 2014, is \$1,178,425. This represents a use of fund balance of \$191,648 over the previous year resulting in a decrease in the amount of fund balance.

Capital Asset and Debt Administration

Capital Asset

At June 30, 2014, the School District had \$17 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 \$470,368 or 3 percent, from last year.

	2014	2013
Land	\$ 75,012	\$ 75,012
Buildings	19,629,488	19,610,504
Buses and Other Vehicles	1,329,551	1,245,461
Furniture and Equipment	2,344,596	2,312,751
Total Capital Assets	23,378,647	23,243,728
Less Accumulated Depreciation	6,384,852	5,779,565
Net Capital Assets	\$ 16,993,795	\$ 17,464,163



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 \$21.6 million in bonds and notes outstanding versus \$21.7 million in the previous year - a decrease of 1 percent. Those bonds and notes consisted of the following:

	2014	2013
General Obligation Bonds	\$ 21,639,768	\$ 21,751,771
Notes Payable	---	---
Total	\$ 21,639,768	\$ 21,751,771

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 2014-15 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 2014-15 fiscal year is 10 percent of the February 2014 student count and 90 percent of the October 2014 student count. The 2014-15 fiscal year budget was adopted in June 2014, based on an estimate of students that will be enrolled on count day in October 2014. 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 2014-15 school year, we anticipate that the fall student count will be higher than the estimates used in creating the 2014-15 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 2014-2015 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 2014-2015 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 will expire on June 30, 2015. We will begin negotiations during the 2014-15 school year with that group. The HEA (Teachers Union) has a contract which will expire on August 24, 2015. We will start the negotiating process early in the 2014-15 school year.

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 2014-15 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 2014-2015, and will be working on the 2015-16 budgets early in 2015.

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, 2014

	Governmental Activities
ASSETS	
Current Assets	
Cash and Investments	\$ 1,293,943
Accounts Receivable	1,578,969
Inventories	37,773
Total Current Assets	<u>2,910,685</u>
Non-Current Assets	
Capital Assets	23,378,647
Less: Accumulated Depreciation	<u>-6,384,852</u>
Total Non-Current Assets	<u>16,993,795</u>
TOTAL ASSETS	<u>\$ 19,904,480</u>
LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts Payable	\$ 220,607
Accrued Salaries and Expenses	878,551
Accrued Interest	495,763
Unearned Revenue	60,927
Bonds and Notes Payable, Due within One Year	<u>980,416</u>
Total Current Liabilities	<u>2,636,264</u>
Non-Current Liabilities	
Bonds and Notes Payable	20,659,352
Compensated Absences and Severance Pay	<u>152,155</u>
Total Non-Current Liabilities	<u>20,811,507</u>
TOTAL LIABILITIES	<u>23,447,771</u>
NET POSITION <DEFICIT>	
Net Investment in Capital Assets	-4,645,973
Restricted	570,019
Unrestricted	<u>532,663</u>
TOTAL NET POSITION <DEFICIT>	<u>-3,543,291</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 19,904,480</u>

See Accompanying Notes to Financial Statements.



District-Wide Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenue		Governmental
		Charges For Services	Operating Grants	Activities
				Net <Expense> Revenue and Changes in Net Position
Governmental Activities				
Instruction	\$ 6,900,416	\$ ---	\$ 1,222,332	\$ -5,678,084
Support Services	2,877,595	84,866	38,370	-2,754,359
Food Services	482,775	104,437	426,388	48,050
Community Services	17,063	---	---	-17,063
Interest on Long-Term Debt	987,481	---	---	-987,481
Depreciation (Unallocated)	622,784	---	---	-622,784
Total Governmental Activities	\$ 11,888,114	\$ 189,303	\$ 1,687,090	-10,011,721
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				819,022
Property Taxes, Levied for Debt Service				885,680
State of Michigan Aid, Unrestricted				7,247,760
Interest Earnings				4,691
Other				523,756
Total General Revenue				9,480,909
CHANGE IN NET POSITION				-530,812
NET POSITION - BEGINNING OF YEAR				-3,012,479
NET POSITION <DEFICIT>- END OF YEAR				\$ -3,543,291

See Accompanying Notes to Financial Statements.



HESPERIA COMMUNITY SCHOOLS

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2014

	General	Food Service	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 849,109	\$ 82,559	\$ 362,275	\$ 1,293,943
Accounts Receivable	49,905	---	---	49,905
Due from Other Governmental Units	1,506,033	23,031	---	1,529,064
Due from Other Funds	2,963	109,913	85,612	198,488
Inventories	35,617	2,156	---	37,773
Prepaid Expenditures	---	---	---	---
TOTAL ASSETS	\$ 2,443,627	\$ 217,659	\$ 447,887	\$ 3,109,173
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 215,811	\$ 4,796	\$ ---	\$ 220,607
Accrued Salaries and Withholdings	878,551	---	---	878,551
Due to Other Funds	109,913	---	88,575	198,488
TOTAL LIABILITIES	1,204,275	4,796	88,575	1,297,646
DEFERRED INFLOW OF RESOURCES				
Unavailable Revenue	60,927	---	---	60,927
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	1,265,202	4,796	88,575	1,358,573
FUND BALANCES				
Non-spendable - Inventories	35,617	2,156	---	37,773
Restricted	---	210,707	359,312	570,019
Assigned	279,060	---	---	279,060
Unassigned	863,748	---	---	863,748
TOTAL FUND BALANCES	1,178,425	212,863	359,312	1,750,600
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,443,627	\$ 217,659	\$ 447,887	\$ 3,109,173
TOTAL GOVERNMENTAL FUND BALANCES				\$ 1,750,600
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				\$ 23,378,647
Accumulated Depreciation				-6,384,852
				<u>16,993,795</u>
Long-term Liabilities are not due and payable in the current period and are not reported in the fund.				
Bonds and Notes Payable				-21,639,768
Compensated Absences				-152,155
Accrued interest is not included as a liability in governmental funds.				<u>-495,763</u>
NET POSITION <DEFICIT> OF GOVERNMENTAL ACTIVITIES				\$ -3,543,291

See Accompanying Notes to Financial Statements.



Fund Financial Statements

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

YEAR ENDED JUNE 30, 2014

	General	Food Service	Other Non-major Governmental Funds	Totals
REVENUE				
Local Sources	\$ 1,021,090	\$ 62,464	\$ 889,422	\$ 1,972,976
Inter-District Sources	146,716	---	---	146,716
State Sources	8,055,540	16,808	---	8,072,348
Federal Sources	642,225	409,580	---	1,051,805
Other	---	42,028	71,429	113,457
TOTAL REVENUE	9,865,571	530,880	960,851	11,357,302
EXPENDITURES				
Current				
Instruction	6,948,297	---	---	6,948,297
Supporting Services	2,877,595	482,775	---	3,360,370
Community Services	17,063	---	---	17,063
Debt Service	144,434	---	1,516,038	1,660,472
Capital Outlay	156,826	---	---	156,826
TOTAL EXPENDITURES	10,144,215	482,775	1,516,038	12,143,028
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-278,644	48,105	-555,187	-785,726
OTHER FINANCING SOURCES				
Loan Proceeds	86,996	---	597,353	684,349
Operating Transfers In	---	---	---	---
Operating Transfers Out	---	---	---	---
TOTAL OTHER FINANCING SOURCES	86,996	---	597,353	684,349
NET CHANGE IN FUND BALANCES	-191,648	48,105	42,166	-101,377
FUND BALANCES - BEGINNING OF YEAR	1,370,073	164,758	317,146	1,851,977
FUND BALANCES - END OF YEAR	\$ 1,178,425	\$ 212,863	\$ 359,312	\$ 1,750,600

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, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ -101,377
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.	52,301
- 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	-622,784
Capital Outlay	<u>152,406</u>
	-470,378
- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	-123,361
- 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.	-684,349
- 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>796,352</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ -530,812</u></u>

See Accompanying Notes to Financial Statements.



STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	<u>Agency Fund - Student Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 72,572
Accounts Receivable	---
Due from Other Funds	---
TOTAL ASSETS	<u>\$ 72,572</u>
LIABILITIES	
Due to Other Funds	\$ ---
Due to Student Groups	72,130
Due to Others	442
TOTAL LIABILITIES	<u>\$ 72,572</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.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

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

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

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

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



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

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

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

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

GOVERNMENTAL FUNDS

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue 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, and QZAB 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.



Fund equity

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.

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.

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. DEFERRED OUTFLOW/ INFLOW OF RESOURCES: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

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 is a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.



Notes to Financial Statements

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, 2014, the book value of the School District's deposits was \$1,366,515 and the bank balance was \$1,318,282. Of the bank balance, \$311,984 was covered by federal depository insurance and \$1,006,298 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.

Carrying Value	Market Value
\$ 3,519	\$ 3,519
Total Cash:	
Petty Cash	\$ 100
Deposits in Financial Institutions	1,314,663
Deposits in MLAF Account	3,519
	<u>\$ 1,318,282</u>

NOTE 3 - INVENTORY

The \$35,617 shown as inventory in the General Fund represents the value of supplies, bus parts and fuel on hand at June 30, 2014.

There is \$2,156 of inventory in the Special Revenue Fund - Food Service.

Total inventory of both funds at June 30, 2014, was \$37,773.



HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2014, is comprised of the following:

Newago County RESA	\$ 61,563
State of Michigan - State Aid	1,351,953
- Adult Basic Education	2,168
- Title 2A	16,508
- Title 6	2,882
- Title 1	67,216
- National School Lunch	13,111
-Special Breakfast	6,775
- Other	6,888
TOTAL DUE FROM OTHER GOVERNMENTAL UNITS	\$ 1,529,064

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2014, consisted of the following:

<u>Due To:</u>		<u>Due From:</u>	
General	\$ 2,963	2009 Refunding Debt	\$ 2,963
Food Service	109,913	General	109,913
2009 Debt	34,880	2009 Refunding Debt	34,880
2009 Refunding Debt	1,105	2009 Debt	1,105
2008 A Debt	49,627	2009 Refunding Debt	49,627
	<u>\$ 198,488</u>		<u>\$ 198,488</u>

NOTE 6 - ACCRUED SALARIES AND FRINGE BENEFITS

At June 30, 2014, \$550,180 represents salaries payable, which is the unpaid portion of teacher contracts for the 2013-14 school year. On these salaries, there are also fringe benefits payable at year-end totaling \$328,371.

NOTE 7 - DUE TO OTHER GOVERNMENTS

The District had no Due to Other Governmental Units at June 30, 2014.

NOTE 8 - BUDGETARY ACCOUNTING

During the year ended June 30, 2014, the School incurred no expenditures that were in excess of the amounts appropriated.



Notes to Financial Statements

NOTE 9 - CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Disposals and Adjustments	Balance June 30, 2014
Assets not being depreciated:				
Land	\$ 75,012	\$ ---	\$ ---	\$ 75,012
Capital assets being depreciated:				
Building and building improvements	19,610,504	18,984	---	19,629,488
Buses and other vehicles	1,245,461	84,090	---	1,329,551
Furniture and equipment	2,312,751	49,332	17,487	2,344,596
Subtotal	23,168,716	152,406	17,487	23,303,635
Accumulated depreciation:				
Building and building improvements	3,674,880	364,084	---	4,038,964
Buses and other vehicles	831,463	102,225	---	933,688
Furniture and equipment	1,273,212	156,475	17,487	1,412,200
Subtotal	5,779,555	622,784	17,487	6,384,852
Net capital assets being depreciated	17,389,151	-470,368	---	16,918,783
Net capital assets	\$ 17,464,163	\$ -470,368	\$ ---	\$ 16,993,795

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

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, 2014, long-term debt changed as follows:

	Balance 7/1/13	Additional Debt	2012-13 Payments	Balance 6/30/14
2009 Refunding Bond Issue	\$ 3,925,000	\$ ---	\$ 360,000	\$ 3,565,000
2008 Series A Bond Issue	8,490,000	---	180,000	8,310,000
2009 Bond Issue	5,520,000	---	155,000	5,365,000
QZAB Bonds	688,092	86,996	101,352	673,736
School Loan Revolving	3,128,679	597,353	---	3,726,032
	21,751,771	684,349	796,352	21,639,768
Teacher Buy-Outs	162,500	---	62,500	100,000
Severance Pay	9,135	4,760	---	13,895
Compensated Absences	32,821	5,439	---	38,260
	\$ 21,956,227	\$ 694,548	\$ 858,852	\$ 21,791,923



NOTE 10 - LONG-TERM DEBT (CONTINUED)

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

	Other Bonds	School Loan Revolving	Other	QZAB Bonds	Total
2014-15	\$ 725,000	\$ ---	\$ 50,000	\$ 255,416	\$ 1,030,416
2015-16	755,000	---	50,000	259,642	1,064,642
2016-17	785,000	---	---	87,536	872,536
2017-18	815,000	---	---	53,742	868,742
2018-19	830,000	---	---	17,400	847,400
2019-Maturity	13,330,000	3,726,032	52,155	---	17,108,187
	\$ 17,240,000	\$ 3,726,032	\$ 152,155	\$ 673,736	\$ 21,791,923

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, 2014 was \$50,054.

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, 2014 was \$51,334.

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 \$38,260 unused vacation leave exists at June 30, 2014.

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, 2014 was \$124,852.

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, 2014 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, 2014 was \$84,260.



Notes to Financial Statements

E. 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, 2014, there were 5 staff people that accepted buy-outs of \$30,000, paid over 3 years. Total buy-outs payable at June 30, 2014, was \$100,000.

F. 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, 2014, was \$13,895.

G. 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 3.52268 % at June 30, 2014. Total amount outstanding at June 30, 2014 was \$3,726,032.

H. 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, 2014 was \$8,310,000.

I. 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, 2014 was \$5,365,000.

J. 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, 2014 were \$3,565,000.

K. 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, 2014 was \$68,645.

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, 2014 was \$76,724.

L. 2014 QZAB BONDS: On June 18, 2014, the School District borrowed \$86,996 of Qualified Zone Academy Bonds for the purchase of a bus. The bonds are interest free through Shelby State Bank. Annual payments of about \$17,399 are due beginning June 15, 2015 and continue through June 15, 2019. The balance due at June 30, 2014 was \$86,996.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

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



NOTE 11 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefits on a cash disbursement basis. The rates for the year ended June 30, 2014 as a percentage of payroll ranged from 20.96 to 25.39 percent.

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

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

The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS under all plans for the years ended June 30, 2014, 2013, and 2012 were \$1,283,647, \$1,833,754, and \$1,870,268, respectively, and were equal to the required contribution for those years.

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



Notes to Financial Statements

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2 percent employee contribution into a personal tax-deferred account, which is matched by an additional 2 percent employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3 percent employee contributions. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

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

NOTE 12 - FUND BALANCE

Components of Fund Balance at June 30, 2014, are as follows:

- A) \$35,617 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) \$2,156 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	265,791
	<u>\$ 279,060</u>

- D) The balance of the Fund Balance is unassigned and is available to fund future School operations. The June 30, 2014, Unassigned General Fund Balance of \$863,748 compares to June 30, 2013, Unassigned General Fund Balance of \$1,313,977.

NOTE 13 - SHORT-TERM BORROWING

On October 16, 2013, Hesperia Community Schools borrowed \$800,000 via a state aid note through Shelby State Bank. Interest was at 0.495%. The entire balance of this loan plus interest of \$2,717 was repaid on June 23, 2014.

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.



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

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

NOTE 15 - DEFERRED OUTFLOW

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

Program	
At Risk	\$ 39,642
Local Grants	10,284
Technology	11,001
	<u>\$ 60,927</u>

NOTE 16- ADOPTION OF NEW ACCOUNTING POLICIES

Effective April 1, 2012, the District adopted the provisions of the following 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. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflow and inflow of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflow of resources and deferred inflow of resources.

NOTE 17 - PENDING ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Department is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.



REQUIRED SUPPLEMENTAL INFORMATION



HESPERIA COMMUNITY SCHOOLS

Budgetary Comparison Schedule

GENERAL FUND

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 979,203	\$ 985,571	\$ 1,021,090	\$ 35,519
Inter-District Sources	---	145,000	146,716	1,716
State Sources	8,574,287	8,107,038	8,055,540	-51,498
Federal Sources	672,385	691,129	642,225	-48,904
Other Financing Sources	301,785	86,996	86,996	---
TOTAL REVENUE	10,527,660	10,015,734	9,952,567	-63,167
EXPENDITURES				
Current				
Instruction				
Basic Programs	5,531,964	5,560,770	5,516,495	44,275
Added Needs	1,519,550	1,428,299	1,361,804	66,495
Adult/Continuing Education	121,137	75,883	69,998	5,885
Supporting Services				
Pupil	227,908	265,267	219,867	45,400
Instructional Staff	183,775	147,862	144,924	2,938
Administration	552,693	672,783	634,549	38,234
Business Services	282,940	265,610	255,180	10,430
Operations	687,242	643,631	636,450	7,181
Transportation	685,054	599,770	599,727	43
Information Management	352,401	186,305	185,657	648
Athletics	245,628	201,319	201,241	78
Community Services	34,572	31,467	17,063	14,404
Debt Service	105,226	147,433	144,434	2,999
Capital Outlay	---	160,702	156,826	3,876
Other Uses - Operating Transfers	1,235	---	---	---
TOTAL EXPENDITURES	10,531,325	10,387,101	10,144,215	242,886
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-3,665	-371,367	-191,648	179,719
BUDGETARY FUND BALANCE - JULY 1, 2013	1,370,073	1,370,073	1,370,073	---
BUDGETARY FUND BALANCE - JUNE 30, 2014	\$ 1,366,408	\$ 998,706	\$ 1,178,425	\$ 179,719



Budgetary Comparison Schedule

FOOD SERVICE FUND

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Local Sources	\$ 72,700	\$ 58,773	\$ 62,464	\$ 3,691
State Sources	20,072	16,808	16,808	---
Federal Sources	389,916	414,048	409,580	-4,468
Miscellaneous	30,000	39,056	42,028	2,972
TOTAL REVENUE	512,688	528,685	530,880	2,195
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	522,919	511,769	482,775	28,994
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Information Management	---	---	---	---
Community Services	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	10,700	---	---	---
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	533,619	511,769	482,775	28,994
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-20,931	16,916	48,105	31,189
BUDGETARY FUND BALANCE - JULY 1, 2013	164,758	164,758	164,758	---
BUDGETARY FUND BALANCE - JUNE 30, 2014	\$ 143,827	\$ 181,674	\$ 212,863	\$ 31,189



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, 2014

REVENUE	Budget	Actual	Favorable <Unfavorable>
LOCAL SOURCES			
Current Property Tax Levy	\$ 819,022	\$ 819,022	\$ ---
Interest and Penalties - Delinquent Taxes	---	---	---
Contributions from Private Sources	72,751	78,014	5,263
Interest Earned	800	894	94
Community Service	---	---	---
Transportation	27,000	34,319	7,319
Athletics	50,548	50,547	-1
Other	15,450	38,294	22,844
TOTAL LOCAL SOURCES	985,571	1,021,090	35,519
INTER-DISTRICT SOURCES			
ISD	130,000	131,716	1,716
MSRP Reimbursement	15,000	15,000	---
TOTAL INTER-DISTRICT SOURCES	145,000	146,716	1,716
STATE SOURCES			
State Aid	6,843,570	6,844,768	1,198
Special Education	285,934	285,934	---
Adult Education	231,385	218,941	-12,444
At Risk	332,156	291,904	-40,252
Tech Readiness	11,001	11,001	---
Best Practices	56,772	56,772	---
MPSERS	272,556	272,556	---
MPSERS Offset	73,664	73,664	---
TOTAL STATE SOURCES	\$ 8,107,038	\$ 8,055,540	\$ -51,498



General Fund

	Budget	Actual	Favorable <Unfavorable>
FEDERAL SOURCES			
IDEA	\$ 125,000	\$ 125,000	\$ ---
Title I A	380,166	362,638	-17,528
Title IIA - Teacher Training and Recruiting	113,392	100,144	-13,248
Title VI B	21,657	20,455	-1,202
Adult Basic Education	33,000	16,073	-16,927
Schools and Roads	11,612	11,612	---
QZAB Bond Interest	6,302	6,303	1
TOTAL FEDERAL SOURCES	691,129	642,225	-48,904
TOTAL REVENUE	\$ 9,928,738	\$ 9,865,571	\$ -63,167
EXPENDITURES			
Instruction			
BASIC PROGRAMS			
Elementary School	\$ 2,314,823	\$ 2,275,804	\$ 39,019
Middle School	1,707,719	1,703,549	4,170
High School	1,538,228	1,537,142	1,086
TOTAL BASIC PROGRAMS	5,560,770	5,516,495	44,275
ADDED NEEDS			
Special Education	778,381	751,206	27,175
Compensatory Education	649,918	610,598	39,320
TOTAL ADDED NEEDS	1,428,299	1,361,804	66,495
ADULT/CONTINUING EDUCATION			
Adult Basic Education	42,865	38,087	4,778
High School Completion	33,018	31,911	1,107
TOTAL ADULT/CONTINUING EDUCATION	75,883	69,998	5,885
Total Instruction	\$ 7,064,952	\$ 6,948,297	\$ 116,655



HESPERIA COMMUNITY SCHOOLS

General Fund

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

FISCAL YEAR ENDED JUNE 30, 2014

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Supportive Services			
PUPIL			
Guidance	\$ 172,810	\$ 155,845	\$ 16,965
Health Services	41,092	37,534	3,558
Social Work Services	51,365	26,488	24,877
TOTAL PUPIL	265,267	219,867	45,400
INSTRUCTIONAL STAFF			
Improvement of Instruction	20,484	20,034	450
Educational Media Services	29,196	28,732	464
Computer Assisted Instruction	5,405	4,574	831
Supervision and Direction of Instruction	85,640	84,636	1,004
GED Testing Center	7,137	6,948	189
TOTAL INSTRUCTIONAL STAFF	147,862	144,924	2,938
ADMINISTRATION			
Board of Education	109,919	96,291	13,628
Executive Administration	120,371	120,063	308
Principals Offices	439,192	415,568	23,624
Other School Administration	3,301	2,627	674
TOTAL ADMINISTRATION	672,783	634,549	38,234
BUSINESS SERVICES			
Fiscal Services	191,623	188,526	3,097
Internal Services	---	---	---
Other Business Services	73,987	66,654	7,333
TOTAL BUSINESS SERVICES	265,610	255,180	10,430
OPERATION AND MAINTENANCE			
Operating Building Services	602,768	595,793	6,975
Security Services	40,863	40,657	206
TOTAL OPERATION AND MAINTENANCE	643,631	636,450	7,181
TRANSPORTATION			
Pupil Transportation Services	\$ 599,770	\$ 599,727	\$ 43



General Fund

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
INFORMATION MANAGEMENT			
Staff/Personnel Services	\$ 3,600	\$ 2,312	\$ 1,288
Information Management Services	124,539	125,262	-723
Pupil Accounting	30,766	30,683	83
Other Central Services	27,400	27,400	---
TOTAL INFORMATION MANAGEMENT	186,305	185,657	648
ATHLETICS	201,319	201,241	78
Total Supportive Services	2,982,547	2,877,595	104,952
Community Services			
Community Recreation	23,645	11,057	12,588
Community Activities	7,000	6,006	994
Custody and Care of Children	822	---	822
Total Community Services	31,467	17,063	14,404
Debt Service	147,433	144,434	2,999
Capital Outlay	160,702	156,826	3,876
TOTAL EXPENDITURES	\$ 10,387,101	\$ 10,144,215	\$ 242,886
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-458,363	-278,644	179,719
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	86,996	86,996	---
Operating Transfers In	---	---	---
Operating Transfers <Out>	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	86,996	86,996	---
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -371,367	-191,648	\$ 179,719
FUND BALANCE - JULY 1, 2013		1,370,073	
FUND BALANCE - JUNE 30, 2014		\$ 1,178,425	



HESPERIA COMMUNITY SCHOOLS

SPECIAL REVENUE FUND



BALANCE SHEET

JUNE 30, 2014

	Food Service Fund
ASSETS	
Cash In Bank	\$ 82,559
Due From Other Governmental Units	23,031
Due From Other Funds	109,913
Prepaid Expenses	---
Inventory	2,156
TOTAL ASSETS	\$ 217,659
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Due to Other Funds	\$ ---
Accounts Payable	4,796
Accrued Salaries	---
Accrued Expenses	---
TOTAL LIABILITIES	4,796
FUND EQUITY	
Fund Balance - Non-spendable - Inventory	2,156
Fund Balance - Restricted for Food Service	210,707
TOTAL FUND EQUITY	212,863
TOTAL LIABILITIES AND FUND EQUITY	\$ 217,659



HESPERIA COMMUNITY SCHOOLS

Special Revenue Fund

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

FISCAL YEAR ENDED JUNE 30, 2014

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Food Services			
Hot Lunch Receipts - Students	\$ 48,500	\$ 52,032	\$ 3,532
- Adults	1,132	1,168	36
- Ala Carte	9,041	9,209	168
State Aid	16,808	16,808	---
Federal Aid	382,182	382,182	---
Federal USDA Commodities in Kind	31,866	27,398	-4,468
Other Income	39,056	42,028	2,972
Interest Income	100	55	-45
TOTAL REVENUE	528,685	530,880	2,195
EXPENDITURES			
Salaries	125,000	124,539	461
Fringe Benefits	70,231	60,255	9,976
Professional Services	1,400	1,400	---
Contracted Services	40,342	35,148	5,194
Food and Supplies	256,460	247,849	8,611
Professional Development	500	412	88
Dues and Fees	1,636	1,181	455
Miscellaneous	1,000	889	111
Telephone	700	---	700
Postage	1,500	85	1,415
Repairs	1,000	230	770
Utilities	12,000	9,117	2,883
Capital Outlay	---	1,670	-1,670
TOTAL EXPENDITURES	\$ 511,769	\$ 482,775	\$ 28,994



Special Revenue Fund

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

FISCAL YEAR ENDED JUNE 30, 2014

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER EXPENDITURES	\$ 16,916	\$ 48,105	\$ 31,189
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ 16,916</u>	48,105	<u>\$ 31,189</u>
FUND BALANCE - BEGINNING OF YEAR		<u>164,758</u>	
FUND BALANCE - END OF YEAR		<u>\$ 212,863</u>	



HESPERIA COMMUNITY SCHOOLS

DEBT RETIREMENT FUNDS



COMBINING BALANCE SHEET

JUNE 30, 2014

	QZAB	Refund 2009	2009	2008A	Totals
ASSETS					
Cash in Bank	\$ 219,228	\$ 141,929	\$ 1,113	\$ 5	\$ 362,275
Due from other Funds	---	1,105	34,880	49,627	85,612
Due from other Governments	---	---	---	---	---
State Aid Revenue	---	---	---	---	---
Accounts Receivable	---	---	---	---	---
TOTAL ASSETS	\$ 219,228	\$ 143,034	\$ 35,993	\$ 49,632	\$ 447,887
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	87,470	1,105	---	88,575
Due to Other Governments	---	---	---	---	---
TOTAL LIABILITIES	---	87,470	1,105	---	88,575
FUND EQUITY					
Fund Balance	219,228	55,564	34,888	49,632	359,312
TOTAL LIABILITIES AND FUND EQUITY	\$ 219,228	\$ 143,034	\$ 35,993	\$ 49,632	\$ 447,867



HESPERIA COMMUNITY SCHOOLS

Debt Retirement Funds

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

FISCAL YEAR ENDED JUNE 30, 2014

	QZAB	Refund 2009	2009	2008A	Totals
REVENUE					
Current Taxes	\$ ---	\$ 352,235	\$ 220,180	\$ 313,265	\$ 885,680
Delinquent Taxes	---	---	---	---	---
Interest and Penalties on Delinquent Property Taxes	---	---	---	---	---
Earned Interest	3,511	214	7	10	3,742
State Aid Revenue	---	---	---	---	---
Miscellaneous	71,429	---	---	---	71,429
TOTAL REVENUE	74,940	352,449	220,187	313,275	960,851
EXPENDITURES					
Principal on Bonds	29,989	360,000	155,000	180,000	724,989
Interest on Bonds	1,224	146,586	231,555	410,599	789,964
Principal on School Loan Rev. Fund	---	---	---	---	---
Interest on School Loan Rev. Fund	---	---	---	---	---
Agent Fees and Other	---	935	75	75	1,085
TOTAL EXPENDITURES	31,213	507,521	386,630	590,674	1,516,038
EXCESS REVENUE OVER <UNDER> EXPENDITURES	43,727	-155,072	-166,443	-277,399	-555,187
OTHER FINANCING SOURCES					
Loan Proceeds	---	151,007	167,797	278,549	597,353
Operating Transfers In	---	---	---	---	---
Operating Transfers Out	---	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	151,007	167,797	278,549	597,353
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	43,727	-4,065	1,354	1,150	42,166
FUND BALANCE - BEGINNING OF YEAR	175,501	59,629	33,534	48,482	317,146
FUND BALANCE - END OF YEAR	\$ 219,228	\$ 55,564	\$ 34,888	\$ 49,632	\$ 359,312



AGENCY FUNDS



HESPERIA COMMUNITY SCHOOLS

Agency Funds

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2014

ASSETS	
Cash in Bank	\$ 72,572
Due From General Fund	---
TOTAL ASSETS	\$ 72,572
LIABILITIES	
Due to Food Service Fund	\$ ---
Due to Students Groups	72,130
Due to Others	442
TOTAL LIABILITIES	\$ 72,572

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2014

	Balance 6/30/13	Receipts	Disbursements	Balance 6/30/14
ASSETS				
Cash	\$ 74,643	\$ 196,109	\$ 198,180	\$ 72,572
Due from General Fund	---	---	---	---
TOTAL ASSETS	\$ 74,643	\$ 196,109	\$ 198,180	\$ 72,572
LIABILITIES				
Due to Food Service Fund	\$ 5,757	\$ ---	\$ 5,757	\$ ---
Due to Others				
Community Education	876	493	927	442
Student Groups				
High School Internal	2,723	1,129	2,489	1,363
Middle School Internal	516	483	324	675
Elementary Internal	1,711	1,764	1,111	2,364
Central Office Internal	63,060	192,240	187,572	67,728
Total Student Groups	68,010	195,616	191,496	72,130
TOTAL LIABILITIES	\$ 74,643	\$ 196,109	\$ 198,180	\$ 72,572

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**

FISCAL YEAR ENDED JUNE 30, 2014

ACTIVITY	Balance 6/30/13	Receipts	Disbursements	Balance 6/30/14
Elementary				
Elementary Art Mural	\$ 78	\$ ---	\$ ---	\$ 78
Elementary Library Fund	775	308	509	574
Elementary P.E. Classes	654	1,912	2,128	438
Elementary Playground	563	---	---	563
Elementary School Store	111	487	588	10
Summer Camp	---	100	---	100
Elementary Literacy Activity	---	2,174	1,961	213
Class of 2022	30	1,258	1,042	246
Class of 2023	1	2,489	2,485	5
Class of 2024	171	1,493	1,532	132
Class of 2025	---	747	703	44
Class of 2026	---	1,683	1,682	1
Total	2,383	12,651	12,630	2,404
Middle School				
5 th Grade School Store	1,326	3,872	3,944	1,254
5 th and 6 th Grade Student Council	404	---	---	404
7 th and 8 th Grade Student Council	395	---	128	267
8 th Grade Reserve Account	304	---	300	4
7 th Grade Reserve Account	1,177	---	---	1,177
6 th Grade Reserve Account	2,128	833	559	2,402
Amusement Park Physics	243	562	683	122
M.S. Carnival	1,124	1,505	1,286	1,343
M.S. Rocketry Club	2	---	---	2
M.S. Track and Field	28	---	---	28
M.S. Wrestling	53	---	---	53
M.S. Yearbook	286	---	---	286
Class of 2018	631	6,507	6,229	909
Class of 2019	278	6,686	5,461	1,503
Class of 2020	343	14,966	14,735	574
Class of 2021	---	6,671	6,238	433
Total	\$ 8,722	\$ 41,602	\$ 39,563	\$ 10,761



HESPERIA COMMUNITY SCHOOLS

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2014

	Balance 6/30/13	Receipts	Disbursements	Balance 6/30/14
High School				
Band	\$ 1,927	\$ 19,756	\$ 18,824	\$ 2,859
H.S. Art/Photography	777	---	18	759
Choir	143	---	---	143
Color Guard	341	---	---	341
Drama	733	1,775	1,936	572
H.S. Library Fund	179	57	5	231
H.S. Student Activities	635	-140	495	---
H.S. Scholarship Fund	997	500	500	997
H.S. Student Council	47	2,904	2,875	76
Journalism	135	---	---	135
National Honor Society	186	182	336	32
Panther Yearbook	3,512	6,985	6,392	4,105
Ski Club	461	45	---	506
Wild Joe Cappuccino Store	401	---	---	401
Class of 2013	1,907	---	1,907	---
Class of 2014	817	---	640	177
Class of 2015	1,484	4,094	2,212	3,366
Class of 2016	3,929	68	390	3,607
Class of 2017	1,598	652	272	1,978
Total	20,209	36,878	36,802	20,285
High School Athletics				
Baseball Club	3,722	16,586	18,065	2,243
Boys Basketball	972	1,356	1,347	981
Cheerleaders	427	312	---	739
Cheerleading (Enrichment)	86	530	94	522
C.E. Youth Basketball	310	1,550	1,264	596
C.E. 7/8 Rocket Football	219	689	352	556
Cross Country	610	5,687	6,113	184
Football Club	1,672	2,058	3,000	730
Girls Softball	1,309	4,856	5,646	519
Girls Varsity Basketball	1,996	1,903	2,686	1,213
Golf Team	371	200	---	571
H.S. Boys Track	773	200	---	973
H.S. Girls Track	1,235	200	---	1,435
Mat Maids	123	73	---	196
Varsity Club	8,491	6,563	11,336	3,718
Varsity Wrestling	3,795	17,170	18,383	2,582
Wrestling Pink Out	---	5,264	5,000	264
Volleyball Club	3,097	12,822	14,024	1,895
Weight Room Equipment	500	500	466	534
Total	\$ 29,708	\$ 78,519	\$ 87,776	\$ 20,451



STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2014

	Balance 6/30/13	Receipts	Disbursements	Balance 6/30/14
Community Education				
Community Ed Art Club	\$ 29	\$ ---	\$ ---	\$ 29
50 Plus Club	72	---	---	72
Total	101	---	---	101
Central Office				
Key/Card Replacement	20	20	---	40
District Literacy Bus		22,523	10,373	12,150
Total	20	22,543	10,373	12,190
Activity Total	61,143	192,193	187,144	66,192
General Accounts				
Due to Food Service	5,757	---	5,757	---
Interest Earned	1,917	47	428	1,536
Elementary Checking	1,711	1,764	1,111	2,364
Community Ed Checking	876	493	927	442
High School Checking	2,723	1,129	2,489	1,363
Middle School Checking	516	483	324	675
Total	13,500	3,916	11,036	6,380
TOTAL ACTIVITY	\$ 74,643	\$ 196,109	\$ 198,180	\$ 72,572



HESPERIA COMMUNITY SCHOOLS

STATEMENTS OF BONDED INDEBTEDNESS



Statement of Bonded Indebtedness

2009 REFUNDING DEBT

YEAR ENDED JUNE 30, 2014

Issue Dated September 22, 2009 in the amount of	\$ 5,430,000
Less:	
Bonds paid in prior years	1,505,000
Bonds due and paid May 1, 2014	360,000
Balance outstanding - June 30, 2014	\$ 3,565,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2015	3.000%	\$ 136,686	\$ 350,000	\$ 486,686
2016	3.250%	126,186	345,000	471,186
2017	3.500%	114,974	335,000	449,974
2018	3.750%	103,249	335,000	438,249
2019	4.000%	90,686	325,000	415,686
2020	4.000%	77,686	325,000	402,686
2021	4.000%	64,686	315,000	379,686
2022	4.125%	52,086	315,000	367,086
2023	4.200%	39,093	315,000	354,093
2024	4.250%	25,863	305,000	330,863
2025	4.300%	12,900	300,000	312,900
		<u>\$ 844,095</u>	<u>\$ 3,565,000</u>	<u>\$ 4,409,095</u>



HESPERIA COMMUNITY SCHOOLS

Statement of Bonded Indebtedness

2009 DEBT

YEAR ENDED JUNE 30, 2014

Issue Dated February 3, 2009 in the amount of	\$ 6,000,000
Less:	
Bonds paid in prior years	480,000
Bonds due and paid May 1, 2014	155,000
Balance outstanding - June 30, 2014	\$ 5,365,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2015	3.000%	\$ 224,355	\$ 170,000	\$ 394,355
2016	3.000%	218,955	190,000	408,955
2017	3.000%	213,030	205,000	418,030
2018	3.250%	206,543	210,000	416,543
2019	3.500%	199,367	215,000	414,367
2020	4.000%	191,305	215,000	406,305
2021	4.000%	182,605	220,000	402,605
2022	4.000%	173,805	220,000	393,805
2023	4.000%	164,905	225,000	389,905
2024	4.000%	155,905	225,000	380,905
2025	4.000%	146,905	225,000	371,905
2026	4.000%	137,805	230,000	367,805
2027	4.200%	128,375	230,000	358,375
2028	4.250%	118,658	230,000	348,658
2029	4.300%	108,825	230,000	338,825
2030	5.000%	98,005	235,000	333,005
2031	5.000%	86,255	235,000	321,255
2032	5.000%	74,505	235,000	309,505
2033	5.000%	62,755	235,000	297,755
2034	4.800%	51,240	235,000	286,240
2035	4.800%	39,960	235,000	274,960
2036	4.800%	28,680	235,000	263,680
2037	4.800%	17,280	240,000	257,280
2038	4.800%	5,760	240,000	245,760
		<u>\$ 3,035,783</u>	<u>\$ 5,365,000</u>	<u>\$ 8,400,783</u>



Statement of Bonded Indebtedness

2008 DEBT (SERIES A)

YEAR ENDED JUNE 30, 2014

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

Less:

Bonds paid in prior years 510,000

Bonds due and paid May 1, 2014 180,000

Balance outstanding - June 30, 2014 **\$ 8,310,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
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>\$ 5,321,462</u>	<u>\$ 8,310,000</u>	<u>\$ 13,631,462</u>



HESPERIA COMMUNITY SCHOOLS

Statement of Bonded Indebtedness

2009 QZAB DEBT

YEAR ENDED JUNE 30, 2014

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

2011 QZAB DEBT

YEAR ENDED JUNE 30, 2014

Issue Dated May 25, 2011 in the amount of				\$ 130,871
Less: Bonds paid in prior years				---
Bonds due and paid July 30, 2013				---
Balance outstanding - June 30, 2014				\$ 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, 2013				---
Balance outstanding - June 30, 2014				\$ 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, 2014

Issue Dated June 20, 2012 in the amount of				\$ 83,424
Less: Bonds paid in prior years				16,685
Bonds due and paid July 30, 2013				16,685
Balance outstanding - June 30, 2014				\$ 50,054
Balance payable as follows:	Rate	Interest	Principal	Total
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
		\$ 4,244	\$ 50,054	\$ 54,298

Issue Dated June 20, 2012 in the amount of				\$ 85,558
Less: Bonds paid in prior years				17,112
Bonds due and paid July 30, 2013				17,112
Balance outstanding - June 30, 2014				\$ 51,334
Balance payable as follows:	Rate	Interest	Principal	Total
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
		\$ 4,354	\$ 51,334	\$ 55,688

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, 2014

Issue Dated June 26, 2013 in the amount of					\$ 85,806
Less: Bonds paid in prior years					---
Bonds due and paid June 26, 2014					17,161
Balance outstanding - June 30, 2014					\$ 68,645
Balance payable as follows:					
	Rate	Interest	Principal	Total	
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	
		\$ ---	\$ 68,645	\$ 68,645	

Issue Dated June 26, 2013 in the amount of					\$ 95,905
Less: Bonds paid in prior years					---
Bonds due and paid June 26, 2014					19,181
Balance outstanding - June 30, 2014					\$ 76,724
Balance payable as follows:					
	Rate	Interest	Principal	Total	
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	
		\$ ---	\$ 76,724	\$ 76,724	



Statement of Bonded Indebtedness

2014 QZAB DEBT
YEAR ENDED JUNE 30, 2014

Issue Dated June 18, 2014 in the amount of					\$ 86,996
Less: Bonds paid in prior years					---
Bonds due and paid June 18, 2014					---
Balance outstanding - June 30, 2014					\$ 86,996
Balance payable as follows:	Rate	Interest	Principal	Total	
2015	0.0%	\$ ---	\$ 17,399	\$ 17,399	
2016	0.0%	---	17,399	17,399	
2017	0.0%	---	17,399	17,399	
2018	0.0%	---	17,399	17,399	
2019		---	17,400	17,400	
		\$ ---	\$ 86,996	\$ 86,996	



HESPERIA COMMUNITY SCHOOLS

FEDERAL FINANCIAL ASSISTANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

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	1415301314	344,996
- Adult Basic Education	84.002	131130131567	43,820
- Adult Basic Education	84.002	141130141567	33,000
- Title VI Rural and Low-Income Grant	84.358	1406601314	21,657
- 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	1405201314	113,392
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, 2013	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2014
\$ 384,156	\$ 57,279	\$ 57,279	\$ ---	\$ ---
---	---	295,422	362,638	67,216
384,156	57,279	352,701	362,638	67,216
42,624	2,706	2,706	---	---
---	---	13,905	16,073	2,168
42,624	2,706	16,611	16,073	2,168
---	---	17,573	20,455	2,882
23,838	91	91	---	---
23,838	91	17,664	20,455	2,882
53,442	3,050	3,050	---	---
---	---	83,636	100,144	16,508
53,442	3,050	86,686	100,144	16,508
---	61,809	125,246	125,000	61,563
	\$ 124,935	\$ 598,908	\$ 624,310	\$ 150,337



HESPERIA COMMUNITY SCHOOLS

FEDERAL FINANCIAL ASSISTANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2014

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		11,612
U.S.D.A. Food Distribution:			
- Entitlement Commodities	10.555	Various	27,398
- Bonus Commodities	10.555	Various	---
Pass Through State Department of Education:			
- National School Lunch Program	10.555	141960, 131960	263,179
- Special Breakfast	10.553	131970, 141970	119,003
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, 2013	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2014
\$ ---	\$ ---	\$ 11,612	\$ 11,612	\$ ---
---	---	27,398	27,398	---
---	---	---	---	---
---	4,422	254,490	263,179	13,111
---	4,422	281,888	290,577	13,111
---	3,357	115,585	119,003	6,775
\$ ---	7,779	409,085	421,192	19,886
	\$ 132,714	\$ 1,007,993	\$ 1,045,502	\$ 170,223



HESPERIA COMMUNITY SCHOOLS

FEDERAL FINANCIAL ASSISTANCE

FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2014

NOTE 1 - MAJOR PROGRAMS

The School has two major programs - Title I Part A Cluster and Teacher Training and Recruiting. Total expenditures during the year ended June 30, 2014 were \$362,638 and \$100,144 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, 2014 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2014 are recorded as deferred revenue.

NOTE 3 - ANNUAL GRANT REPORTS

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

NOTE 4 - SCHEDULE PREPARATION

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

NOTE 5 - INVENTORY VALUES

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



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

YEAR ENDED JUNE 30, 2014

	<u>Financial Statement</u>	<u>Awards Schedule</u>
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	\$ 362,638	\$ 362,638
IDEA	125,000	125,000
Adult Basic Education	16,073	16,073
Title VI	20,455	20,455
Teacher Training and Recruiting	100,144	100,144
TOTAL DEPARTMENT OF EDUCATION GRANTS	624,310	624,310
DEPARTMENT OF AGRICULTURE GRANTS		
SCHOOL LUNCH FUND		
Commodities	27,398	27,398
National School Lunch	263,179	263,179
Special Breakfast	119,003	119,003
SUB-TOTAL	409,580	409,580
GENERAL FUND		
Schools and Roads	11,612	11,612
TOTAL DEPARTMENT OF AGRICULTURE GRANTS	421,192	421,192
INTERNAL REVENUE SERVICE		
U. S. Treasury Interest	6,303	---
GRAND TOTAL	\$ 1,051,805	\$ 1,045,502

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

Board of Education
Hesperia Community Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community School as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Hesperia Community School's basic financial statements, and have issued our report thereon dated August 14, 2014.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

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

August 14, 2014

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND 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, 2014. 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, 2014.

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, 2014, and have issued our report thereon dated August 14, 2014, 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.

A handwritten signature in black ink that reads "Karl L. Drake". The signature is written in a cursive, flowing style.

Karl L. Drake, PC
Certified Public Accountant

August 14, 2014



HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2014

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 Teacher Training and Recruiting.
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, 2014

There were no prior audit findings.

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

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Email: kdrakecpa@gmail.com

August 14, 2014

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, 2014, and have issued our report thereon dated August 14, 2014. 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 17, 2014, 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 17, 2014.

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 14, 2014.

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.

Payroll Procedures

The District has good internal control guidelines in place for payroll procedures, but needs to be more careful in following the guidelines. When doing the audit, the following situations were noted:

- Timesheets that were not signed by the employees
- Timesheets that were not signed by the supervisor
- Summary sheets not signed by the building principals
- Teacher contracts not signed by the Board
- Principals not always following leave-time regulations as outlined in the contract

Again, the policies are in place, but the performance of the policies needs to be tightened up.

Accounting Policy Changes

During the fiscal year ended June 30, 2014, the District adopted GASB Statement number 65. This Statement changed 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.