



HART, MICHIGAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007



REHMANN ROBSON

Certified Public Accountants

HART PUBLIC SCHOOLS

TABLE OF CONTENTS

	<u>PAGE</u>
Financial Section	1-2
Independent Auditors' Report	
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	16
Statement of Fiduciary Assets and Liabilities	17
Notes to the Financial Statements	18-31
Combining and Individual Fund Financial Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	32-33
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	34-35
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Food Service Fund	36
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Athletics Fund	37



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

November 7, 2007

Board of Education
Hart Public Schools
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **HART PUBLIC SCHOOLS** (the "District"), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hart Public Schools' management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Hart Public Schools as of June 30, 2007, and the respective changes in financial position, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated November 7, 2007 on our consideration of Hart Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hart Public Schools' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of Hart Public Schools' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Hart Public Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

Financial Highlights

- General Fund: Because of a shortfall in revenue at the State level, there was a year long battle on where and what to cut from the State Budget. In December it was estimated that public schools could realize a \$160 cut per pupil in funding mid year. In addition, there would not be an equity or declining enrollment payment to qualifying schools. This would mean approximately \$260,000 less revenue for Hart Public Schools.

With this in mind, a mid year spending freeze was implemented. All line item expenditures were stopped from the middle of January 2007 and on. We were not notified until approximately the third week of June 2007 that the actual State foundation allowance would be at \$7,085 and equity and declining enrollment payments would be made to qualifying schools.

These conditions had a significant bearing on budget amendments and budget versus actual spending. We were significantly under budget because spending was brought to a halt mid year, showing a larger than anticipated fund balance.

- School Service Fund: This is made up of Athletics and Food Service.
 - Athletics: Gate receipts were down significantly from budget plan (21%) and expenditures were over budget by less than 2%. Because of these deviations there was an additional \$4,411 transferred from General Fund to Athletics to balance the fund for the year. At the end of 2006/07 the fund reveals a positive fund balance of \$785.
 - Food Service: During 2006/07 local meal sales had gone down and federal (free & reduced) sales had gone up. Overall more lunches were being served to students resulting in an increase in supplies. Deviations between original and amended budgets were not significant, and the deviation between amended budget and actual was only 4.5%. Federal revenues came in higher than anticipated adding to the fund balance now totaling \$65,248.
- Capital Projects Fund: This consists of three (3) funds; one, a fund developed for capital purchases/improvements in the district; the second, for the Durant settlement that is categorical and can only be used to purchase capital items such as school buses, and the third that is designated for improvements to the Middle School.
 - Capital Projects Fund - General: This fund reveals a fund balance of \$338,649. With the final payment from the sale of Weare School and the amount transferred from General Fund for building improvements/repairs, revenues were higher than budgeted. Planned expenditures were less than budgeted due to projects not being completed until after June 30, 2007.
 - Durant Capital Projects Fund: This fund reveals a fund balance of \$68,191.
 - Middle School Capital Projects Fund: This fund reveals a fund balance of \$783.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including budgetary schedules and combining statements for non-major funds.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, community services, food services and athletics. The District has no business-type activities as of and for the year ended June 30, 2007.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental and fiduciary fund type category.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains nine individual governmental funds and one agency fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and 1999 debt service funds, which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. These funds include three capital projects fund and two debt service funds, a food service fund, and an athletic special revenue fund. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 12-16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Hart Public Schools' programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-31 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 32-35 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$3,434,509 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of capital assets has a significant impact on this balance.

A large portion (25%) of the District's net assets is restricted for future debt service payments while (31%) of District net assets reflect investment in capital assets net of related debt (e.g., land, buildings, vehicles, and equipment, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (14%) represents resources that are subject to other external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (30%) may be used to meet the District's ongoing obligations to its general programs.

At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets, for the District as a whole, as well as positive fund balances for its separate governmental funds.

Hart Public Schools' Net Assets

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 3,846,543	\$ 3,596,677
Capital assets, net	6,227,175	6,415,743
Total assets	<u>10,073,718</u>	<u>10,012,420</u>
Liabilities		
Current liabilities	1,245,896	1,500,940
Long-term liabilities outstanding	5,393,313	5,972,788
	<u>6,639,209</u>	<u>7,473,728</u>
Net assets		
Invested in capital assets, net of related debt	1,079,030	568,306
Restricted	1,341,644	1,231,399
Unrestricted	1,013,835	738,987
Total net assets	<u>\$ 3,434,509</u>	<u>\$ 2,538,692</u>

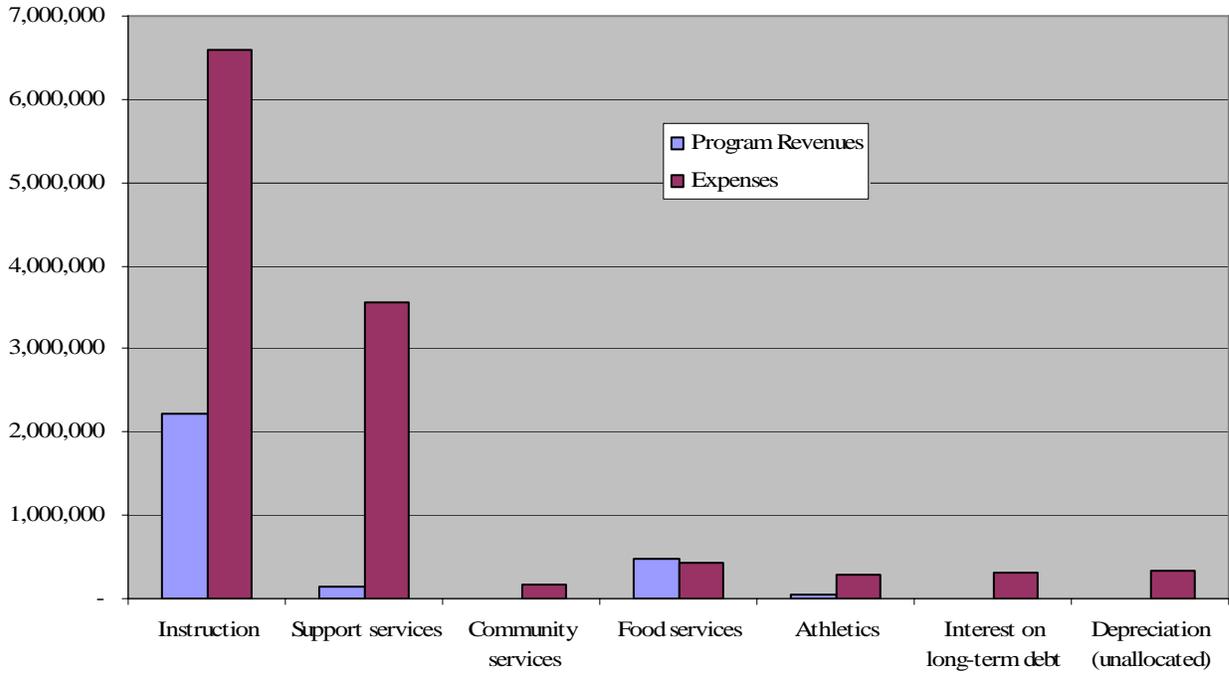
Hart Public Schools' Changes in Net Assets

	Governmental Activities	
	2007	2006
Revenues		
Program revenues:		
Charges for services	\$ 355,963	\$ 318,954
Operating grants and contributions	2,555,726	2,785,101
General revenues:		
Property taxes - operations	2,397,835	2,177,112
Property taxes - debt service	694,237	654,891
Grants and contributions not restricted to specific programs	6,368,467	6,471,628
Universal Service Funds	59,028	40,164
Unrestricted investment earnings	82,107	53,743
Other revenue	35,540	-
Total revenues	<u>12,548,903</u>	<u>12,501,593</u>
Expenses		
Instruction	6,584,270	6,983,631
Supporting services	3,551,540	3,690,222
Community services	174,323	219,095
Food services	425,841	447,152
Athletics	276,100	268,023
Interest on long-term debt	299,731	364,971
Unallocated depreciation	341,281	295,839
Total expenses	<u>11,653,086</u>	<u>12,268,933</u>
Increase (decrease) in net assets	895,817	232,660
Net assets, beginning of year	<u>2,538,692</u>	<u>2,306,032</u>
Net assets, end of year	<u><u>\$ 3,434,509</u></u>	<u><u>\$ 2,538,692</u></u>

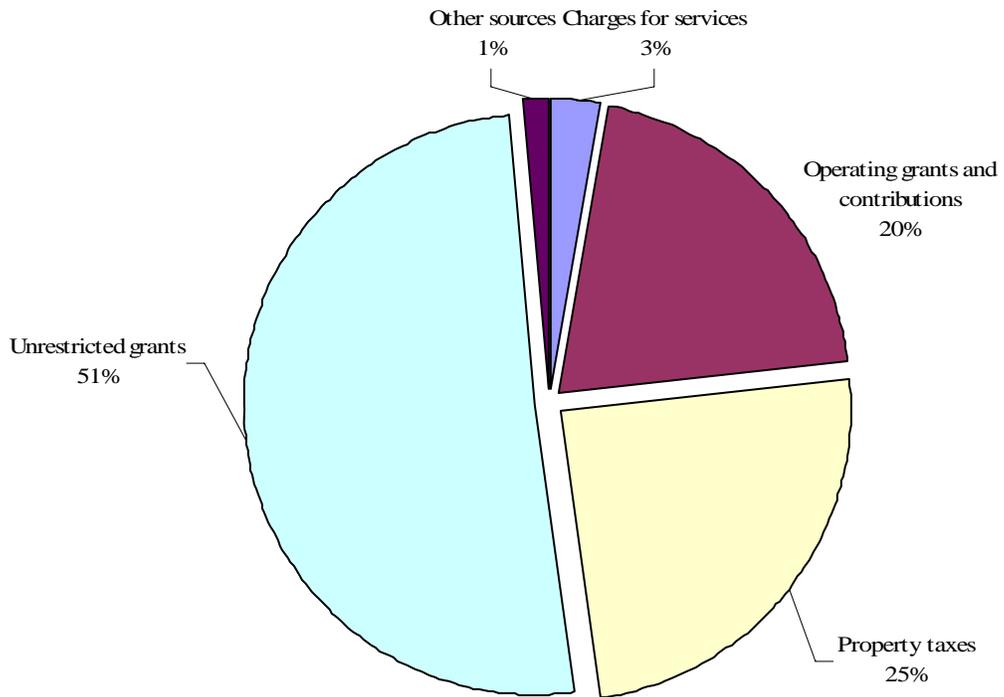
Governmental activities. Net assets increased by \$895,817. Key elements of this increase are as follows:

- Government-wide financial statements present a financial picture based on full accrual accounting where all assets and liabilities in total; i.e. all capital assets, depreciation and long term debt. This is different than our fund financials which show short-term assets and liabilities. The statement of net assets increased by \$895,817 basically because long-term debt is being paid off faster than capital assets are being depreciated. The reconciliation for the Statement of Activities can be found on page 15.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$975,384. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved undesignated fund balance and total fund balance represent 9.0 percent of total general fund expenditures and transfers out.

The fund balance of the District's general fund increased by \$439,926 during the current fiscal year. This is due to the fact that a spending freeze was implemented mid-year minimizing expenditures.

General Fund Budgetary Highlights

Differences between the original and amended budgets were due to the spending freeze previously discussed. Variations in revenues were due to classifications. Variations in expenses were relatively minor.

Capital Asset and Debt Administration

- **Capital assets** – The District's investment in capital assets for its governmental type activities as of June 30, 2007 amounted to \$6,227,175 (net of accumulated depreciation). This investment in capital assets included land, buildings, vehicles and equipment.

Capital assets at fiscal year included the following:

Hart Public Schools' Capital Assets (Net of Depreciation)		
	<u>2007</u>	<u>2006</u>
Land	\$ 118,307	\$ 118,307
Construction in progress	52,013	-
Land improvements	540,637	612,722
Buildings and equipment	5,118,956	5,292,169
Equipment and furniture	<u>397,262</u>	<u>392,545</u>
Total	<u>\$ 6,227,175</u>	<u>\$6,415,743</u>

Additional information on the District's capital assets can be found in Note 5 on page 26 of this report.

Long-term debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$5,393,313.

The District's total debt decreased by \$579,475 during the current fiscal year.

Additional information on the District's long-term debt can be found in Note 8 on pages 28-29 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2007/08 fiscal year:

- General Fund: Again, the State of Michigan's budget has been in a state of emergency. The 2007/08 budget was based on \$50 less per student than what was received in 2006/07. Enrollment has been declining for the last few years and we budgeted for it to decline at a rate of 1% for 2007/08. The rate of retirement was considered the same as 06/07 or 17.74%. With the closing and sale of another elementary school building secretarial, custodial and operating expenditures were reduced. With these assumptions made, the adopted budget for 2007/08 reflects a reduction of fund equity in the amount of \$153,635.
- The School Service and Capital Projects Funds were budgeted on a continuation basis without any significant changes.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Manager for Hart Public Schools
301 West Johnson Street
Hart, Michigan 49420

BASIC FINANCIAL STATEMENTS

HART PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and investments	\$ 1,915,275
Accounts receivable	919
Due from other governments	1,918,712
Inventories	11,637
Total current assets	<u>3,846,543</u>
Noncurrent assets:	
Capital assets not being depreciated	170,320
Capital assets being depreciated, net	6,056,855
Total noncurrent assets	<u>6,227,175</u>
Total assets	<u>10,073,718</u>
Liabilities	
Current liabilities:	
Accounts payable	96,008
Accrued expenses	963,615
Unearned revenue	186,273
Current portion of long-term debt	529,955
Total current liabilities	<u>1,775,851</u>
Noncurrent liabilities:	
Long-term compensated absences/early retirement incentives	84,089
Non-current portion of long-term debt	4,779,269
Total noncurrent liabilities	<u>4,863,358</u>
Total liabilities	<u>6,639,209</u>
Net assets	
Invested in capital assets, net of related debt	1,079,030
Restricted for debt service	867,988
Restricted for capital projects	407,623
Restricted for other programs	66,033
Unrestricted	1,013,835
Total net assets	<u>\$ 3,434,509</u>

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

HART PUBLIC SCHOOLS
Statement of Activities
For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 6,584,270	\$ 27,133	\$ 2,201,729	\$ (4,355,408)
Supporting services	3,551,540	156,291	(1,236)	(3,396,485)
Community services	174,323	-	-	(174,323)
Food services	425,841	126,143	355,233	55,535
Athletics	276,100	46,396	-	(229,704)
Interest on long-term debt	299,731	-	-	(299,731)
Depreciation - unallocated	341,281	-	-	(341,281)
Total governmental activities	\$ 11,653,086	\$ 355,963	\$ 2,555,726	\$ (8,741,397)
General revenues:				
Property taxes - operations				2,397,835
Property taxes - debt service				694,237
Grants and contributions not restricted to specific programs				6,368,467
Universal service funds				59,028
Unrestricted investment earnings				82,107
Other revenue				35,540
Total general revenues				9,637,214
Change in net assets				895,817
Net assets, beginning of year				2,538,692
Net assets, end of year				\$ 3,434,509

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

HART PUBLIC SCHOOLS

Balance Sheet Governmental Funds June 30, 2007

	General	1999 Debt Service	Nonmajor Funds	Total
Assets				
Cash and investments	\$ 1,192,082	\$ 629,647	\$ 93,546	\$ 1,915,275
Accounts receivable	919	-	-	919
Due from other governments	1,769,431	-	149,281	1,918,712
Due from other funds	2,299,996	365,741	536,160	3,201,897
Inventory	-	-	11,637	11,637
Total assets	\$ 5,262,428	\$ 995,388	\$ 790,624	\$ 7,048,440
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 74,074	\$ -	\$ 21,934	\$ 96,008
Accrued expenses	925,412	-	-	925,412
Due to other funds	2,963,114	89,197	149,586	3,201,897
Deferred revenue	210,906	-	145,448	356,354
Total liabilities	4,173,506	89,197	316,968	4,579,671
Fund balances				
Reserved for:				
Inventory	-	-	11,637	11,637
Performing Arts	18,538	-	-	18,538
Unreserved:				
Designated for future teacher negotiations	95,000	-	-	95,000
Undesignated, reported in special revenue funds	-	-	54,396	54,396
Undesignated, reported in debt service funds	-	906,191	-	906,191
Undesignated, reported in capital projects funds	-	-	407,623	407,623
Undesignated	975,384	-	-	975,384
Total fund balances	1,088,922	906,191	473,656	2,468,769
Total liabilities and fund balances	\$ 5,262,428	\$ 995,388	\$ 790,624	\$ 7,048,440

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

HART PUBLIC SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2007

Fund balances - total governmental funds	\$ 2,468,769
--	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated	170,320
Add - capital assets being depreciated, net	6,056,855

Long-term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the availability criterion for revenue recognition is met.

Add - deferred long-term receivables	170,081
--------------------------------------	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(5,293,593)
Deduct - accrued interest on bonds payable	(38,203)
Deduct - compensated absences and early retirement obligations	<u>(99,720)</u>

Net assets of governmental activities	<u><u>\$ 3,434,509</u></u>
---------------------------------------	----------------------------

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

HART PUBLIC SCHOOLS
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	<u>General</u>	<u>1999 Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenue				
Local sources	\$ 2,725,632	\$ 717,231	\$ 214,089	\$ 3,656,952
State sources	7,475,027	-	26,257	7,501,284
Federal sources	1,106,167	-	328,976	1,435,143
 Total revenue	 <u>11,306,826</u>	 <u>717,231</u>	 <u>569,322</u>	 <u>12,593,379</u>
Expenditures				
Current:				
Instruction	6,601,197	-	-	6,601,197
Supporting services	3,525,086	-	-	3,525,086
Community services	174,323	-	-	174,323
Food services	-	-	427,148	427,148
Athletics	-	-	276,100	276,100
Debt service:				
Principal	14,846	445,000	93,998	553,844
Interest	51,582	246,226	8,798	306,606
Capital outlay	63,700	-	122,864	186,564
 Total expenditures	 <u>10,430,734</u>	 <u>691,226</u>	 <u>928,908</u>	 <u>12,050,868</u>
 Revenue over (under) expenditures	 <u>876,092</u>	 <u>26,005</u>	 <u>(359,586)</u>	 <u>542,511</u>
Other financing sources (uses)				
Transfers in	30,365	-	466,531	496,896
Transfers out	(466,531)	-	(30,365)	(496,896)
 Total other financing sources (uses)	 <u>(436,166)</u>	 <u>-</u>	 <u>436,166</u>	 <u>-</u>
 Net changes in fund balances	 439,926	 26,005	 76,580	 542,511
Fund balances, beginning of year	<u>648,996</u>	<u>880,186</u>	<u>397,076</u>	<u>1,926,258</u>
 Fund balances, end of year	 <u><u>\$ 1,088,922</u></u>	 <u><u>\$ 906,191</u></u>	 <u><u>\$ 473,656</u></u>	 <u><u>\$ 2,468,769</u></u>

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

HART PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$ 542,511
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	152,713
Deduct - depreciation expense	(341,281)
Installment purchase proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.	
Add - principal payments on long-term liabilities	553,844
Long-term receivables are reported as revenue when earned on the statement of activities while the governmental funds report these balances as revenue when the availability criterion for revenue recognition is met.	
Deduct - change in deferred long-term receivables	(44,476)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add - decrease in accrued interest payable on bonds	6,875
Add - decrease in the accrual for compensated absences and early retirement obligations	25,631
	25,631
Change in net assets of governmental activities	\$ 895,817

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

HART PUBLIC SCHOOLS
Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2007

	<u>Budget</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Amended</u>		With Final Budget
Revenue				
Local sources	\$ 2,763,194	\$ 2,844,535	\$ 2,725,632	\$ (118,903)
State sources	7,028,668	7,208,385	7,475,027	266,642
Federal sources	1,164,533	1,244,334	1,106,167	(138,167)
Total revenue	<u>10,956,395</u>	<u>11,297,254</u>	<u>11,306,826</u>	<u>9,572</u>
Expenditures				
Current:				
Instructional:				
Basic programs	5,155,927	5,215,398	5,079,078	(136,320)
Added needs	1,649,442	1,623,722	1,522,119	(101,603)
Supporting services:				
Pupil services	354,827	372,122	351,641	(20,481)
Instructional staff	216,909	191,393	168,342	(23,051)
General administration	334,515	331,023	292,168	(38,855)
School administration	618,171	646,097	630,286	(15,811)
Business services	423,838	442,978	339,502	(103,476)
Operation and maintenance	1,111,396	1,125,767	1,046,477	(79,290)
Pupil transportation services	500,251	536,916	462,042	(74,874)
Technology services	221,959	208,061	192,628	(15,433)
Payments to other schools	54,000	42,000	42,000	-
Community services:				
Head start	174,751	174,751	143,583	(31,168)
Child care	30,000	30,000	29,312	(688)
Community activities	1,813	4,015	1,428	(2,587)
Debt service:				
Principal	14,846	14,846	14,846	-
Interest	51,994	51,994	51,582	(412)
Capital outlay	74,633	123,305	63,700	(59,605)
Total expenditures	<u>10,989,272</u>	<u>11,134,388</u>	<u>10,430,734</u>	<u>(703,654)</u>
Revenue over (under) expenditures	<u>(32,877)</u>	<u>162,866</u>	<u>876,092</u>	<u>713,226</u>
Other financing sources (uses)				
Transfers in	98,451	104,750	30,365	(74,385)
Transfers out	(220,188)	(212,688)	(466,531)	(253,843)
Total other financing sources (uses)	<u>(121,737)</u>	<u>(107,938)</u>	<u>(436,166)</u>	<u>(328,228)</u>
Net changes in fund balance	(154,614)	54,928	439,926	384,998
Fund balance, beginning of year	<u>648,996</u>	<u>648,996</u>	<u>648,996</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 494,382</u></u>	<u><u>\$ 703,924</u></u>	<u><u>\$ 1,088,922</u></u>	<u><u>\$ 384,998</u></u>

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

HART PUBLIC SCHOOLS
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007

Assets

Cash and investments	<u><u>\$ 45,865</u></u>
----------------------	-------------------------

Liabilities

Due to student groups	<u><u>\$ 45,865</u></u>
-----------------------	-------------------------

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

NOTES TO FINANCIAL STATEMENTS

HART PUBLIC SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Hart Public Schools (the “District”) consistently applied in the preparation of the accompanying financial statements follows.

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the reporting entity of the Hart Public Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized when identifying the District reporting entity which includes no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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 revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2007.

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

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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund follows the accrual basis of accounting, but does not have a measurement focus.

HART PUBLIC SCHOOLS

Notes to Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues 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 claims and judgments, are recorded only when payment is due.

Property taxes, expenditure driven grant revenue, state aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *1999 debt service fund* accounts for the accumulation of resources for the payment of principal and interest on the 1995 middle school building bonds, which were refunded in 1999.

Additionally, the government reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *debt service funds* account for the accumulation of resources which are restricted for the payment of principal and interest on bonds.

The *capital projects funds* account for funds accumulated for construction projects.

The *fiduciary fund* accounts for resources held on the behalf of other individuals and governments.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

HART PUBLIC SCHOOLS

Notes to Financial Statements

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data as reflected in the financial statements.

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The District considers the debt service payment schedule to be an adequate budgetary control. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2007. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the District. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the School Board.

Property Taxes

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2006 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the District as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

HART PUBLIC SCHOOLS

Notes to Financial Statements

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Receivables

The District follows the practice of recording as receivables revenues that have been earned but not yet received.

Inventories

Inventories consist of food and other supplies. Inventories are stated at cost (first-in, first-out).

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Building and improvements	10-45
Equipment and furniture	5-20

HART PUBLIC SCHOOLS

Notes to Financial Statements

Insurance Refunds

The District receives surplus distributions from SET/SEG Property/Casualty Pool for insurance premiums paid into the Pool in prior years. The receipt of premium refunds for prior years are recorded as revenue from local sources. If the District were to receive premium refunds for their current fiscal year, these refunds would offset the premium expense in the year received.

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

Compensated Absences

Most employees of the District are compensated for leaves of absences chargeable to sick days. Each school year, the covered employees are credited with a number of sick days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of sick days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave is shown on the statement of net assets.

Reserves and Designations of Fund Balance/Restricted Net Assets

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Designations of fund balance are established to identify amounts set aside by the Board of Education for future expenditures.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

HART PUBLIC SCHOOLS

Notes to Financial Statements

Durant Related Issues

Under Public Act 142 of 1997, enacted in November 1997 as part of the *Durant* Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the *Durant v. State of Michigan* case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

Settlement amounts were based on the formula used to determine amounts owed to *Durant* plaintiffs. Half the settlement amount was to be received in ten annual payments; the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA) or in fifteen annual payments. Hart Public Schools elected to participate in the special bonding program.

Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability has been booked on the statement of net assets. Annual appropriations from the State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds.

The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

The remaining 50% of the settlement which is being received over ten years, beginning April 1999, is recorded in the General Fund as Unrestricted State School Aid. Use of these funds is restricted to specified purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

HART PUBLIC SCHOOLS

Notes to Financial Statements

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided 66% of general fund revenue to the District during the 2007 fiscal year.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2007 the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Food Service:			
Supporting services	\$ 408,500	\$ 427,148	\$ 18,648
Athletics:			
Supporting services	271,689	276,100	4,411

4. DEPOSITS AND INVESTMENTS

The composition of cash and investments as presented in the financial statements is as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and investments	<u>\$ 1,915,275</u>	<u>\$ 45,865</u>	<u>\$ 1,961,140</u>

Deposits and investments are comprised of the following at year end:

Petty cash	\$ 815
Checking/savings accounts	1,123,670
Certificates of deposit	
Due in less than 1 year	19,059
Due in 1-5 years	11,390
Investments	<u>806,206</u>
	<u>\$ 1,961,140</u>

These deposits are in two (2) financial institutions located in Michigan. State policy limits the District's investing options to financial institutions located in Michigan. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

HART PUBLIC SCHOOLS

Notes to Financial Statements

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments:

<u>Carrying/ Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Mutual Funds			
MILAF Plus – PFM Management Series	N/A	\$806,206	AAAm

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the District's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year end, \$1,042,298 of the District's bank balance of \$1,172,754 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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 District minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the District's investment policy. Of the above mutual fund investments, the District's custodial credit risk exposure can not be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

HART PUBLIC SCHOOLS

Notes to Financial Statements

5. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2007</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 118,307	\$ -	\$ -	\$ 118,307
Construction in progress	<u>-</u>	<u>52,013</u>	<u>-</u>	<u>52,013</u>
Total capital assets not being depreciated	<u>118,307</u>	<u>52,013</u>	<u>-</u>	<u>170,320</u>
Capital assets being depreciated:				
Land improvements	1,475,900	-	-	1,475,900
Buildings and improvements	8,420,313	-	-	8,420,313
Equipment and furniture	<u>2,310,436</u>	<u>100,700</u>	<u>-</u>	<u>2,411,136</u>
Total capital assets being depreciated	<u>12,206,649</u>	<u>100,700</u>	<u>-</u>	<u>12,307,349</u>
Less accumulated depreciation:				
Land improvements	863,178	72,085	-	935,263
Buildings and improvements	3,128,144	173,213	-	3,301,357
Equipment and furniture	<u>1,917,891</u>	<u>95,983</u>	<u>-</u>	<u>2,013,874</u>
Total accumulated depreciation	<u>5,909,213</u>	<u>341,281</u>	<u>-</u>	<u>6,250,494</u>
Total capital assets being depreciated, net	<u>6,297,436</u>	<u>(240,581)</u>	<u>-</u>	<u>6,056,855</u>
Government activities capital assets, net	<u>\$ 6,415,743</u>	<u>\$ (188,568)</u>	<u>\$ -</u>	<u>\$ 6,227,175</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$341,281. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

HART PUBLIC SCHOOLS

Notes to Financial Statements

6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations.

	Internal Balance	
	Due from	Due to
General Fund	\$ 2,299,996	\$ 2,963,114
1999 Debt Service	365,741	89,197
Nonmajor Funds	536,160	149,586
Total	\$ 3,201,897	\$ 3,201,897

Transfers primarily reflect subsidies allocated from the General Fund for debt service, capital project and special revenue fund operations.

	Transfers	
	In	Out
Interfund Transfers		
General Fund	\$ 30,365	\$ 466,531
Nonmajor Funds	466,531	30,365
Total	\$ 496,896	\$ 496,896

7. SHORT-TERM DEBT

The following is a summary of debt transactions of the District for the year ended June 30, 2007:

	Short-term Debt			Balance June 30, 2007
	Balance July 1, 2006	Additions	Deletions	
School bond/notes maturing (June 23, 2007) with an interest rate of 4.57% (operating cash flow)	\$ -	\$ 1,425,000	\$ 1,425,000	\$ -

HART PUBLIC SCHOOLS

Notes to Financial Statements

8. LONG-TERM DEBT

Long-term debt at June 30, 2007 is comprised of the following:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2007</u>	<u>Due within one year</u>
General obligation bonds					
1999 Refunding Bonds payable in annual installments of \$135,000 to \$650,000 plus semi-annual interest from 3.55% to 4.80%; final payment due May 1, 2016.	\$ 5,460,000	\$ -	\$ 445,000	\$ 5,015,000	\$ 465,000
1997 Energy Conservation – Improvements Bonds payable in annual installments of \$45,000 to \$60,000 plus semi-annual interest from 5.0% to 5.5%; final payment due May 1, 2007.	<u>60,000</u>	<u>-</u>	<u>60,000</u>	<u>-</u>	<u>-</u>
Total general obligation bonds	<u>5,520,000</u>	<u>-</u>	<u>505,000</u>	<u>5,015,000</u>	<u>465,000</u>
Other installment debt:					
School bus installment loan payable in varying quarterly amounts up to \$4,002 plus interest of 3.2%; final payments are due through June 2009.	45,989	-	14,844	31,145	15,324
Portable classroom installment loan payable in annual amounts up to \$34,000 plus interest of 3.2%; final payments are due through May 2010.	136,000	-	34,000	102,000	34,000
Durant bond obligations payable in varying annual installment of up to \$61,678 plus interest at 4.76%; final payment due November 2013.	<u>145,448</u>	<u>-</u>	<u>-</u>	<u>145,448</u>	<u>-</u>
Total other installment debt	<u>327,437</u>	<u>-</u>	<u>48,844</u>	<u>278,593</u>	<u>49,324</u>
Total installment debt	5,847,437	-	553,844	5,293,593	514,324

HART PUBLIC SCHOOLS

Notes to Financial Statements

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2007</u>	<u>Due within one year</u>
Compensated absences and early retirement obligations	\$ 125,351	\$ -	\$ 25,631	\$ 99,720	\$ 15,631
Total long-term debt	\$ 5,972,788	\$ -	\$ 579,475	\$ 5,393,313	\$ 529,955

The District is only obligated to make annual principal and interest installments to the extent of annual State of Michigan state school aid appropriations for such installments.

The following is a summary of future principal maturities and interest requirements:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 514,324	\$ 231,451	\$ 745,775
2009	548,529	213,557	762,086
2010	623,422	219,372	842,794
2011	545,046	166,633	711,678
2012	565,761	142,332	708,093
2013-2016	<u>2,496,511</u>	<u>299,663</u>	<u>2,796,174</u>
	\$ 5,293,593	\$ 1,273,008	\$ 6,566,601

Compensated absences and early retirement obligation and the 1997 Energy Conservation Improvement Bonds are expected to be liquidated by resources from the general fund.

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the District carried commercial insurance and participated in a public entity risk pool. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

Public Entity Risk Pool

Hart Public Schools participates in a public entity risk (insurance) pool with other school districts in the SET-SEG Property/Casualty Pool, Inc. (a nonprofit corporation). This is a self-insurance fund which provides members with loss protection for property and casualty damages. The Pool was created on May 23, 1985 and organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. There have been no significant reductions in coverage and settlements have not exceeded insurance coverage during the past 3 years.

HART PUBLIC SCHOOLS

Notes to Financial Statements

The District made a contribution of \$38,116 to the Pool for the 2007 fiscal year. A member's contribution to the Pool in excess of its share of claim losses, expenses, and other costs may be refunded as determined by the Board of Directors. Hart Public Schools received premium refunds of \$4,389 for the fiscal year ended June 30, 2007.

The Pool does not maintain separate funds for members and consequently the District's share of the total assets and total equity is unknown. Audited financial statements of the fund are available.

10. RETIREMENT BENEFITS

Retirement Plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan 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, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy

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 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate as a percentage of covered payroll was 16.34% for July through September and 17.74% for the remainder of the year. 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 for the years ended June 30, 2007, 2006 and 2005 were \$1,033,741, \$1,029,816, and \$1,030,316, respectively, equal to the required contributions for each year.

Other Post-Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. 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.

HART PUBLIC SCHOOLS

Notes to Financial Statements

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

11. CONTINGENCIES

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

12. SUBSEQUENT EVENTS

Subsequent to June 30, 2007, the District received proceeds of \$1,200,000 State of Michigan School Aid anticipation notes due in June 2008.

* * * * *

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

HART PUBLIC SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue	
	Food Service	Athletics
Assets		
Cash and investments	\$ 16,066	\$ 4,183
Due from other governments	3,833	-
Due from other funds	42,290	9,958
Inventory	11,637	-
	<u>\$ 73,826</u>	<u>\$ 14,141</u>
 Liabilities and fund balance		
Liabilities		
Accounts payable	\$ 8,578	\$ 13,356
Due to other funds	-	-
Deferred revenue	-	-
	<u>8,578</u>	<u>13,356</u>
 Fund balance		
Reserved for inventory	11,637	-
Unreserved, undesignated	53,611	785
	<u>65,248</u>	<u>785</u>
	<u>\$ 73,826</u>	<u>\$ 14,141</u>

<u>Debt Service</u>		<u>Capital Projects</u>			<u>Total</u>
<u>Energy Bond</u>	<u>Durant Debt</u>	<u>Middle School</u>	<u>Durant Projects</u>	<u>Capital Projects</u>	
\$ 3,044	\$ -	\$ 12,868	\$ 27,385	\$ 30,000	\$ 93,546
-	145,448	-	-	-	149,281
222	-	-	169,289	314,401	536,160
-	-	-	-	-	11,637
<u>\$ 3,266</u>	<u>\$ 145,448</u>	<u>\$ 12,868</u>	<u>\$ 196,674</u>	<u>\$ 344,401</u>	<u>\$ 790,624</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,934
3,266	-	12,085	128,483	5,752	149,586
-	145,448	-	-	-	145,448
<u>3,266</u>	<u>145,448</u>	<u>12,085</u>	<u>128,483</u>	<u>5,752</u>	<u>316,968</u>
-	-	-	-	-	11,637
-	-	783	68,191	338,649	462,019
-	-	783	68,191	338,649	473,656
<u>\$ 3,266</u>	<u>\$ 145,448</u>	<u>\$ 12,868</u>	<u>\$ 196,674</u>	<u>\$ 344,401</u>	<u>\$ 790,624</u>

Hart Public Schools
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue	
	Food Service	Athletics
Revenue		
Local sources	\$ 126,143	\$ 46,396
State sources	26,257	-
Federal sources	328,976	-
	481,376	46,396
Expenditures		
Current:		
Food Service	427,148	-
Athletic activities	-	276,100
Debt service:		
Principal	-	-
Interest	-	-
Capital outlay	-	-
	427,148	276,100
Total expenditures	427,148	276,100
Revenue over (under) expenditures	54,228	(229,704)
Other financing sources (uses)		
Transfers in	-	229,704
Transfers out	(30,365)	-
	(30,365)	229,704
Total other financing sources (uses)	(30,365)	229,704
Net changes in fund balances	23,863	-
Fund balance, beginning of year	41,385	785
Fund balance, end of year	\$ 65,248	\$ 785

Debt Service		Capital Projects			
Energy Bond	Durant Debt	Middle School	Durant Projects	Capital Projects	Total
\$ 114	\$ -	\$ 286	\$ 1,145	\$ 40,005	\$ 214,089
-	-	-	-	-	26,257
-	-	-	-	-	328,976
<u>114</u>	<u>-</u>	<u>286</u>	<u>1,145</u>	<u>40,005</u>	<u>569,322</u>
-	-	-	-	-	427,148
-	-	-	-	-	276,100
60,000	-	-	-	33,998	93,998
3,900	-	-	-	4,898	8,798
-	-	-	76	122,788	122,864
<u>63,900</u>	<u>-</u>	<u>-</u>	<u>76</u>	<u>161,684</u>	<u>928,908</u>
<u>(63,786)</u>	<u>-</u>	<u>286</u>	<u>1,069</u>	<u>(121,679)</u>	<u>(359,586)</u>
63,522	-	-	24,633	148,672	466,531
-	-	-	-	-	(30,365)
<u>63,522</u>	<u>-</u>	<u>-</u>	<u>24,633</u>	<u>148,672</u>	<u>436,166</u>
(264)	-	286	25,702	26,993	76,580
<u>264</u>	<u>-</u>	<u>497</u>	<u>42,489</u>	<u>311,656</u>	<u>397,076</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 783</u>	<u>\$ 68,191</u>	<u>\$ 338,649</u>	<u>\$ 473,656</u>

HART PUBLIC SCHOOLS
Food Service Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2007

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Amended</u>		
Revenue				
Local sources:				
Meal sales	\$ 134,900	\$ 134,700	\$ 124,482	\$ (10,218)
Other	1,225	1,225	1,661	436
Total local sources	<u>136,125</u>	<u>135,925</u>	<u>126,143</u>	<u>(9,782)</u>
State sources:				
State aid	<u>33,441</u>	<u>35,015</u>	<u>26,257</u>	<u>(8,758)</u>
Federal sources:				
Federal aid received through the State	273,498	265,350	292,450	27,100
USDA Donated Commodities	<u>25,000</u>	<u>25,000</u>	<u>36,526</u>	<u>11,526</u>
Total federal sources	<u>298,498</u>	<u>290,350</u>	<u>328,976</u>	<u>38,626</u>
Total revenue	468,064	461,290	481,376	20,086
Expenditures				
Supporting services	<u>411,489</u>	<u>408,500</u>	<u>427,148</u>	<u>18,648</u>
Revenue over expenditures	56,575	52,790	54,228	1,438
Other financing sources (uses)				
Transfers out	<u>(41,149)</u>	<u>(40,850)</u>	<u>(30,365)</u>	<u>10,485</u>
Net changes in fund balances	15,426	11,940	23,863	11,923
Fund balance, beginning of year	<u>41,385</u>	<u>41,385</u>	<u>41,385</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 56,811</u></u>	<u><u>\$ 53,325</u></u>	<u><u>\$ 65,248</u></u>	<u><u>\$ 11,923</u></u>

HART PUBLIC SCHOOLS
Athletics Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2007

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Amended</u>		
Revenues				
Local sources:				
Gate receipts	\$ 54,701	\$ 54,701	\$ 42,981	\$ (11,720)
Other	4,300	4,300	3,415	(885)
Total revenues	59,001	59,001	46,396	(12,605)
Expenditures				
Supporting services	271,689	271,689	276,100	4,411
Revenue under expenditures	(212,688)	(212,688)	(229,704)	(17,016)
Other financing sources				
Transfers in	212,688	212,688	229,704	17,016
Net changes in fund balances	-	-	-	-
Fund balance, beginning of year	785	785	785	-
Fund balance, end of year	<u>\$ 785</u>	<u>\$ 785</u>	<u>\$ 785</u>	<u>\$ -</u>



HART, MICHIGAN

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007



REHMANN ROBSON

Certified Public Accountants

HART PUBLIC SCHOOLS
Single Audit

Table of Contents

	<u>PAGE</u>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5-6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8-10



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' 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

November 7, 2007

Board of Education
Hart Public Schools
Hart, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hart Public Schools, as of and for the year ended June 30, 2007, which collectively comprise the Hart Public Schools basic financial statements and have issued our report thereon dated November 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hart Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hart Public Schools' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in the schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding 2007-1 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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

Our considering of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

Hart Public Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Hart Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent 'L' and 'J'.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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

November 7, 2007

Board of Education
Hart Public Schools
Hart, Michigan

Compliance

We have audited the compliance of Hart Schools, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Hart Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hart Public Schools' management. Our responsibility is to express an opinion on Hart Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hart Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Hart Public Schools' compliance with those requirements.

In our opinion, Hart Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-2.

Hart Public Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Hart Public Schools' response and, accordingly, we express no opinion on it.

Internal Control Over Compliance

The management of Hart Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hart Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hart Public Schools' internal control over compliance.

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hart Public Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated November 7, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Hart Public Schools' basic financial statements. 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 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



HART PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2006	Adjustments and Transfers	Cash Received	Expenditures (Memo Only)		Accrued (Deferred) Revenue June 30, 2007
						Prior Year(s)	Year Ended June 30, 2007	
U.S. Department of Agriculture								
<i>Direct Programs</i>								
Bonus Commodities	10.550	\$ 812	\$ -	\$ -	\$ 812	\$ -	\$ 812	\$ -
Entitlement Commodities	10.550	35,714	-	-	35,714	-	35,714	-
		36,526	-	-	36,526	-	36,526	-
<i>Passed-through Michigan Department of Education</i>								
Child Care Food								
061920	10.558	63	-	-	63	-	63	-
071920	10.558	1,029	-	-	1,029	-	1,029	-
		1,092	-	-	1,092	-	1,092	-
Child Nutrition Cluster								
061970 Lunch-Breakfast	10.553	4,887	-	-	4,887	-	4,887	-
071970 Lunch-Breakfast	10.553	47,782	-	-	47,782	-	47,782	-
		52,669	-	-	52,669	-	52,669	-
		3,874	-	-	3,874	-	3,874	-
071950 All Lunches	10.555	28,523	-	-	28,523	-	28,523	-
061960 Free & Reduced	10.555	23,438	-	-	23,438	-	23,438	-
071960 Free & Reduced	10.555	168,463	-	-	168,463	-	168,463	-
		224,298	-	-	224,298	-	224,298	-
		19	-	-	19	-	19	-
051940 Lunch - Special Milk	10.556	363	-	-	363	-	363	-
061940 Lunch - Special Milk	10.556	382	-	-	382	-	382	-
		12,708	-	-	12,708	-	12,708	-
050900 Summer Meals	10.559	1,301	-	-	1,301	-	1,301	-
051900 Summer Meals	10.559	14,009	-	-	14,009	-	14,009	-
		291,358	-	-	291,358	-	291,358	-
<i>Passed-through Oceana Country</i>								
National Forest Reserve	10.665	4,343	-	-	4,343	-	4,343	-
Total U.S. Department of Agriculture		333,319	-	-	333,319	-	333,319	-
U.S. Department of Education								
<i>Passed-through Michigan Department of Education</i>								
Title I								
061530/0506	84.010	393,082	58,736	-	58,736	393,082	-	-
061530/0607	84.010	32,948	-	-	32,948	-	32,948	-
071530/0607	84.010	399,965	-	-	147,485	-	311,297	163,812
		825,995	58,736	-	239,169	393,082	344,245	163,812
Migrant Education								
051830/2006	84.011	116,496	17,404	-	116,496	17,404	99,092	-
051830/2007	84.011	105,344	-	-	-	-	11,909	11,909
061890/0607	84.011	189,200	-	-	90,715	-	176,473	85,758
		411,040	17,404	-	207,211	17,404	287,474	97,667
Title II, Part D - Technology Literacy Challenge Grants								
054290/0506	84.318	4,318	3,303	-	3,303	-	-	-
064290/0607	84.318	7,736	-	-	1,285	-	6,880	5,595
		12,054	3,303	-	4,588	-	6,880	5,595
Title II Part A - Improving Teacher Quality								
050520/0506	84.367	90,331	12,155	-	12,155	90,331	-	-
060520/0607	84.367	124,282	-	-	68,531	-	124,282	55,751
070520/0607	84.367	122,799	-	-	60,436	-	122,799	62,363
		337,412	12,155	-	141,122	90,331	247,081	118,114

HART PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2006	Adjustments and Transfers	Cash Received	Expenditures (Memo Only)		Accrued (Deferred) Revenue June 30, 2007
						Prior Year(s)	Year Ended June 30, 2007	
U.S. Department of Education (continued)								
<i>Passed-through Michigan Department of Education (continued)</i>								
Title III Limited English Proficient 070580/0607	84.365A	\$ 13,298	\$ -	\$ -	\$ -	\$ -	\$ 6,395	\$ 6,395
Service Provider Self Review 070440/0607	84.027A	4,000	-	-	-	-	1,480	1,480
Title IV, Part B - Rural and Low Income 070660/0607	84.358B	39,730	-	-	17,655	-	34,155	16,500
Title V LEA Allocation - Innovative Programs 060250/0506	84.298	4,095	(2,564)	(2,564)	-	-	-	-
060250/0607	84.298	2,564	-	2,564	-	-	2,564	-
070250/0607	84.298	2,932	-	-	681	-	851	170
		9,591	(2,564)	-	681	-	3,415	170
<i>Passed-through Muskegon Area Intermediate School District</i>								
Drug Free Schools and Communities Act 012860DRUG01131 05/06	84.186	7,133	-	-	-	-	2,816	2,816
<i>Passed-through Walkerville Public Schools</i>								
Title III - Limited English Proficient 050680/0506	84.365	21,268	15,268	-	15,268	15,268	-	-
060780/0607	84.365	6,000	-	-	-	-	6,000	6,000
		27,268	15,268	-	15,268	15,268	6,000	6,000
Total U.S. Department of Education		1,687,521	104,302	-	625,694	516,085	939,941	418,549
U.S. Department of Health and Human Services								
<i>Passed-through Muskegon Area Intermediate School District</i>								
Head Start 05CH8258 Operations 2006	93.600	175,180	36,948	-	89,257	122,871	52,309	-
05CH8258 Operations 2007	93.600	177,018	-	-	81,791	-	109,574	27,783
Total U.S. Department of Health and Human Services		352,198	36,948	-	171,048	122,871	161,883	27,783
Total expenditures of federal awards		\$ 2,373,038	\$ 141,250	\$ -	\$ 1,130,061	\$ 638,956	\$ 1,435,143	\$ 446,332

(Concluded)

Hart Public Schools
Single Audit
Notes to Schedule of Expenditures of Federal Awards

NOTE 1 – RECEIPTS AND REVENUE

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule of Expenditures of Federal Awards has been arranged to provide information on both the cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, deferred revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

NOTE 2 – GRANT EXPENDITURES

Revenues from federal sources per the June 30, 2007 basic financial statements agree with federal expenditures from the June 30, 2007 Schedule of Expenditures of Federal Awards.

Expenditures are in agreement with amounts reported in the basic financial statements. Management has utilized the Grants Section Auditors Report (form R7120) and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards. The cash payments recorded on the Grant Auditor Report exceed payments received on the Schedule of Expenditures of Federal Awards because certain payments made by the State of Michigan prior to June 30, 2007 were not received by the District until July 5, 2007. The funds were included as accrued revenue at June 30, 2007 and were excluded from the cash received column on the Schedule of Expenditures of Federal Awards in the current year.

Expenditures are reported on the Schedule of Expenditures of Federal Awards for all active awards. Accordingly, the Schedule presents expenditures for the current year grant which remains active beyond the end of the fiscal year because of the accounts receivable, deferred revenue, or accounts payable items.

Hart Public Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: *Unqualified*

Internal controls over financial reporting:
 Material weakness(es) identified? _____ yes x no
 Significant deficiency(ies) identified not
 considered to be material weaknesses? x yes _____ none reported

Noncompliance material to financial
 statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? _____ yes x no
 Significant deficiency(ies) identified not
 considered to be material weaknesses? _____ yes x none reported

Type of auditors’ report issued on compliance
 for major programs: *Unqualified*

Any audit findings disclosed that are required to be
 reported in accordance with Circular A-133,
 Section 510(a)? x yes _____ no

Identification of Major Programs

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.550	Food Donation
84.010	Title I

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? x yes _____ no

Hart Public Schools
Schedule of Findings and Questioned Costs (Concluded)
For the Year Ended June 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP

- Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
- Condition:** As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. During our audit, we identified and proposed several significant adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances. These adjustments included recording student activity account balances, clearing out certain debit-balance liabilities, and removing salary accruals relating to two terminated teachers. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.
- Cause:** This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
- Effect:** As a result of this condition, the District's internal accounting records were initially misstated by an amount that was significant to the financial statements. In addition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
- View of Responsible Officials:** The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Hart Public Schools
Schedule of Findings and Questioned Costs (Concluded)
For the Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2007-2 – Immaterial Noncompliance – CFDA Number 84.010 – Title I Carryover of Federal Funds

- Criteria:** The District is only permitted to carryover 15% of its Title I federal funds to the subsequent grant period without specific approval from the Michigan Department of Education.
- Condition:** The District had unexpended Title I funds amounting to 23% of the grant award as of September 30, 2007, which exceeds the maximum.
- Cause:** This condition was caused by a management oversight in monitoring the expended grant funds in relation to the award amount.
- Effect:** As a result of this condition, the District did not identify through its internal control system that it was not adhering to grant compliance requirements.
- Recommendation:** We recommend that the District have controls in place to identify all grant compliance requirements and ensure that the District is in compliance with them.
- View of Responsible Officials:** Management realized that they would have carry-over funds for 2006/07. Due to a year-end adjustment, distributing the Title I Director's time based on actual, the carry-over funds were greater than expected. Management will monitor federal programs on a more frequent basis to ensure that the carry-over funds do not exceed the maximum.

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

November 7, 2007

To the Board of Education of
Hart Public Schools
Hart, Michigan

We have audited the financial statements of Hart Public Schools for the year ended June 30, 2007, and have issued our report thereon dated November 7, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated June 5, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Hart Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Hart Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Hart Public Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Hart Public Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Hart Public Schools' compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Hart Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Hart Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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 estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Hart Public Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Hart Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Hart Public Schools' financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that 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.

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.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Hart Public Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

This letter is intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

Hart Public Schools

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of Hart Public Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Other Matters

Bank Accounts in District's Name

During our audit, we noted three bank accounts in the District's name that are not under the control of the District's management. These accounts relate to organizations that are fiscally separate from the District, but require the District's participation in order to obtain their tax-exempt status. We recommend that the District either should assume control of these accounts or assist the separate organizations in obtaining their own tax-exempt identification numbers so that they are no longer using the District's name on the accounts. We noted that the District is currently working to assist these organizations in obtaining their own separate tax-exempt status.

Journal Entries

During our audit, we noted that there is not a process in place for review and approval of adjusting journal entries. We recommend that all journal entries be reviewed and approved by an individual other than the preparer to ensure proper recording and reduce the risk of fraud.

* * * * *