

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hastings Area School System	County Barry
Fiscal Year End June 30, 2007	Opinion Date October 23, 2007	Date Audit Report Submitted to State November 26, 2007	

We affirm that:

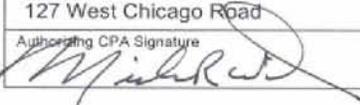
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- |           |           |  |
|-----------|-----------|--|
| YES<br>NO | NO<br>YES | <b>Check each applicable box below.</b> (See instructions for further detail.) |
|-----------|-----------|--|
1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  4.   The local unit has adopted a budget for all required funds.
  5.   A public hearing on the budget was held in accordance with State statute.
  6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  8.   The local unit only holds deposits/investments that comply with statutory requirements.
  9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  11.   The local unit is free of repeated comments from previous years.
  12.   The audit opinion is UNQUALIFIED.
  13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  14.   The board or council approves all invoices prior to payment as required by charter or statute.
  15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	Internal Control letter under GAS
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228
Street Address 127 West Chicago Road		City Sturgis
		State MI
		Zip 49091
Authorizing CPA Signature 	Printed Name Michael R. Wilson	License Number 1101017570

HASTINGS AREA SCHOOL SYSTEM  
FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
JUNE 30, 2007

**Hastings Area School System**

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**Hastings Area School System**

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**Norman & Paulsen, P.C.**

*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Hastings Area School System, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hastings Area School System's 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 the 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 Hastings Area School System as of June 30, 2007, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The administration's discussion and analysis and budgetary comparison schedule as identified in the table of contents, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Donald L. Paulsen, CPA  
Patrick J. Monahan, CPA  
Bruce S. A. Gosling, CPA  
Michael R. Wilson, CPA  
Rick L. Strawser, CPA  
Jerrel T. Norman (1941-1982)

Board of Education  
Hastings Area School System

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hastings Area School System's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2007, on our consideration of Hastings Area School System's internal control over financial reporting and on our tests of it's 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.

*Norman J. Paulson, P.C.*

October 23, 2007

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2007

This section of Hastings Area School System's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

**Using this Annual Report**

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

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

Basic Financial Statements

*District-wide Financial Statement*

*Fund Financial Statements*

*Notes to the Basic Financial Statement*

*(Required Supplemental Information)*

*Budgetary Information for the General Fund and Major Special Revenue Funds*

*Other Supplemental Information*

**Reporting the School District as a whole - District-wide Financial Statements**

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

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
YEAR ENDED JUNE 30, 2007

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

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

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

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

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

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
 YEAR ENDED JUNE 30, 2007

**The School District as Trustee - Reporting the School District's Fiduciary Responsibilities**

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

**The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2007 and 2006:

TABLE I	June 30,	
	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current and other assets	\$ 10,136,071	\$ 8,789,603
Capital assets - Net of accumulated depreciation	32,200,805	32,513,340
Other noncurrent assets	<u>154,329</u>	<u>165,093</u>
Total assets	42,491,205	41,468,036
<b>Liabilities</b>		
Current liabilities	9,041,470	8,582,778
Long-term liabilities	<u>26,853,561</u>	<u>26,280,540</u>
Total liabilities	35,895,031	34,863,318
<b>Net Assets</b>		
Invested in property and equipment - net of related debt	5,266,222	5,064,673
Restricted for debt service	984,045	616,842
Unrestricted	<u>345,907</u>	<u>923,203</u>
Total net assets	<u>\$ 6,596,174</u>	<u>\$ 6,604,718</u>

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
 YEAR ENDED JUNE 30, 2007

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$6,596,174 at June 30, 2007. Capital assets, net of related debt totaling \$5,266,222 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$345,907 was unrestricted.

The \$345,907 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2007 and 2006.

TABLE 2

	Year Ended June 30,	
	2007	2006
Revenue		
Program revenue:		
Charges for services	\$ 1,227,258	\$ 1,216,999
Grants and categoricals	3,103,149	2,949,572
General revenue:		
Property taxes	5,783,055	5,484,123
State foundation allowance	19,253,133	19,218,775
Interest and investment earnings	182,000	90,817
Gain on sale of capital assets	4,412	9,981
Sale of broadband rights	-	575,000
Other	124,157	244,632
Total revenue	29,677,164	29,789,899

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
 YEAR ENDED JUNE 30, 2007

<b>Function/Program Expenses</b>	Year Ended June 30,	
	<u>2007</u>	<u>2006</u>
Instruction	16,986,164	16,398,818
Support services	8,029,608	7,751,373
Food services	901,969	904,736
Athletics	406,307	393,837
Community services	627,016	607,267
Interest on long-term debt	1,248,078	1,517,656
Depreciation (unallocated)	<u>1,486,566</u>	<u>1,417,915</u>
 Total expenses	 <u>29,685,708</u>	 <u>28,991,602</u>
 Change in net assets	 <u>\$ (8,544)</u>	 <u>\$ 798,297</u>

As reported in the statement of activities, the cost of all governmental activities this year was \$29,685,708. Certain activities were partially funded from those who benefited from the programs \$(1,227,258) or by other governments and organizations that subsidized certain programs with grants and categoricals \$(3,103,149). We paid for the remaining "public benefit" portion of our governmental activities with \$5,783,055 in taxes, \$19,253,133 in State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$8,544. Key reasons for the change in net assets were capitalizable expenditures and the repayment of bond principal and other long-term obligations and proceeds in the amount of \$2,079,765 from Energy Conservation Bonds. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 16.

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

**The School District's Funds**

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

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
YEAR ENDED JUNE 30, 2007

As the School District completed this year, the governmental funds reported a combined fund balance of \$2,908,819, which is a decrease of \$902,040 from last year.

In the General Fund, our primary operating fund, the fund balance decreased \$630,743 to \$378,462. The General Fund fund balance has been reserved for inventories - \$40,356; designated for future projects - \$200,000; and undesignated - \$138,106.

In the Capital Projects Fund the fund balance increased \$1,155,094 to \$1,166,850. This was the result of proceeds from an Energy Conservation Improvement bond issue of \$2,079,765 less capital outlay costs incurred through the year end.

Our Debt Service Fund reflected a fund balance increase of \$351,703 and ended the year at \$1,174,045. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

Our Food Service Fund fund balance increased \$26,710 to \$185,053.

Our Athletics Fund is maintained at a zero fund balance and was supported by an operating transfer from the General Fund of \$272,681.

Our Community Center Fund fund balance remained at \$4,409 and was supported by an operating transfer from the General Fund of \$98,200.

**General Fund Budgetary Highlights**

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

Budgeted revenues were increased \$273,438, to better reflect state per student foundation funding and adjustments to categorical funding. Actual revenues were within \$39,948 of the final budgeted revenues or 0.2 percent.

Budgeted expenditures were increased \$508,422 to better reflect expenditures funded by increased revenues. Actual expenditures ended the year over the final budget by \$349,826 or 1.4 percent.

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
 YEAR ENDED JUNE 30, 2007

**Capital Asset and Debt Administration**

Capital Assets

At June 30, 2007, the School District had \$52,083,325 invested in a broad range of capital assets, including land, buildings, buses and furniture and equipment. This amount represents a net increase (including additions and disposals) of \$1,106,725, or 2.2 percent, from last year. The majority of this increase was building construction projects - \$1,044,064, funded out of the Capital Projects Fund.

	<u>2007</u>	<u>2006</u>
Land	\$ 253,410	\$ 253,410
Buildings and improvements	43,102,127	42,971,778
Buses and other vehicles	2,058,778	2,126,084
Furniture and equipment	5,755,295	5,625,328
Construction in progress	<u>913,715</u>	<u>-</u>
Total capital assets	52,083,325	50,976,600
Less accumulated depreciation	<u>19,882,520</u>	<u>18,463,260</u>
Net capital assets	<u>\$ 32,200,805</u>	<u>\$ 32,513,340</u>

Debt

At the end of this year, the School District had \$26,075,660 in bonds outstanding versus \$27,463,283 in the previous year - a change of 5.1 percent. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

At the end of this year the School District had \$2,180,102 in notes payable outstanding versus \$150,477 in the previous year. During the year the School District paid \$50,140 against principal and borrowed \$2,079,765 for Energy Conservation projects.

At the end of this year the School District had employee severance pay agreements outstanding of \$222,017 versus \$261,234 in the previous year. During the year the School District made payments totaling \$99,490.

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

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
YEAR ENDED JUNE 30, 2007

**Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

The financial status of the State of Michigan may result in future Executive Order Cuts from the Governor.

Increases in the employer contribution to the Michigan Public School Employees Retirement System, as well as increased premiums for health insurance will significantly affect the District's finances.

Increases in heating fuel costs and transportation fuel costs.

**Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 232 West Grand Street, Hastings, Michigan 49058.

HASTINGS AREA SCHOOL SYSTEM

STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 6,352,083
Accounts receivable	32,998
Taxes receivable (net)	-
Due from other governmental units	3,551,550
Prepaid expense	133,844
Inventories	<u>65,596</u>
Total current assets	10,136,071
Noncurrent Assets:	
Capital assets	52,083,325
Less: accumulated depreciation	<u>19,882,520</u>
Net capital assets	32,200,805
Issuance cost for bonds, net	<u>154,329</u>
Total noncurrent assets	<u>32,355,134</u>
Total assets	42,491,205
<u>LIABILITIES</u>	
Current Liabilities:	
Short-term note payable	4,275,000
Accounts payable	557,108
Accrued payroll	1,343,493
Accrued benefits	862,858
Accrued interest	359,674
Deferred revenue	19,119
Accrued severance pay	129,626
Notes payable, due within one year	34,592
Bonds payable, due within one year	<u>1,460,000</u>
Total current liabilities	9,041,470
Noncurrent Liabilities:	
Accrued severance pay	92,391
Notes payable	2,145,510
Bonds payable, net	<u>24,615,660</u>
Total noncurrent liabilities	<u>26,853,561</u>
Total liabilities	35,895,031
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	5,266,222
Restricted for debt service	984,045
Unrestricted	<u>345,907</u>
Total net assets	<u>\$ 6,596,174</u>

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets	
Functions/Programs				
Governmental activities:				
Instruction	\$ 16,986,164	\$ 1,480	\$ 2,516,918	\$ (14,467,766)
Support services	8,029,608	117,523	118,189	(7,793,896)
Food services	901,969	460,637	468,042	26,710
Athletics	406,307	133,481	-	(272,826)
Community services	627,016	514,137	-	(112,879)
Interest on long-term debt 1,248,078	-	-	(1,248,078)	
Depreciation (unallocated)	1,486,566	-	-	(1,486,566)
Total Governmental activities	<u>\$ 29,685,708</u>	<u>\$ 1,227,258</u>	<u>\$ 3,103,149</u>	(25,355,301)
General revenues:				
Taxes				
Property taxes, levied for general operations				2,844,389
Property taxes, levied for debt service				2,938,666
State aid not restricted to specific purposes				19,253,133
Interest and investment earnings				182,000
Gain on sale of assets				4,412
Other				<u>124,157</u>
Total general revenues				<u>25,346,757</u>
Change in Net Assets				(8,544)
Net Assets - Beginning of year				<u>6,604,718</u>
Net Assets - End of year				<u>\$ 6,596,174</u>

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

<u>ASSETS</u>	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
Cash and cash equivalents	\$ 3,392,683	\$ 1,617,712	\$ 1,174,045
Accounts receivable	32,438	-	-
Due from other governmental units	3,551,550	-	-
Due from other funds	1,653	-	-
Prepaid expenditure	133,844	-	-
Inventories	<u>40,356</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 7,152,524</u>	<u>\$ 1,617,712</u>	<u>\$ 1,174,045</u>
 <u>LIABILITIES AND FUND BALANCES</u> 			
Liabilities:			
Short-term note payable	\$ 4,275,000	\$ -	\$ -
Accounts payable	77,344	450,862	-
Accrued payroll	1,343,493	-	-
Accrued benefits	862,858	-	-
Due to other funds	30,893	-	-
Accrued interest	169,674	-	-
Deferred revenue	<u>14,800</u>	<u>-</u>	<u>-</u>
Total liabilities	6,774,062	450,862	-
Fund Balances:			
Reserved:			
Inventories	40,356	-	-
Debt service	-	-	1,174,045
Capital projects	-	1,166,850	-
Unreserved:			
Designated for future projects	200,000	-	-
Undesignated	<u>138,106</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>378,462</u>	<u>1,166,850</u>	<u>1,174,045</u>
Total liabilities and fund balances	<u>\$ 7,152,524</u>	<u>\$ 1,617,712</u>	<u>\$ 1,174,045</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Total
\$ 167,643	\$ 6,352,083
560	32,998
-	3,551,550
30,893	32,546
-	133,844
<u>25,240</u>	<u>65,596</u>
<u>\$ 224,336</u>	<u>\$ 10,168,617</u>

\$ -	\$ 4,275,000
28,902	557,108
-	1,343,493
-	862,858
1,653	32,546
-	169,674
<u>4,319</u>	<u>19,119</u>

34,874	7,259,798
--------	-----------

25,240	65,596
-	1,174,045
-	1,166,850
-	200,000
<u>164,222</u>	<u>302,328</u>

<u>189,462</u>	<u>2,908,819</u>
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<u>\$ 224,336</u>	<u>\$ 10,168,617</u>
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HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007

Total Fund Balances - Governmental Funds \$ 2,908,819

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

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

The cost of the capital assets is	52,083,325
Accumulated depreciation is	<u>(19,882,520)</u>
Total	32,200,805

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Accrued severance pay	(222,017)
Notes payable	(2,180,102)
Bonds payable, net	(26,075,660)
Issuance cost for bonds, net	154,329

Accrued interest payable on long-term liabilities is not included as a liability in governmental activities (190,000)

Net assets of governmental activities \$ 6,596,174

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
Revenues:			
Local sources	\$ 3,247,621	\$ 119,393	\$ 2,985,968
State sources	20,533,787	-	-
Federal sources	750,758	-	-
Interdistrict	<u>485,506</u>	<u>-</u>	<u>-</u>
Total revenues	25,017,672	119,393	2,985,968
Expenditures:			
Instruction	17,012,360	-	-
Supporting services	7,989,901	-	-
Interdistrict	13,021	-	-
Food service	-	-	-
Athletics	-	-	-
Community services	36,266	-	-
Capital outlay	-	1,044,064	-
Debt service			
Principal retirement	50,140	-	1,420,000
Interest and fiscal charges	<u>175,846</u>	<u>-</u>	<u>1,214,265</u>
Total expenditures	<u>25,277,534</u>	<u>1,044,064</u>	<u>2,634,265</u>
Excess (deficiency) of revenues over expenditures	(259,862)	(924,671)	351,703
Other financing sources (uses):			
Proceeds from Energy Conservation Improvement Bonds	-	2,079,765	-
Operating transfers in	-	-	-
Operating transfers out	<u>(370,881)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(370,881)</u>	<u>2,079,765</u>	<u>-</u>
Net change in fund balances	(630,743)	1,155,094	351,703
Fund balances, July 1	<u>1,009,205</u>	<u>11,756</u>	<u>822,342</u>
Fund balances, June 30	<u>\$ 378,462</u>	<u>\$ 1,166,850</u>	<u>\$ 1,174,045</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	<u>Total</u>
\$ 1,086,089	\$ 7,439,071
34,834	20,568,621
433,208	1,183,966
-	<u>485,506</u>
1,554,131	29,677,164
-	17,012,360
-	7,989,901
-	13,021
901,969	901,969
406,307	406,307
590,750	627,016
-	1,044,064
-	1,470,140
-	<u>1,390,111</u>
<u>1,899,026</u>	<u>30,854,889</u>
(344,895)	(1,177,725)
-	2,079,765
370,881	370,881
-	<u>(370,881)</u>
<u>370,881</u>	<u>2,079,765</u>
25,986	902,040
<u>163,476</u>	<u>2,006,779</u>
<u>\$ 189,462</u>	<u>\$ 2,908,819</u>

HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

Net change in Fund Balances - Total Governmental Funds \$ 902,040

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

Governmental funds report capital outlays as  
expenditures; in the statement of activities,  
these costs are allocated over their estimated  
useful lives as depreciation.

Depreciation expense	(1,486,566)
Capital outlay	1,174,031

Accrued interest on bonds is recorded in the statement  
of activities when incurred; it is not reported in  
governmental funds until paid:

Accrued interest payable beginning of the year	205,500
Accrued interest payable end of the year	(190,000)

Repayments of principal on long-term debt and issuance  
costs are expenditures in the governmental funds,  
but not in the statement of activities (where it is  
a reduction of liabilities).

Repayment of principal on long-term debt	1,470,140
Proceeds from sale of bonds	(2,079,765)
Amortization of bond discounts	(2,103)
Amortization of bond premiums	18,100
Amortization of loss on bond refunding	(48,374)
Amortization of bond issuance costs	(10,764)

Accrued severance pay is reported on the accrual method  
in the statement of activities, and recorded as an  
expenditure when financial resources are used in the  
governmental funds.

Accrued voluntary severance plan beginning of year	261,234
Accrued voluntary severance plan end of year	<u>(222,017)</u>

Change in Net Assets of Governmental Activities \$ (8,544)

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM  
FIDUCIARY FUND  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2007

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 242,657
Investments	508,770
Accounts receivable	<u>14,751</u>
Total assets	<u>\$ 766,178</u>
<u>LIABILITIES</u>	
Due to school related organizations	<u>\$ 766,178</u>

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Hastings Area School System conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

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

**District-Wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the 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. All the district's government wide activities are considered governmental activities.

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

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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**

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

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

Amounts reported as program revenue include (1) charges to customer 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 revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

**Fund-based Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers 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, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

The Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Debt Service Fund is used to record tax, interest, and other revenue for payment of principle, interest and other expenditures on the bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Food Services Fund, Athletic Fund, and Community Center Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The school district does not have infrastructure type assets.

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

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

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

**Fund equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data/Reclassifications** - Comparative data is not included in the district's financial statements.

**Use of Estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

**Excess of Expenditures Over Appropriations in Budgeted 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>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
General Fund			
Instruction	\$ 16,890,622	\$ 17,012,360	\$ 121,738
Supporting	7,793,595	7,989,901	196,306
Debt service	190,820	225,986	35,166
Transfer out	335,387	370,881	35,494

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The School District's cash and cash equivalents at June 30, 2007, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	<u>\$ 6,352,083</u>	<u>\$ 242,657</u>	<u>\$ 6,594,740</u>

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

**NOTE 3 - CASH AND CASH EQUIVALENTS - Continued**

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$7,033,220. Of that amount, \$251,183 was covered by federal depository insurance coverage or secured and \$4,533,817 was uninsured and uncollateralized. The balance of \$2,248,220 was invested in bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4 - INVESTMENTS**

Michigan Public Acts 217 and 367 of 1982 authorize school districts to invest surplus monies in U.S. bonds and notes, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, U.S. Government repurchase agreements, bankers acceptances, mutual funds, and government pools that are composed of authorized investments.

The School District's investments at June 30, 2007, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
U.S. Government Agency Bonds	\$ -	\$ 241,592	\$ 241,592
Common and preferred stocks	-	65,000	65,000
Money Market	-	<u>202,178</u>	<u>202,178</u>
	<u>\$ -</u>	<u>\$ 508,770</u>	<u>\$ 508,770</u>

The School District's investments are classified by risk level as investments that are uninsured and unregistered held by the counterparty's trust department or agent in the School District's name.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 5 - DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue include unearned grant and categorical aid payments received prior to meeting all eligibility requirements in the amount of \$19,119.

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity of the School District's governmental activities was as follows:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>June 30, 2007</u>
Assets not being depreciated - Land	\$ 253,410	\$ -	\$ -	\$ 253,410
Capital assets being depreciated:				
Buildings and building improvements	42,971,778	130,349	-	43,102,127
Buses and other vehicles	2,126,084	-	67,306	2,058,778
Furniture and equipment	5,625,328	129,967	-	5,755,295
Construction in progress	<u>-</u>	<u>913,715</u>	<u>-</u>	<u>913,715</u>
Subtotal	50,723,190	1,174,031	67,306	51,829,915
Accumulated depreciation:				
Buildings and building improvements	13,381,822	966,577	-	14,348,399
Buses and other vehicles	1,297,805	236,651	67,306	1,467,150
Furniture and equipment	<u>3,783,633</u>	<u>283,338</u>	<u>-</u>	<u>4,066,971</u>
Subtotal	<u>18,463,260</u>	<u>1,486,566</u>	<u>67,306</u>	<u>19,882,520</u>
Net capital assets being depreciated	<u>32,259,930</u>			<u>31,947,395</u>
Net capital assets	<u>\$ 32,513,340</u>			<u>\$ 32,200,805</u>

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

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:		
General Fund	Other governmental funds	\$ 1,653
Other governmental funds	General Fund	<u>30,893</u>
		<u>\$ 32,546</u>
Interfund Transfers:		
	Transfer Out:	
	General Fund	
Transfer in:		
Other governmental funds		<u>\$ 370,881</u>

**NOTE 8 - SHORT-TERM NOTE PAYABLE**

Short-term note payable, Michigan Municipal Bond Authority, due August 20, 2007, interest at 3.96%	<u>\$ 4,275,000</u>
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**NOTE 9 - LONG-TERM DEBT**

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include accumulated severance pay.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds, net	\$27,463,283	\$ -	\$ 1,387,623	\$26,075,660	<u>\$1,460,000</u>
Notes	150,477	2,079,765	50,140	2,180,102	<u>\$ 34,592</u>
Other Obligations	<u>261,234</u>	<u>60,273</u>	<u>99,490</u>	<u>222,017</u>	<u>\$ 129,626</u>
Totals	<u>\$27,874,994</u>	<u>\$ 2,140,038</u>	<u>\$ 1,537,253</u>	<u>\$28,477,779</u>	

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 9 - LONG-TERM DEBT - (Continued)**

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

Year ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,494,592	\$ 1,275,158	\$ 2,769,750
2009	1,682,399	1,200,319	2,882,718
2010	1,769,216	1,126,980	2,896,196
2011	1,804,367	1,050,269	2,854,636
2012	1,888,219	976,881	2,865,100
Thereafter	<u>19,917,540</u>	<u>6,447,401</u>	<u>26,364,941</u>
	<u>\$28,556,333</u>	<u>\$12,077,008</u>	<u>\$40,633,341</u>

Governmental Activities:

General obligation bonds consist of:

\$4,020,000 2004 Refunding Bonds due in annual installments of \$35,000 to \$1,020,000 through May 1, 2010; interest from 3.00% to 5.00%	\$ 2,045,000
\$7,340,000 1998 Refunding Bonds due in annual installments of \$35,000 to \$775,000 through May 1, 2018; interest from 3.40% to 4.50%	7,005,000
\$6,375,000 1999 Refunding Bonds due in annual installments of \$30,000 to \$805,000 through May 1, 2018; interest from 3.15% to 4.70%	6,115,000
\$1,995,000 2001 School Building and Site Bonds (non-refunded portion) due in annual installments of \$310,000 to \$360,000 through May 1, 2011; interest from 4.00% to 4.30%	1,370,000
\$6,575,000 2005 Refunding Bonds due in annual installments of \$25,000 to \$750,000 through May 1, 2022; interest from 3.00% to 5.00%	6,525,000
\$3,190,000 2006 Refunding Bonds due in annual installments of \$30,000 to \$775,000 through May 1, 2026; interest from 4.00% to 4.125%	3,190,000

HASTINGS AREA SCHOOL SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

**NOTE 9 - LONG-TERM DEBT - (Continued)**

General obligation bonds consist of:

\$307,985 1998 School Improvement Bond (Durant Settlement) the annual principal and interest payments are to be paid directly by the State of Michigan	<u>126,231</u>
Total general obligation bonded debt	26,376,231
Less: deferred amount on bond refunding	(486,956)
Less: discount on bond refunding	(39,900)
Plus: premium on bond refunding	<u>226,285</u>
Total bonds payable, net	<u>\$ 26,075,660</u>

Notes payable consist of:

Energy Conservation Bonds payable to bank, monthly payments ranging between \$18,301 to \$35,314 through May 23, 2022, including interest at 4.02%	\$ 2,079,765
Land contract payable to real estate company, annual payments of \$20,000 through April 15, 2012, including interest at 4%	82,445
Note payable to bank, annual payments of \$35,820 through September 1, 2007, including interest at 3.35%, secured by technology equipment	<u>17,892</u>
Total notes payable	<u>\$ 2,180,102</u>

Other governmental activity long-term obligations include:

Accumulated severance pay payable monthly from July 25, 2003 through March 25, 2010	<u>\$ 222,017</u>
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**NOTE 10- RISK MANAGEMENT**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

**NOTE 11- DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS**

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

**Funding Policy** - Employer contributions to the system result from the implementing effect of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34 percent for the period July 1, 2006 through September 30, 2006 and 17.74 percent for the period October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPSERS plan for the years ended June 30, 2007, 2006, and 2005 were \$2,687,601, \$2,395,888, and \$2,141,099.

**Post Employment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

**REQUIRED SUPPLEMENTAL INFORMATION**

HASTINGS AREA SCHOOL SYSTEM

REQUIRED SUPPLEMENTAL INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (under) Final Budget</u>
Revenues:				
Local sources	\$ 2,962,310	\$ 3,196,347	\$ 3,247,621	\$ 51,274
State sources	20,594,476	20,538,583	20,533,787	(4,796)
Federal sources	688,778	751,307	750,758	(549)
Interdistrict	<u>461,722</u>	<u>491,487</u>	<u>485,506</u>	<u>(5,981)</u>
Total revenues	24,704,286	24,977,724	25,017,672	39,948
Expenditures:				
Instruction 16,458,424	16,890,622	17,012,360	121,738	
Supporting services	7,717,371	7,793,595	7,989,901	196,306
Community services	39,650	39,650	36,266	(3,384)
Debt service	190,820	190,820	225,986	35,166
Interdistrict	<u>13,021</u>	<u>13,021</u>	<u>13,021</u>	<u>-</u>
Total expenditures	<u>24,419,286</u>	<u>24,927,708</u>	<u>25,277,534</u>	<u>349,826</u>
Excess (deficiency) of revenues over expenditures	285,000	50,016	(259,862)	(309,878)
Other financing sources (uses):				
Operating transfers out	<u>(285,000)</u>	<u>(335,387)</u>	<u>(370,881)</u>	<u>35,494</u>
Net change in fund balance	-	(285,371)	(630,743)	(345,372)
Fund balance, July 1	<u>1,009,205</u>	<u>1,009,205</u>	<u>1,009,205</u>	<u>-</u>
Fund balance, June 30	<u>\$ 1,009,205</u>	<u>\$ 723,834</u>	<u>\$ 378,462</u>	<u>\$ (345,372)</u>

**OTHER SUPPLEMENTAL INFORMATION**

HASTINGS AREA SCHOOL SYSTEM  
 OTHER SUPPLEMENTAL INFORMATION  
 GENERAL FUND  
 STATEMENT OF REVENUES  
 YEAR ENDED JUNE 30, 2007

REVENUES

Revenues from local sources	
Current property taxes	\$ 2,844,389
Interest on investments	111,051
Tuition and fees	114,901
Rent	48,711
Sale of school property	4,412
Miscellaneous revenues	<u>124,157</u>
Total revenues from local sources	3,247,621
Revenues from state sources	
Foundation	19,140,266
Equity payment	72,950
Declining enrollment	39,917
At Risk	464,352
Early childhood education	105,600
Special education	535,702
Vocational education	104,804
Middle School Math	39,398
Durant Settlement	<u>30,798</u>
Total revenues from state sources	20,533,787
Revenues from federal sources	
Title I	317,645
Special education - learning disability	200,500
Title V LEA Allocation	678
Technology literacy	3,261
Improving Teacher Quality	149,926
Drug-Free schools	7,634
Voc. Ed - Career and Tech Prep	42,700
Medicaid outreach	<u>28,414</u>
Total revenues from federal sources	750,758
Revenues from other districts	
Other programs	5,741
Special education - local reimb.	<u>479,765</u>
Total revenues from other districts	<u>485,506</u>
Total revenues	<u><u>\$ 25,017,672</u></u>

HASTINGS AREA SCHOOL SYSTEM  
 OTHER SUPPLEMENTAL INFORMATION  
 GENERAL FUND  
 STATEMENT OF OPERATING EXPENDITURES  
 YEAR ENDED JUNE 30, 2007

INSTRUCTION

Basic Programs

Pre-school		
Salaries	\$	46,514
Employee benefits		27,577
Contracted services		2,750
Supplies and materials		3,300
Capital outlay		-
Other		<u>695</u>
Total pre-school instructional expenditures		80,836

Elementary

Salaries		4,012,373
Employee benefits		2,032,082
Contracted services		2,811
Supplies and materials		116,928
Capital outlay		7,309
Other		<u>3,552</u>
Total elementary instruction expenditures		6,175,055

Middle/Junior High

Salaries		2,294,615
Employee benefits		1,228,176
Contracted services		3,458
Supplies and materials		43,706
Capital outlay		-
Other		<u>3,495</u>
Total middle/junior high instruction expenditures		3,573,450

High School

Salaries		2,508,323
Employee benefits		1,324,660
Contracted services		44,482
Supplies and materials		64,831
Capital outlay		23,836
Other		<u>4,633</u>
Total high school instruction expenditures		<u>3,970,765</u>

Total basic programs		<u>13,800,106</u>
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HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued  
YEAR ENDED JUNE 30, 2007

INSTRUCTION - Continued

Added Needs

Special education	
Salaries	1,274,444
Employee benefits	550,575
Purchased services	-
Supplies and materials	<u>8,756</u>
Total special education instruction expenditures	1,833,775

Compensatory education	
Salaries	525,117
Employee benefits	219,701
Purchased services	44,819
Supplies and materials	13,258
Capital outlay	-
Other	<u>-</u>
Total compensatory education instruction expenditures	802,895

Vocational education	
Salaries	272,034
Employee benefits	127,210
Purchased services	51,952
Supplies and materials	83,229
Capital outlay	-
Other	<u>2,309</u>
Total vocational education instruction expenditures	<u>536,734</u>

Total added needs 3,173,404

Adult/Continuing Education

Salaries	28,638
Employee benefits	8,576
Purchased services	209
Supplies and materials	1,311
Capital outlay	-
Other	<u>116</u>

Total adult/continuing education expenditures 38,850

Total instruction expenditures 17,012,360

HASTINGS AREA SCHOOL SYSTEM  
 OTHER SUPPLEMENTAL INFORMATION  
 GENERAL FUND  
 STATEMENT OF OPERATING EXPENDITURES - Continued  
 YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES

Pupil Services

Guidance services	
Salaries	311,609
Employee benefits	167,368
Supplies	<u>1,553</u>
Total guidance services	480,530

Other pupil services

Salaries	37,589
Employee benefits	10,150
Contracted services	<u>4,957</u>
Total other pupil services	<u>52,696</u>

Total pupil services 533,226

Instructional Staff Services

Supervision and direction	
Salaries	87,328
Employee benefits	46,895
Contracted services	17,598
Supplies	<u>300</u>
Total supervision and direction	152,121

Library

Salaries	301,798
Employee benefits	146,620
Supplies and materials	<u>11,111</u>
Total library expenditures	<u>459,529</u>

Total instructional staff services 611,650

General Administrative Services

Board of education	
Contracted services	91,315
Other	<u>15,962</u>

Total board of education expenditures 107,277

HASTINGS AREA SCHOOL SYSTEM  
 OTHER SUPPLEMENTAL INFORMATION  
 GENERAL FUND  
 STATEMENT OF OPERATING EXPENDITURES - Continued  
 YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES - Continued

Executive administration	
Salaries	109,308
Employee benefits	27,558
Contracted services	5,439
Other	<u>11,309</u>
Total executive administration expenditures	<u>153,614</u>
Total general administrative services	260,891
School Administrative Services	
Office of the Principal	
Salaries	1,066,779
Employee benefits	573,504
Contracted services	374
Supplies and material	68,091
Capital outlay	<u>765</u>
Total school administrative expenditures	1,709,513
Business Services	
Fiscal charges	
Salaries	195,306
Employee benefits	154,265
Contracted services	20,511
Supplies and materials	13,350
Capital outlay	-
Other	<u>191,597</u>
Total business services expenditures	575,029
Operation and Maintenance	
Operation and maintenance of plant	
Salaries	1,007,640
Employee benefits	702,962
Contracted services	314,196
Supplies and materials	936,085
Capital outlay	3,500
Other	<u>90</u>
Total operation and maintenance expenditures	<u>2,964,473</u>

HASTINGS AREA SCHOOL SYSTEM  
 OTHER SUPPLEMENTAL INFORMATION  
 GENERAL FUND  
 STATEMENT OF OPERATING EXPENDITURES - Continued  
 YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES - Continued

Pupil Transportation	
Pupil transportation services	
Salaries	399,642
Employee benefits	255,301
Contracted services	46,552
Supplies and materials	182,980
Capital outlay	617
Other	<u>324</u>
Total pupil transportation services	885,416
 Technical coordination	
Salaries	93,133
Employee benefits	47,277
Contracted services	153,323
Supplies	-
Capital outlay	141,888
Other	<u>14,082</u>
Total technical coordination	<u>449,703</u>
Total supporting services expenditures	7,989,901

COMMUNITY SERVICES

Driver education	
Salaries	28,029
Employee benefits	515
Contracted services	5,412
Supplies	<u>2,310</u>
Total community services	36,266

OTHER DISTRICTS

Purchased services	13,021
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DEBT SERVICE

Principal repayment	50,140
Interest and fiscal charges	<u>175,846</u>

Total debt service	<u>225,986</u>
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TOTAL OPERATING EXPENDITURES	<u><u>\$ 25,277,534</u></u>
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HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2007

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Food Services</u>	<u>Athletics</u>	<u>Community Center</u>	
<u>ASSETS</u>				
Cash and cash equivalents	\$ 159,800	\$ 1,653	\$ 6,190	\$ 167,643
Accounts receivable	-	-	560	560
Due from other funds	7,374	-	23,519	30,893
Inventory	<u>25,240</u>	<u>-</u>	<u>-</u>	<u>25,240</u>
Total assets	<u>\$ 192,414</u>	<u>\$ 1,653</u>	<u>\$ 30,269</u>	<u>\$ 224,336</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 7,361	\$ -	\$ 21,541	\$ 28,902
Due to other funds	-	1,653	-	1,653
Deferred Revenue	<u>-</u>	<u>-</u>	<u>4,319</u>	<u>4,319</u>
Total liabilities	7,361	1,653	25,860	34,874
Fund balances:				
Reserved for inventory	25,240	-	-	25,240
Unreserved:				
Undesignated	<u>159,813</u>	<u>-</u>	<u>4,409</u>	<u>164,222</u>
Total fund balances	<u>185,053</u>	<u>-</u>	<u>4,409</u>	<u>189,462</u>
Total liabilities and fund balances	<u>\$ 192,414</u>	<u>\$ 1,653</u>	<u>\$ 30,269</u>	<u>\$ 224,336</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND  
 YEAR ENDED JUNE 30, 2007

	<u>Special Revenue Funds</u>			
	<u>Food Services</u>	<u>Athletics</u>	<u>Community Center</u>	<u>Total</u>
Revenues:				
Local sources	\$ 460,637	\$ 133,626	\$ 491,826	\$ 1,086,089
State sources	34,834	-	-	34,834
Federal sources	<u>433,208</u>	<u>-</u>	<u>-</u>	<u>433,208</u>
Total revenues	928,679	133,626	491,826	1,554,131
Expenditures:				
Food services	901,969	-	-	901,969
Athletics	-	406,307	-	406,307
Community services	<u>-</u>	<u>-</u>	<u>590,750</u>	<u>590,750</u>
Total expenditures	<u>901,969</u>	<u>406,307</u>	<u>590,750</u>	<u>1,899,026</u>
Excess (deficiency) of revenues over expenditures	26,710	(272,681)	(98,924)	(344,895)
Other financing sources:				
Operating transfers in	<u>-</u>	<u>272,681</u>	<u>98,200</u>	<u>370,881</u>
Net change in fund balances	26,710	-	(724)	25,986
Fund balances, July 1	<u>158,343</u>	<u>-</u>	<u>5,133</u>	<u>163,476</u>
Fund balances, June 30	<u>\$ 185,053</u>	<u>\$ -</u>	<u>\$ 4,409</u>	<u>\$ 189,462</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
FOOD SERVICE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
Revenues:			
Local sources	\$ 455,215	\$ 460,637	\$ 5,422
State sources	31,872	34,834	2,962
Federal sources	<u>421,518</u>	<u>433,208</u>	<u>11,690</u>
Total revenues	908,605	928,679	20,074
Expenditures:			
Salaries	312,976	312,916	(60)
Employee benefits	128,535	128,432	(103)
Purchased services	20,786	20,506	(280)
Supplies, material and other	432,501	430,444	(2,057)
Capital outlay	<u>9,671</u>	<u>9,671</u>	<u>-</u>
Total expenditures	<u>904,469</u>	<u>901,969</u>	<u>(2,500)</u>
Net change in fund balance	4,136	26,710	
Fund balance - July 1	<u>158,343</u>	<u>158,343</u>	<u>-</u>
Fund balance - June 30	<u>\$ 162,479</u>	<u>\$ 185,053</u>	<u>\$ 22,574</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
ATHLETIC FUND

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 160,767	\$ 133,626	\$ (27,141)
Expenditures:			
Salaries	196,175	196,175	-
Employee benefits	46,405	46,402	(3)
Purchased services	92,227	93,713	1,486
Supplies, material and other	57,542	57,059	(483)
Capital outlay	<u>12,958</u>	<u>12,958</u>	<u>-</u>
Total expenditures	<u>405,307</u>	<u>406,307</u>	<u>1,000</u>
Excess (deficiency) of revenues over expenditures	(244,540)	(272,681)	(26,141)
Other financing sources:			
Operating transfers in	<u>244,540</u>	<u>272,681</u>	<u>26,141</u>
Net change in fund balance	-	-	-
Fund balance - July 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION

COMMUNITY CENTER FUND

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 495,090	\$ 491,826	\$ (3,264)
Expenditures:			
Salaries	412,180	412,180	-
Employee benefits	114,642	114,354	(288)
Purchased services	27,895	27,775	(120)
Supplies, material and other	33,091	33,179	88
Capital outlay	<u>3,262</u>	<u>3,262</u>	<u>-</u>
Total expenditures	<u>591,070</u>	<u>590,750</u>	<u>(320)</u>
Excess (deficiency) of revenues over expenditures	(95,980)	(98,924)	(2,944)
Other financing sources:			
Operating transfers in	<u>90,847</u>	<u>98,200</u>	<u>7,353</u>
Net change in fund balance	(5,133)	(724)	4,409
Fund balance - July 1	<u>5,133</u>	<u>5,133</u>	<u>-</u>
Fund balance - June 30	<u>\$ -</u>	<u>\$ 4,409</u>	<u>\$ 4,409</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
 AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 YEAR ENDED JUNE 30, 2007

	Balances <u>June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	Balances <u>June 30, 2007</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 247,764	\$ 416,096	\$ 421,203	\$ 242,657
Investments	404,967	125,286	21,483	508,770
Accounts receivable	<u>2,749</u>	<u>32,227</u>	<u>20,225</u>	<u>14,751</u>
Total assets	<u>\$ 655,480</u>	<u>\$ 573,609</u>	<u>\$ 462,911</u>	<u>\$ 766,178</u>
<u>LIABILITIES</u>				
Due to school related organizations	<u>\$ 655,480</u>	<u>\$ 573,609</u>	<u>\$ 462,911</u>	<u>\$ 766,178</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
STATEMENT OF BONDED INDEBTEDNESS  
YEAR ENDED JUNE 30, 2007

2004 SCHOOL REFUNDING BONDS

\$ 4,020,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	5.00	\$ 87,350	\$ 1,020,000	\$ 1,107,350
2009	3.00	36,350	465,000	501,350
2010	<u>4.00</u>	<u>22,400</u>	<u>560,000</u>	<u>582,400</u>
Total		<u>\$ 146,100</u>	<u>\$ 2,045,000</u>	<u>\$ 2,191,100</u>

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
 STATEMENT OF BONDED INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2007

1998 REFUNDING BONDS

\$ 7,340,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	4.150	\$ 308,426	\$ 50,000	\$ 358,426
2009	4.200	306,350	640,000	946,350
2010	4.200	279,470	600,000	879,470
2011	4.300	254,270	625,000	879,270
2012	4.350	227,396	650,000	877,396
2013	4.400	199,120	680,000	879,120
2014	4.500	169,200	710,000	879,200
2015	4.500	137,250	735,000	872,250
2016	4.500	104,176	770,000	874,176
2017	4.500	69,526	775,000	844,526
2018	4.500	<u>34,650</u>	<u>770,000</u>	<u>804,650</u>
Total		<u>\$ 2,089,834</u>	<u>\$ 7,005,000</u>	<u>\$ 9,094,834</u>

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1. Callable maturities year 2010 through 2018 on May 1, 2009 @ 100% of par.

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
 STATEMENT OF BONDED INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2007

1999 REFUNDING BONDS

\$ 6,375,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	4.100	\$ 275,732	\$ 35,000	\$ 310,732
2009	4.150	274,298	40,000	314,298
2010	4.200	272,638	40,000	312,638
2011	4.300	270,958	655,000	925,958
2012	4.350	242,792	685,000	927,792
2013	4.400	212,996	715,000	927,996
2014	4.500	181,536	750,000	931,536
2015	4.550	147,786	785,000	932,786
2016	4.600	112,068	800,000	912,068
2017	4.650	75,268	805,000	880,268
2018	4.700	<u>37,836</u>	<u>805,000</u>	<u>842,836</u>
Total		<u>\$ 2,103,908</u>	<u>\$ 6,115,000</u>	<u>\$ 8,218,908</u>

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1. Callable maturities year 2010 through 2018 on May 1, 2009 @ 100% of par.

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
 STATEMENT OF BONDED INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2007

2001 SCHOOL BUILDING AND SITE BONDS  
 (NON-REFUNDED PORTION) \$ 1,995,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	4.000	\$ 57,174	\$ 325,000	\$ 382,174
2009	4.125	44,174	335,000	379,174
2010	4.250	30,356	350,000	380,356
2011	4.300	<u>15,480</u>	<u>360,000</u>	<u>375,480</u>
Total		<u>\$ 147,184</u>	<u>\$ 1,370,000</u>	<u>\$ 1,517,184</u>

Interest on the bonds of the above issue are payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

HASTINGS AREA SCHOOL SYSTEM  
 OTHER SUPPLEMENTAL INFORMATION  
 STATEMENT OF BONDED INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2007

2005 REFUNDING BONDS

\$ 6,575,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	3.25	\$ 280,752	\$ 30,000	\$ 310,752
2009	3.50	279,776	30,000	309,776
2010	3.50	278,726	30,000	308,726
2011	4.00	277,676	30,000	307,676
2012	5.00	276,476	405,000	681,476
2013	5.00	256,226	420,000	676,226
2014	5.00	235,226	430,000	665,226
2015	5.00	213,726	455,000	668,726
2016	4.00	190,976	490,000	680,976
2017	4.00	171,376	565,000	736,376
2018	4.00	148,776	655,000	803,776
2019	4.00	122,576	745,000	867,576
2020	4.10	92,776	745,000	837,776
2021	4.125	62,232	745,000	807,232
2022	4.20	<u>31,500</u>	<u>750,000</u>	<u>781,500</u>
Total		<u>\$ 2,918,796</u>	<u>\$ 6,525,000</u>	<u>\$ 9,443,796</u>

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
 STATEMENT OF BONDED INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2007

2006 REFUNDING BONDS

\$ 3,190,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	4.000	\$ 129,512	\$ -	\$ 129,512
2009	4.000	129,512	-	129,512
2010	4.000	129,512	-	129,512
2011	4.000	129,512	-	129,512
2012	4.000	129,512	-	129,512
2013	4.000	129,512	-	129,512
2014	4.000	129,512	-	129,512
2015	4.000	129,512	-	129,512
2016	4.000	129,512	-	129,512
2017	4.000	129,512	-	129,512
2018	4.000	129,512	-	129,512
2019	4.000	129,512	30,000	159,512
2020	4.000	128,312	30,000	158,512
2021	4.000	127,112	30,000	157,512
2022	4.000	125,912	30,000	155,512
2023	4.000	124,712	775,000	899,712
2024	4.000	93,712	765,000	858,712
2025	4.125	63,112	755,000	818,112
2026	4.125	<u>31,968</u>	<u>775,000</u>	<u>806,968</u>
Total		<u>\$ 2,248,984</u>	<u>\$ 3,190,000</u>	<u>\$ 5,438,984</u>

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

HASTINGS AREA SCHOOL SYSTEM  
 OTHER SUPPLEMENTAL INFORMATION  
 STATEMENT OF BONDED INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2007

1998 SCHOOL IMPROVEMENT BONDS \$ 307,985

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2009	4.76	15,765	49,115	64,880
2010	4.76	3,672	17,956	21,628
2011	4.76	2,817	18,811	21,628
2012	4.76	1,921	19,705	21,626
2013	4.76	<u>983</u>	<u>20,644</u>	<u>21,627</u>
Total		<u>\$ 25,158</u>	<u>\$ 126,231</u>	<u>\$ 151,389</u>

Interest and principal on the bonds of the above issue is payable annually on May 15. As part of the Durant Settlement the annual principal and interest payments are to be made directly by the State of Michigan.

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2007

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
Title I - Educationally Deprived	84.010	0715300607 0615300506	\$ 317,645 317,645
Title V LEA Allocation	84.298	0702500607	678
Technology Literacy	84.318	0742900607 0642900506	3,261 5,926
Improving Teacher Quality	84.367	0705200607 0605200606	149,926 150,658
Passed Through Intermediate School District:			
Voc. Ed - Career and Tech Prep	84.048		42,700
P.L. 101-476 IDEA Emotionally Impaired	84.027	IDEA/06-07	200,500
Drug-Free Schools	84.186		7,634
TOTAL DEPARTMENT OF EDUCATION			

(continued on next page)

Accrued (Deferred) Revenue <u>July 1, 2006</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued (Deferred) Revenue <u>June 30, 2007</u>
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\$	-	\$	317,645	\$	317,645	\$	249,266	\$	68,379
	<u>42,488</u>		-		<u>42,488</u>		<u>42,488</u>		<u>-</u>
	42,488		*	317,645		291,754		68,379	
	-			678		678		-	
	-			3,261		3,000		261	
	<u>1,172</u>	5,926		<u>-</u>		<u>1,172</u>		<u>-</u>	
	1,172			3,261		4,172		261	
	-			149,926		116,090		33,836	
	<u>29,281</u>	150,658		<u>-</u>		<u>29,281</u>		<u>-</u>	
	<u>29,281</u>			<u>149,926</u>		<u>145,371</u>		<u>33,836</u>	
	72,941			471,510		441,975		102,476	
	-			42,700		42,700		-	
	-			200,500		200,500		-	
	<u>-</u>			<u>7,634</u>		<u>7,634</u>		<u>-</u>	
	72,941			722,344		692,809		102,476	

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued  
 YEAR ENDED JUNE 30, 2007

<u>Federal Grantor/Pass-Through Grantor/ Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<u>Nutrition Cluster</u>			
Passed Through State Department of Education:			
National School Lunch Program	10.555	05-06 06-07	290,383 272,484
National School Lunch Breakfast	10.553	05-06 06-07	53,895 61,602
Food Distribution			
Entitlement Commodities	10.550	06-07	60,001
Bonus Commodities		06-07	564

TOTAL DEPARTMENT OF AGRICULTURE

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed Through Intermediate  
School District:

Medicaid Outreach	93.778		28,414
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TOTAL FEDERAL FINANCIAL ASSISTANCE

Notes:

- 1.\*Designates Major Program.
2. Dollar threshold used to distinguish between Type A and Type B programs - \$300,000.
3. Expenditures in this schedule are in agreement with amounts reported in the financial statements.
4. The amounts reported on the R7120 reconcile with this schedule.

Accrued (Deferred) Revenue July 1, 2006	(Memo only) Prior Year Expenditures	Expenditures	Receipts	Accrued (Deferred) Revenue June 30, 2007
-	257,127	33,256	33,256	-
-		272,484	272,484	-
-		305,740	305,740	-
-	48,594	5,301	5,301	-
-		61,602	61,602	-
-		66,903	66,903	-
-		60,001	60,001	-
-		564	564	-
-		60,565	60,565	-
-		433,208	433,208	-
-		28,414	28,414	-
<u>\$ 72,941</u>		<u>\$ 1,183,966</u>	<u>\$1,154,431</u>	<u>\$ 102,476</u>



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

To the Board of Education  
Hastings Area School System, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System as of and for the year ended June 30, 2007, which collectively comprise Hastings Area School System basic financial statements and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Hastings Area School System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the Hastings Area School System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hastings Area School System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects 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.

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.

Donald L. Paulsen, CPA  
Patrick J. Monahan, CPA  
Bruce S. A. Gosling, CPA  
Michael R. Wilson, CPA  
Mark L. Strawser, CPA  
Michael T. Norman (1941-1982)

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

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

This report is intended solely for the information and 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.

*Norman J. Paulson, P.C.*

October 23, 2007



Norman & Paulsen, P.C.

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

To the Board of Education  
Hastings Area School System, Michigan

Compliance - We have audited the compliance of Hastings Area School System 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. Hastings Area School System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hastings Area School System's management. Our responsibility is to express an opinion on Hastings Area School System's compliance based on our audit.

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

In our opinion, Hastings Area School System 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.

Donald L. Paulsen, CPA  
Patrick J. Monahan, CPA  
Bruce S. A. Gosling, CPA  
Michael R. Wilson, CPA  
Rick L. Strawser, CPA  
Herrel T. Norman (1941-1982)

Internal Control over Compliance - The management of Hastings Area School System 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 Hastings Area School System 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 Hastings Area School System's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and 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.

*Norman J. Paulson, P.C.*

October 23, 2007

HASTINGS AREA SCHOOL SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

1. Summary of auditor's results:

- (I) An unqualified opinion was issued on the financial statements.
- (ii) No reportable conditions in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No reportable conditions in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs.
- (vi) No audit findings were disclosed.
- (vii) Major programs: U.S. Department of Education  
Title I - Educationally Deprived
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) Hastings Area School System qualified as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

NONE

3. Findings and questioned costs for Federal awards.

NONE