

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 HESPERIA COMMUNITY SCHOOLS	County NEWAYGO
Fiscal Year End June 30, 2007	Opinion Date August 23, 2007	Date Audit Report Submitted to State NOVEMBER 8, 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).

- | | | | |
|-------------------------------------------------------------------------------------------------------------------------|-----|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <table border="0"> <tr> <td style="text-align: center;">YES</td> <td style="text-align: center;">NO</td> </tr> </table> | YES | NO | <p>Check each applicable box below. (See instructions for further detail.)</p> <ol style="list-style-type: none"> 1. <input checked="" type="checkbox"/> <input type="checkbox"/> 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. <input type="checkbox"/> <input checked="" type="checkbox"/> 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. <input checked="" type="checkbox"/> <input type="checkbox"/> The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. 4. <input checked="" type="checkbox"/> <input type="checkbox"/> The local unit has adopted a budget for all required funds. 5. <input checked="" type="checkbox"/> <input type="checkbox"/> A public hearing on the budget was held in accordance with State statute. 6. <input checked="" type="checkbox"/> <input type="checkbox"/> 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. <input checked="" type="checkbox"/> <input type="checkbox"/> The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. 8. <input checked="" type="checkbox"/> <input type="checkbox"/> The local only holds deposits/investments that comply with statutory requirements. 9. <input checked="" type="checkbox"/> <input type="checkbox"/> The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i>, as revised (see Appendix H of Bulletin). 10. <input checked="" type="checkbox"/> <input type="checkbox"/> 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. <input checked="" type="checkbox"/> <input type="checkbox"/> The local unit is free of repeated comments from previous years. 12. <input checked="" type="checkbox"/> <input type="checkbox"/> The audit opinion is UNQUALIFIED. 13. <input checked="" type="checkbox"/> <input type="checkbox"/> 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. <input checked="" type="checkbox"/> <input type="checkbox"/> The board or council approves all invoices prior to payment as required by charter or statute. 15. <input type="checkbox"/> <input checked="" type="checkbox"/> To our knowledge, bank reconciliations that were reviewed were performed timely. |
| YES | NO | | |

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"/>			
Other (Describe) Single Audit	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) Karl L. Drake, CPA		Telephone Number 517-937-9333		
Street Address 3775 Kimmel Road		City Horton	State MI	Zip 49246
Authorizing CPA Signature 		Printed Name Karl L. Drake		License Number 1101016526

**HESPERIA
COMMUNITY
SCHOOLS**

**FINANCIAL
STATEMENTS**

JUNE 30, 2007

**KARL L. DRAKE
CERTIFIED PUBLIC ACCOUNTANT**

HESPERIA PUBLIC SCHOOLS

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2007

Board of Education

Karen Carter	President
Mike Anderson	Vice President
Gary Slate	Secretary
Patricia Budde (Appointed by Board)	Treasurer
Todd Jacobs	Board Member
Ken Muckey	Board Member
Sharron Tozer	Board Member
Jeffrey Thome	Board Member

Management

Dean Havelka	Superintendent
Patricia Budde	Business Manager
Karl L. Drake, PC	Auditor
Thrun Law Firm	Attorney
Law, Weathers and Richardson	Attorney

HESPERIA PUBLIC SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools, as of and for the year ended June 30, 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 Hesperia Community School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 30 through 32 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Hesperia Community Schools

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

A handwritten signature in cursive script that reads "Karl L. Drake".

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

August 23, 2007

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

This section of Hesperia Community Schools' annual financial report presents discussion and analysis of the School District's financial performance during the year ended June 30, 2007. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

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

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

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund and Food Service Fund
(Required Supplemental Information)

Other Supplemental Information

Federal Financial Assistance

Reporting The School District As A Whole - District-Wide Financial Statements

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

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

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

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

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

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

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

Reporting The School District's Fiduciary Responsibilities -The School District As Trustee

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

The School District As A Whole

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

TABLE I	Governmental Activities (In Millions)	
	2007	2006
ASSETS		
Current and other assets	\$ 1.9	\$ 2.0
Capital assets - Net of accumulated depreciation	7.1	7.5
TOTAL ASSETS	9.0	9.5
LIABILITIES		
Current liabilities	2.1	2.1
Long-term liabilities	7.4	7.8
TOTAL LIABILITIES	9.5	9.9
NET ASSETS		
Invested in property and equipment - Net of related debt	-0.4	-0.4
Restricted	0.2	0.2
Unrestricted	-0.3	-0.2
TOTAL NET ASSETS	\$ -0.5	\$ -0.4

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$-0.5 million at June 30, 2007. Capital assets, net of related debt totaling \$-0.4 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the

acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$ -0.3 was unrestricted.

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

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

TABLE 2	Governmental Activities (In Millions)	
	2007	2006
REVENUE		
Program Revenue		
Charges for services	\$ 0.3	\$ 0.3
Grants and categoricals	1.9	1.8
General Revenue		
Property taxes	1.6	1.5
State foundation allowance	6.8	6.8
Other	0.0	0.1
TOTAL REVENUE	\$ 10.6	\$ 10.5
FUNCTION/PROGRAM EXPENSES		
Instruction	\$ 6.3	\$ 6.1
Support Services	2.9	3.0
Food Services	0.4	0.5
Athletics	0.2	0.2
Interest on long-term debt	0.4	0.3
Depreciation (unallocated)	0.4	0.5
Community Service	0.1	0.1
TOTAL FUNCTION/PROGRAM EXPENSES	10.7	10.7
INCREASE <DECREASE> IN NET ASSETS	\$ -0.1	\$ -0.2

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all governmental activities this year was \$10.7 million. Certain activities were partially funded from those who benefited from the programs (\$0.3 million) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$1.9 million). The remaining "public benefit" portion of the governmental activities was paid with \$1.6 million in taxes, \$6.8 million in State Foundation Allowance, and with other revenues such as interest and general entitlements.

The School District experienced a decrease in net assets of \$0.1 million. Key reasons for the change in net assets were general increases in cost and the repayment of bond and loan principal. The decrease in net assets differs from the change in fund balance and reconciliation appears on page 15.

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

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$0.5 million, which is an increase of \$0.1 million from last year. The primary reason for the increase was controlling expenditures. The General Fund, the principal operating fund, saw the fund balance increase \$53,004 to \$291,328.

- The Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$1,173.
- Combined, the Debt Service Funds showed a fund balance decrease of approximately \$6,301. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

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

- Budgeted revenues were increased in total by \$860,850, which is the result of net amount changes to the various revenue accounts. This is a comparison of original budget to final amended budget. The accounts that changed were a decrease in interest earnings, additional revenue in grants, increase in State Aid and increase in federal dollars. Many of the grant amounts are not known when the original budget is adopted, and then need to be amended after those amounts are disclosed. Actual revenue received compared to final budget amended decreased by \$125,255. This is a result of the utilization of deferred revenue, and receiving less in federal grants due to under-spending of federal grant monies prior to year-end.
- Budgeted expenditures comparing original budget to final amended budget were increased \$842,613 to cover additional grants received after the beginning of the school year and also to budget for carryover amounts that were not known at the time the original budget was adopted. Actual expenditures compared to final amended budget decreased by \$189,153. This decrease resulted from a net of the following summarized items: grant amounts budgeted as if they were to be spent by June 30, 2007, local grant, enrichment, reserve of state aid for Section 99c (math), the At Risk Grant expenditures under-spent by \$54,654, and federal grant revenue carryover amounts under-spent by \$29,220. The net balance amount was \$114,279 under-spent in grants, comparing final budget to actual.

When reviewing fund balance, the final amended budget was \$227,430, and the actual fund balance was \$291,328. This represents a budget variance of \$63,898 in K-12 funds. The amount of deferred revenue is as follows: At Risk (\$6,964), Local Grants (\$32,389), Enrichment (\$1,731), Section 99c(math) (\$13,570), and Adult Ed (\$394,236).

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

Capital Asset And Debt Administration

Capital Asset

At June 30, 2007, the School District had \$13.5 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$96,545 or 1 percent, from last year.

	<u>2007</u>	<u>2006</u>
Land	\$ ---	\$ ---
Buildings	8,726,417	8,726,417
Buses and Other Vehicles	1,141,648	1,241,340
Furniture and Equipment	<u>3,637,248</u>	<u>3,634,105</u>
Total Capital Assets	<u>13,505,313</u>	<u>13,601,862</u>
Less Accumulated Depreciation	<u>6,447,668</u>	<u>6,143,691</u>
Net Capital Assets	<u>\$ 7,057,645</u>	<u>\$ 7,458,171</u>

The additions for this year included a food service vehicle and equipment. No debt was issued for these additions.

Debt

At the end of this year, the School District had \$7.3 million in bonds and notes outstanding versus \$7.9 million in the previous year - a decrease of 7 percent. Those bonds and notes consisted of the following:

	<u>2007</u>	<u>2006</u>
General Obligation Bonds	\$ 7,083,865	\$ 7,550,374
Notes Payable	<u>265,608</u>	<u>331,979</u>
Total	<u>\$ 7,349,473</u>	<u>\$ 7,882,353</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$7.3 million is below the statutorily imposed limit.

Other obligations include employee-compensated absences. More detailed information about long-term liabilities is presented in the notes to the financial statements.

Economic Factors And Next Year's Budgets And Rates

The elected officials and administration considered many factors when setting the School District's 2007 fiscal year budget. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007-08 fiscal year is 25 percent of the February 2007 student count and 75 percent of the September 2007 student count. The 2007-08 fiscal year budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 75 to 80 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-08 school year, we anticipate that the fall student count will be higher than the estimates used in creating the 2007 fiscal year budget. This is due in part to the closing of Ferry Elementary School, which is a part of Shelby Public Schools, and the closing of St. Michael's School. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. As of mid-September, there is not a state aid bill, nor does the state have a budget for their fiscal year starting October 1, 2007. We have estimated a foundation allowance of \$7,035 for the 2007-08 budget. This is a \$50 reduction using a conservative approach with the realization that the state budget problems will have an effect on our state aid revenue. Keep in mind that there is always the possibility for a mid-term proration. If we do get an increase in the foundation allowance, the employee groups will receive one half of the percentage increase in that foundation allowance in the form of a wage increase. Retirement has decreased from 17.74% in 2006-07 to 16.72% currently. This represents a decrease of 1.02%. Health insurance has increased overall approximately 14.67% for SET (average from both groups) and 7% for MESSA Super Care and 1% for Choices. The District currently has settled contracts for both the HEA and HESP groups. These contracts will expire in June of 2008 for the HESP (Support Union) and in August of 2008 for the HEA (Teacher's Union).

The budget situation will continue to be monitored very closely in the 2007-08 school year. The State's revenue picture is still a concern, and will have a dramatic effect on the budget if the revenue is not available as projected in the State Aid Act.

Contacting The School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Hesperia Community School with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 96 S. Division Street, Hesperia, Michigan 49421.

HESPERIA COMMUNITY SCHOOLS

District-Wide Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 488,981
Due From Other Governmental Units	1,388,294
Accounts Receivable	923
Inventories	56,844
Prepaid Expenditures	28,365
Total Current Assets	<u>1,963,407</u>
Non-Current Assets	
Capital Assets	13,505,313
Less: Accumulated Depreciation	<u>-6,447,668</u>
Total Non-Current Assets	<u>7,057,645</u>
TOTAL ASSETS	<u><u>\$ 9,021,052</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 182,821
Accrued Salaries and Expenses	834,782
Accrued Interest	102,306
Due to Other Governments	13,869
Deferred Revenue	403,890
Bonds and Notes Payable, Due within One Year	599,030
Total Current Liabilities	<u>2,136,698</u>
Non-Current Liabilities	
Bonds and Notes Payable	6,982,378
Compensated Absences and Severance Pay	400,000
Total Non-Current Liabilities	<u>7,382,378</u>
TOTAL LIABILITIES	<u>9,519,076</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	-394,134
Restricted for Debt Service	170,753
Unrestricted	<u>-274,643</u>
TOTAL NET ASSETS	<u><u>-498,024</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 9,021,052</u></u>

See Accompanying Notes to Financial Statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

		Program Revenues		Governmental Activities
FUNCTIONS/PROGRAMS	Expenses	Charges For Services	Operating Grants	Net <Expense> Revenue and Changes in Net Assets
Governmental Activities				
Instruction	\$ 6,349,547	\$ ---	\$ 1,489,006	\$ -4,860,541
Support Services	2,875,403	92,043	16,638	-2,766,722
Food Services	460,824	150,602	310,902	680
Athletics	231,998	23,273	---	-208,725
Community Services	57,904	6,606	91,979	40,681
Interest on Long-Term Debt	360,272	---	---	-360,272
Depreciation (Unallocated)	407,969	---	---	-407,969
Total Governmental Activities	\$ 10,743,917	\$ 272,524	\$ 1,908,525	-8,562,868
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				746,385
Property Taxes, Levied for Debt Service				818,500
State of Michigan Aid, Unrestricted				6,832,101
Interest Earnings				25,545
Other				34,280
Total General Revenue				8,456,811
CHANGE IN NET ASSETS				-106,057
NET ASSETS - BEGINNING OF YEAR				-391,967
NET ASSETS - END OF YEAR				\$ -498,024

See Accompanying Notes to Financial Statements.

HESPERIA COMMUNITY SCHOOLS

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	General	Food Service	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 354,008	\$ 31,859	\$ 103,114	\$ 488,981
Accounts Receivable	---	---	---	---
Due from Other Governmental Units	1,384,891	3,126	277	1,388,294
Due from Other Funds	1,223	34,290	77,067	112,580
Inventories	54,542	2,302	---	56,844
Prepaid Expenditures	28,365	---	---	28,365
TOTAL ASSETS	\$ 1,823,029	\$ 71,577	\$ 180,458	\$ 2,075,064
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 177,208	\$ 5,613	\$ ---	\$ 182,821
Accrued Salaries and Withholdings	834,782	---	---	834,782
Due to Other Funds	111,357	---	300	111,657
Due to Other Governments	4,464	---	9,405	13,869
Deferred Revenue	403,890	---	---	403,890
TOTAL LIABILITIES	1,531,701	5,613	9,705	1,547,019
FUND BALANCES				
Reserved for Inventories	54,542	2,302	---	56,844
Reserved for Debt Service	---	---	170,753	170,753
Unreserved, Designated	33,269	---	---	33,269
Unreserved and Undesignated	203,517	---	---	203,517
Unreserved and Undesignated, Food Services	---	63,662	---	63,662
Unreserved and Undesignated, Athletics	---	---	---	---
TOTAL FUND BALANCES	291,328	65,964	170,753	528,045
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,823,029	\$ 71,577	\$ 180,458	\$ 2,075,064
TOTAL GOVERNMENTAL FUND BALANCES				\$ 528,045
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:				
Cost of the Capital Assets				\$ 13,505,313
Accumulated Depreciation				<u>-6,447,668</u>
				<u>7,057,645</u>
Long-term Liabilities are not due and payable in the current period and are not reported in the fund				
Bonds and Notes Payable				-7,349,473
Compensated absences				-631,935
Accrued interest is not included as a liability in governmental funds				<u>-102,306</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES				\$ -498,024

See Accompanying Notes to Financial Statements.

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

YEAR ENDED JUNE 30, 2007

	General	Food Service	Other Non-major Governmental Funds	Totals
REVENUE				
Local Sources	\$ 990,958	\$ 151,095	\$ 847,160	\$ 1,989,213
State Sources	7,711,413	31,005	---	7,742,418
Federal Sources	626,332	279,897	---	906,229
Miscellaneous	---	---	---	---
TOTAL REVENUE	9,328,703	461,997	847,160	10,637,860
EXPENDITURES				
Current				
Instruction	6,067,296	---	231,998	6,299,294
Supporting Services	2,875,403	452,927	---	3,328,330
Community Services	57,904	---	---	57,904
Debt Service	66,371	---	830,188	896,559
Capital Outlay	---	7,897	---	7,897
TOTAL EXPENDITURES	9,066,974	460,824	1,062,186	10,589,984
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	261,729	1,173	-215,026	47,876
OTHER FINANCING SOURCES <USES>				
Loan Proceeds	---	---	---	---
Operating Transfers In	---	---	208,725	208,725
Operating Transfers Out	-208,725	---	---	-208,725
TOTAL OTHER FINANCING SOURCES <USES>	-208,725	---	208,725	---
NET CHANGE IN FUND BALANCES	53,004	1,173	-6,301	47,876
FUND BALANCES - BEGINNING OF YEAR	238,324	64,791	177,054	480,169
FUND BALANCES - END OF YEAR	\$ 291,328	\$ 65,964	\$ 170,753	\$ 528,045

See Accompanying Notes to Financial Statements.

HESPERIA COMMUNITY SCHOOLS

Fund Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 47,876
Amounts reported for governmental activities in the statement of activities are different because:	
- Change in compensated absences are not reflected in the government funds report	-410,555
- 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	-407,969
Capital Outlay	<u>7,443</u>
	-400,526
- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	-3,169
- Loan proceeds are recorded as an other financing source in governmental funds. These are recorded as a liability and not included in the statement of activities.	---
- Repayments of bond principal and teacher buy-outs are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>660,317</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ -106,057</u></u>

See Accompanying Notes to Financial Statements.

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	<u>Agency Fund- Student Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 68,828
Accounts Receivable	---
Due from Other Funds	<u>---</u>
TOTAL ASSETS	<u><u>\$ 68,828</u></u>
 LIABILITIES	
Due to Other Funds	\$ 923
Due to Others	3,695
Due to Student Groups	<u>64,210</u>
TOTAL LIABILITIES	<u><u>\$ 68,828</u></u>

See Accompanying Notes to Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY: Hesperia Community School is located in Newaygo and Oceana Counties in Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the 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.

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

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash 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 inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers 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 severance pay, are recorded only when payment is due.

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

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

GOVERNMENTAL FUNDS

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GOVERNMENTAL FUNDS - CONTINUED

Debt Service Funds - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Service Funds maintained by the School District are to retire outstanding 1999 and Durant bonded indebtedness.

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

FIDUCIARY FUNDS

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

C. BUDGETS AND BUDGETARY ACCOUNTING: The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES: Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Newaygo and Oceana Counties. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

E. INVENTORIES: Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

F. CASH EQUIVALENTS: The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

G. FINANCIAL INSTRUMENTS: The School does not require collateral to support financial instruments subject to credit risk.

H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

I. FUND EQUITY: Reservations of fund balance represent these portions of fund equity not appropriate for expenditure or legally segregated for a specific future use.

J. CAPITAL ASSETS: Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

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

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

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

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

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

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

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

N. RISK MANAGEMENT: The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

O. ESTIMATES: The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

B. TYPES OF DEPOSITS AND INVESTMENTS: The School District maintains all of its cash deposits in four financial institutions. At June 30, 2007, the book value of the School District's deposits was \$557,809 and the bank balance was \$506,972. Of the bank balance, \$123,962 was covered by federal depository insurance and \$383,010 was uninsured and uncollateralized.

CASH EQUIVALENTS: There is \$3,327 in the Michigan Liquid Asset Fund Plus Account. This cash equivalent is not categorized as to risk because it is not evidenced by securities that the School owns specifically or can be identified with securities within the liquid asset account.

<u>Carrying Value</u>	<u>Market Value</u>
<u>\$ 3,327</u>	<u>\$ 3,327</u>

Total Cash:

Petty Cash	\$ 153
Deposits in Financial Institutions	554,329
Deposits in MLAF Account	<u>3,327</u>
	<u><u>\$ 557,809</u></u>

NOTE 3 - INVENTORY

The \$54,542 shown as inventory in the General Fund represents the value of supplies, bus parts and fuel on hand at June 30, 2007.

There is \$2,302 of inventory in the Special Revenue Fund - Food Service.

Total inventory of both funds at June 30, 2007, was \$56,844.

HESPERIA COMMUNITY SCHOOLS

Notes To Financial Statements

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2007, is comprised of the following:

State of Michigan - State Aid	\$ 1,286,764
- Title I	41,382
- Title II-A	12,025
- English Literacy	5,549
- Adult Basic Education	12,256
- Title VI	18
Ferry Township	277
Newago RESA	10,993
Newago County Community Services	17,361
Other	<u>1,669</u>
<u>Total Due From Other Governmental Units</u>	<u>\$ 1,388,294</u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2007, consisted of the following:

<u>Due To:</u>		<u>Due From:</u>	
General	\$ 300	Student Activities	\$ 300
Food Service	34,290	General	34,290
1999 Debt	77,067	General	77,067
Student Activities	<u>923</u>	General	<u>923</u>
	<u>\$ 112,580</u>		<u>\$ 112,580</u>

NOTE 6 - PREPAID EXPENDITURES

At June 30, 2007, prepaid expenditures consisted of the following:

Retirement	\$ 10,131
Insurance	<u>18,234</u>
	<u>\$ 28,365</u>

NOTE 7 - CAPITAL ASSETS

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

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Assets not being depreciated:				
Land	\$ ---	\$ ---	\$ ---	\$ ---
Capital assets being depreciated:				
Building and building improvements	8,726,417	---	---	8,726,417
Buses and other vehicles	1,241,340	4,300	103,992	1,141,648
Furniture and equipment	3,634,105	3,143	---	3,637,248
Subtotal	<u>13,601,862</u>	<u>7,443</u>	<u>103,992</u>	<u>13,505,313</u>
Accumulated depreciation:				
Building and building improvements	2,464,099	164,307	---	2,628,406
Buses and other vehicles	793,729	96,742	103,992	786,479
Furniture and equipment	2,885,863	146,920	---	3,032,783
Subtotal	<u>6,143,691</u>	<u>407,969</u>	<u>103,992</u>	<u>6,447,668</u>
Net capital assets being depreciated	<u>7,458,171</u>	<u>-400,526</u>	<u>---</u>	<u>7,057,645</u>
Net capital assets	<u>\$ 7,458,171</u>	<u>\$ -400,526</u>	<u>\$ ---</u>	<u>\$ 7,057,645</u>

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

NOTE 8 - ACCRUED SALARIES AND FRINGE BENEFITS

Salaries payable at June 30, 2007, of \$531,755 represents the unpaid portion of teacher contracts for the 2006-07 school year. On these salaries there are also fringe benefits payable at year-end totaling \$303,027.

NOTE 9 - DUE TO OTHER GOVERNMENTS

The Due to Other Governmental Units at June 30, 2007 is comprised of the following:

Newfield Township	\$ 4,434
Beaver Township	<u>9,435</u>
	<u>\$ 13,869</u>

HESPERIA COMMUNITY SCHOOLS

Notes To Financial Statements

NOTE 10 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2007, long-term debt changed as follows:

	Balance 7/1/06	Additional Debt	2006-07 Payments	Balance 6/30/07
Durant Building Project	\$ 44,887	\$ ---	\$ 12,014	\$ 32,873
Durant Bond Issue	52,941	---	---	52,941
1999 Bond Issue	6,190,000	---	280,000	5,910,000
Bus and Technology Notes	287,092	---	54,357	232,735
School Bond Loan	1,307,433	---	186,509	1,120,924
	\$ 7,882,353	\$ ---	\$ 532,880	\$ 7,349,473
Teacher Buy-Outs	295,000	410,000	115,000	590,000
Severance Pay	12,250	555	10,705	2,100
Compensated Absences	41,567	---	1,732	39,835
	<u>\$ 8,231,170</u>	<u>\$ 410,555</u>	<u>\$ 660,317</u>	<u>\$ 7,981,408</u>

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

	Durant Bonds	1999 Refunding Bonds	School Bond Loan	Bus and Technology Notes	Other	Durant Building Project	Total
2007-08	\$ ---	\$ 300,000	\$ ---	\$ 54,482	\$ 231,935	\$ 12,613	\$ 599,030
2008-09	---	315,000	---	56,884	150,000	13,212	535,096
2009-10	7,189	335,000	---	59,381	150,000	7,048	558,618
2010-11	7,531	345,000	---	61,988	100,000	---	514,519
2011-12	7,889	345,000	---	---	---	---	352,889
2012-Maturity	30,332	4,270,000	1,120,924	---	---	---	5,421,256
	<u>\$ 52,941</u>	<u>\$ 5,910,000</u>	<u>\$ 1,120,924</u>	<u>\$ 232,735</u>	<u>\$ 631,935</u>	<u>\$ 32,873</u>	<u>\$ 7,981,408</u>

A. 1999 REFUNDING BONDS: The bonds are dated February 3, 1999, with principal due each May 1 and interest due each May 1 and November 1, beginning November 1, 1999, and ending May 1, 2025. Interest rates vary from 3.3% to 5.0%. The proceeds from these bonds were used to refund 1995 School Building and Site Bonds. The remaining bonds payable at June 30, 2007, were \$5,910,000.

B. BUS AND TECHNOLOGY INSTALLMENT PURCHASE AGREEMENTS: The School District has the following notes resulting from the purchase of buses and technology.

-
1. This note was executed February 15, 2006 for the purchase of 4 buses. The note requires 5 annual payments of \$57,598.43, which include principal and interest, beginning December 20, 2006 and concluding December 20, 2010. Interest is calculated at 4.44%. The original note balance was \$254,844, and the balance due on June 30, 2007 was \$206,926.
 2. This note was executed February 15, 2006 for the purchase of computer technology. The note requires 5 annual payments of \$7,109.61, which include principal and interest, beginning December 20, 2006 and concluding December 20, 2010. Interest is calculated at 3.98%. The original note balance was \$32,248, and the balance due on June 30, 2007 was \$25,820.

C. COMPENSATED ABSENCES: Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation leave amounts. A liability of \$39,835 unused vacation leave exists at June 30, 2007.

D. SCHOOL BOND LOANS: The School District approved borrowing from the School Bond Loan Fund to help pay the 1995 School Building and Site bond loan payments until the SEV increases enough to provide adequate tax revenue to pay the bond payments. The loans are dated March 18, 1996. Repayment of the debt started in the fiscal year ended June 30, 2007. Interest is calculated at a variable rate, currently 4.75%. Total amount outstanding at June 30, 2007, was \$1,120,924.

E. DURANT BONDS: The bonds are dated November 24, 1998, with principal and interest due annually on May 15 beginning in 1999 and ending in 2013. The proceeds from these bonds were used for classroom construction. Interest is at 4.761353%. Bond payments are funded by state-aid revenue. The balance due at June 30, 2007 was \$52,941.

F. TEACHER BUY-OUT: The School District approved the buy-out of eight staff people during the fiscal year as a retirement incentive. The maximum to be paid is \$50,000 for each person, over a four-year period. Total buy-outs payable at June 30, 2007, was \$590,000.

G. SEVERANCE PAY: After a teacher has 20 years of service with the School District, they are eligible for severance pay upon retirement. The pay is calculated at \$35 for each year of service. Total severance pay payable at June 30, 2007, was \$2,100.

H. DURANT BUILDING PROJECT: The School District borrowed \$110,000 for the completion of classroom construction on January 28, 2000. Under the terms of this agreement twenty semi-annual payments of principal and interest will be made on June 30 and December 31 through December 31, 2009. Payments are \$7,096.94 and include interest at 5.2%. The balance due at June 30, 2007, was \$32,873.

NOTE 11 - DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), which is a multiple-employer public employee retirement system. MPSERS maintains two plans: the Basic Plan and a Member Investment Plan (MIP). The retirement statute requires that the School District contribute 14.56% of the aggregate annual compensation paid to all employees who are members of the Retirement System. Effective October 1, 1996, the rate increased to 15.17%, and has changed annually since then. For the year ending June 30, 2007, the rate was 17.74%.

Members joining MIP prior to January 1, 1990, contribute at a fixed rate of 3.9% of gross wages. Members joining MIP January 1, 1990, or later contribute at the following graduated permanently fixed rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. After January 1, 1990, membership in MIP is mandatory.

All benefits vest after 10 years of service. Basic Plan members may retire at age 55 with 30 years of credited service, or at age 50 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both Basic and MIP Plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The system also provides non-duty disability benefits after 10 years of service for MIP members and 15 years of service for basic plan members. The service provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members it is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees. MIP members receive a fixed 3% annual increase of the initial benefit. Basic members share in investment earnings over 8%.

The employees covered by the plan include: all teaching and non-teaching employees, employees paid from federal funds, students working summer months but not attending classes, and students working in a school other than the one they are enrolled in and attending classes.

During the year ended June 30, 2007, the School District contributed \$973,006 to the Retirement System, which is 17.47% of current fiscal year covered compensation of \$5,570,027. The rate for the current contract year is 17.74%, which the School District paid on all covered compensation. Employees contributed an additional \$177,591 or 3.87% of eligible wages of \$4,588,915. Total wages of the district totaled \$5,769,346.

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement plans and employers. The System does not make separate measurements of assets and pension benefits obligation for individual employers. The actuarial accrued liability at September 30, 2005, for the System as a whole, determined through an actuarial valuation performed, as of that date, was \$48.2 billion.

The total pension benefit obligation has increased by \$1.9 billion from September 30, 2004 to September 30, 2005.

The System's net assets available for benefits on that date (valued at market) were \$38.2 billion leaving an unfunded actuarial accrued liability of \$10.0 billion. Ten-year historical trend information is presented in the System's September 30, 2006, comprehensive annual financial report.

NOTE 12 - BUDGETARY ACCOUNTING

During the year ended June 30, 2007, the School incurred no expenditures that were in excess of the amounts appropriated

NOTE 13 - FUND BALANCE

Components of Fund Balance at June 30, 2007, are as follows:

- A) \$54,542 of fund balance in the General Fund is reserved. This amount represents inventory supplies on hand at year-end and is not available for current appropriations and expenditures.
- B) \$2,302 of fund balance in the Special Revenue - Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
- C) A portion of the unreserved fund balance is designated for anticipated major expenses. The Board has elected to set aside monies as follows:

Track Replacement	\$ 20,000
Band Uniforms	<u>13,269</u>
	<u>\$ 33,269</u>

- D) The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2007, Unreserved General Fund Balance of \$203,517 compares to June 30, 2006, Unreserved General Fund Balance of \$153,108

NOTE 14 - ADVANCE REFUNDING AND DEFEASANCE OF DEBT

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

NOTE 15 - DEFERRED REVENUE

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

<u>Program</u>	
Middle School Math	\$ 13,570
Adult Education	349,236
At Risk	6,964
Enrichment	1,731
Local Grants	<u>32,389</u>
	<u>\$ 403,890</u>

NOTE 16 - POTENTIAL LIABILITY

The School District has been informed by the County of Newaygo of potential property tax chargebacks that were incorrectly administered by the former county treasurer in the years 1999-2004. The final amount has not been determined, but is projected to be less than \$15,000.

REQUIRED SUPPLEMENTAL INFORMATION

HESPERIA COMMUNITY SCHOOLS

Budgetary Comparison Schedule

GENERAL FUND

YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 768,919	\$ 1,022,010	\$ 990,958	\$ -31,052
State Sources	7,567,583	7,737,468	7,711,413	-26,055
Federal Sources	164,825	694,480	626,332	-68,148
Miscellaneous	91,781	---	---	---
TOTAL REVENUE	8,593,108	9,453,958	9,328,703	-125,255
EXPENDITURES				
Current				
Instruction				
Basic Programs	4,401,981	4,624,963	4,604,990	19,973
Added Needs	956,409	1,397,350	1,377,131	20,219
Adult/Continuing Education	88,271	107,437	85,175	22,262
Supporting Services				
Pupil	209,780	305,226	304,514	712
Instructional Staff	189,152	235,104	191,411	43,693
Administration	514,737	482,004	464,152	17,852
Business Services	335,467	351,559	350,399	1,160
Operations	891,926	871,807	860,322	11,485
Transportation	590,955	549,360	533,632	15,728
Information Management	173,663	175,178	170,973	4,205
Community Services	5,581	71,966	57,904	14,062
Debt Service	66,441	66,442	66,371	71
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers	197,876	210,444	208,725	1,719
TOTAL EXPENDITURES	8,622,239	9,448,840	9,275,699	173,141
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-29,131	5,118	53,004	47,886
BUDGETARY FUND BALANCE - JULY 1, 2006	238,324	238,324	238,324	---
BUDGETARY FUND BALANCE - JUNE 30, 2007	\$ 209,193	\$ 243,442	\$ 291,328	\$ 47,886

FOOD SERVICE

YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 134,687	\$ 146,720	\$ 151,095	\$ 4,375
State Sources	33,254	31,005	31,005	---
Federal Sources	266,736	290,974	279,897	-11,077
Miscellaneous	---	---	---	---
TOTAL REVENUE	434,677	468,699	461,997	-6,702
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	438,118	468,989	452,927	16,062
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Community Services	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	12,000	8,000	7,897	103
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	450,118	476,989	460,824	16,165
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-15,441	-8,290	1,173	9,463
BUDGETARY FUND BALANCE - JULY 1, 2006	64,791	64,791	64,791	---
BUDGETARY FUND BALANCE - JUNE 30, 2007	\$ 49,350	\$ 56,501	\$ 65,964	\$ 9,463

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

HESPERIA COMMUNITY SCHOOLS

General Fund

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

FISCAL YEAR ENDED JUNE 30, 2007

REVENUE	Budget	Actual	Favorable <Unfavorable>
LOCAL SOURCES			
Current Property Tax Levy	\$ 747,565	\$ 746,385	\$ -1,180
Interest and Penalties - Delinquent Taxes	---	---	---
Tuition, Patrons	---	---	---
Sale of School Property	6,232	6,232	---
Contributions from Private Sources	121,768	91,979	-29,789
Interest Earned	18,000	19,665	1,665
Community Service	9,351	6,606	-2,745
Transportation	19,351	37,279	17,928
Reimbursements	73,339	54,764	-18,575
Other	26,404	28,048	1,644
Drivers Education Fees	---	---	---
TOTAL REVENUE FROM LOCAL SOURCES	1,022,010	990,958	-31,052
STATE SOURCES			
Non Plaintiff Durant Settlement	12,917	12,917	---
State Aid	6,830,073	6,832,101	2,028
Special Education	348,522	348,522	---
Adult Education	230,316	208,654	-21,662
DEQ Grant	---	568	568
Court Placed	14,049	14,049	---
At Risk	301,591	294,602	-6,989
Vocational Education	---	---	---
TOTAL REVENUE FROM STATE SOURCES	\$ 7,737,468	\$ 7,711,413	\$ -26,055

	Budget	Actual	Favorable <Unfavorable>
FEDERAL SOURCES			
Teacher Training and Recruiting	\$ 81,287	\$ 81,287	\$ ---
Title I	370,653	324,228	-46,425
Adult Basic Education	48,200	48,200	---
Title V	3,054	3,054	---
IDEA	125,463	125,463	---
Title VI	31,970	10,247	-21,723
Technology Literacy Challenge	3,369	3,369	---
ESL Literacy	16,900	16,900	---
Schools and Roads	13,584	13,584	---
TOTAL REVENUE FROM FEDERAL SOURCES	694,480	626,332	-68,148
TOTAL REVENUE AND INCOMING TRANSFERS	\$ 9,453,958	\$ 9,328,703	\$ -125,255
EXPENDITURES			
Instruction			
BASIC PROGRAMS			
Elementary School	\$ 1,662,387	\$ 1,652,911	\$ 9,476
Middle School	1,340,353	1,334,943	5,410
High School	1,622,223	1,617,136	5,087
TOTAL BASIC PROGRAMS	4,624,963	4,604,990	19,973
ADDED NEEDS			
Special Education	883,388	883,389	-1
Compensatory Education	513,962	493,742	20,220
TOTAL ADDED NEEDS	1,397,350	1,377,131	20,219
ADULT/CONTINUING EDUCATION			
Adult Basic Education	107,437	85,175	22,262
High School Completion	---	---	---
TOTAL ADULT/CONTINUING EDUCATION	107,437	85,175	22,262
Total Instruction	\$ 6,129,750	\$ 6,067,296	\$ 62,454

HESPERIA COMMUNITY SCHOOLS

General Fund

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

FISCAL YEAR ENDED JUNE 30, 2007

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Supportive Services			
PUPIL			
Guidance	\$ 229,491	\$ 229,120	\$ 371
Health Services	34,941	34,941	---
Social Work Services	40,794	40,453	341
TOTAL PUPIL	305,226	304,514	712
INSTRUCTIONAL STAFF			
Improvement of Instruction	27,376	20,327	7,049
Educational Media Services	6,577	6,476	101
Supervision and Direction of Instruction	201,151	164,608	36,543
TOTAL INSTRUCTIONAL STAFF	235,104	191,411	43,693
ADMINISTRATION			
Board of Education	33,308	31,527	1,781
Executive Administration	153,393	149,469	3,924
Principals Offices	291,553	282,286	9,267
Other School Administration	3,750	870	2,880
TOTAL ADMINISTRATION	482,004	464,152	17,852
BUSINESS SERVICES			
Fiscal Services	183,454	183,145	309
Internal Services	9,160	8,691	469
Other Business Services	143,743	143,743	---
Operating Building Services	871,807	860,322	11,485
Security Services	13,400	13,378	22
Pupil Transportation Services	549,360	533,632	15,728
Staff/Personnel Services	1,802	1,442	360
Information Management Services	175,178	170,973	4,205
TOTAL BUSINESS SERVICES	1,947,904	1,915,326	32,578
Total Supportive Services	\$ 2,970,238	\$ 2,875,403	\$ 94,835

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Community Services			
Community Recreation	\$ 26,200	\$ 12,138	\$ 14,062
Custody and Care of Children	45,766	45,766	---
Other Community Services	---	---	---
Total Community Services	<u>71,966</u>	<u>57,904</u>	<u>14,062</u>
Debt Service			
Durant Loan	12,024	12,014	10
Bus Loans	47,918	47,918	---
Other Loans	6,500	6,439	61
Total Debt Service	<u>66,442</u>	<u>66,371</u>	<u>71</u>
TOTAL EXPENDITURES	<u>\$ 9,238,396</u>	<u>\$ 9,066,974</u>	<u>\$ 171,422</u>
EXCESS REVENUE OVER EXPENDITURES	215,562	261,729	46,167
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers <Out>	-210,444	-208,725	1,719
TOTAL OTHER FINANCING SOURCES<USES>	<u>-210,444</u>	<u>-208,725</u>	<u>1,719</u>
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ 5,118</u>	53,004	<u>\$ 47,886</u>
FUND BALANCE - JULY 1, 2006		<u>238,324</u>	
FUND BALANCE - JUNE 30, 2007		<u>\$ 291,328</u>	

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2007

	Food Service Fund	Athletic Fund	Totals
ASSETS			
Cash In Bank	\$ 31,859	\$ ---	\$ 31,859
Due From Other Governmental Units	3,126	---	3,126
Due From Other Funds	34,290	---	34,290
Prepaid Expenses	---	---	---
Inventory	2,302	---	2,302
TOTAL ASSETS	\$ 71,577	\$ ---	\$ 71,577
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to Other Funds	\$ ---	\$ ---	\$ ---
Accounts Payable	5,613	---	5,613
Accrued Salaries	---	---	---
Accrued Expenses	---	---	---
TOTAL LIABILITIES	5,613	---	5,613
FUND EQUITY			
Fund Balance - Reserved for Inventory	2,302	---	2,302
Fund Balance - Unreserved	63,662	---	63,662
TOTAL FUND EQUITY	65,964	---	65,964
TOTAL LIABILITIES AND FUND EQUITY	\$ 71,577	\$ ---	\$ 71,577

HESPERIA COMMUNITY SCHOOLS

Special Revenue Funds

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

FISCAL YEAR ENDED JUNE 30, 2007

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Food Services			
Hot Lunch Receipts - Students	\$ 57,600	\$ 57,578	\$ -22
- Adults	2,720	2,720	---
- Ala Carte	45,600	45,594	-6
- Breakfast	5,100	5,084	-16
State Aid	31,005	31,005	---
Federal Aid	266,309	266,309	---
Federal USDA Commodities in Kind	24,665	13,588	-11,077
Other Income	35,100	39,626	4,526
Interest Income	600	493	-107
Athletic Activities			
Admission to Games	---	---	---
TOTAL REVENUE	468,699	461,997	-6,702
EXPENDITURES			
Salaries	142,000	143,490	-1,490
Fringe Benefits	78,323	76,834	1,489
Professional Services	31,451	31,027	424
Food and Supplies	198,165	185,465	12,700
Travel and Conferences	500	212	288
Miscellaneous	2,850	1,734	1,116
Telephone	700	625	75
Postage	1,500	521	979
Repairs	2,500	2,321	179
Utilities and Waste	11,000	10,698	302
Capital Outlay	8,000	7,897	103
TOTAL EXPENDITURES	\$ 476,989	\$ 460,824	\$ 16,165

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 57,600	\$ 57,578	\$ -22
---	---	---	2,720	2,720	---
---	---	---	45,600	45,594	-6
---	---	---	5,100	5,084	-16
---	---	---	31,005	31,005	---
---	---	---	266,309	266,309	---
---	---	---	24,665	13,588	-11,077
---	---	---	35,100	39,626	4,526
---	---	---	600	493	-107
21,580	23,273	1,693	21,580	23,273	1,693
21,580	23,273	1,693	490,279	485,270	-5,009
135,827	135,505	322	277,827	278,995	-1,168
39,497	37,690	1,807	117,820	114,524	3,296
15,200	16,888	-1,688	46,651	47,915	-1,264
4,739	4,726	13	202,904	190,191	12,713
18,835	18,807	28	19,335	19,019	316
---	---	---	2,850	1,734	1,116
13,366	13,231	135	14,066	13,856	210
---	---	---	1,500	521	979
1,417	2,008	-591	3,917	4,329	-412
---	---	---	11,000	10,698	302
3,143	3,143	---	11,143	11,040	103
\$ 232,024	\$ 231,998	\$ 26	\$ 709,013	\$ 692,822	\$ 16,191

HESPERIA COMMUNITY SCHOOLS

Special Revenue Funds

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

FISCAL YEAR ENDED JUNE 30, 2007

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	<u>\$ -8,290</u>	<u>\$ 1,173</u>	<u>\$ 9,463</u>
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	<u>---</u>	<u>---</u>	<u>---</u>
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	<u>\$ -8,290</u>	<u>1,173</u>	<u>\$ 9,463</u>
FUND BALANCE - BEGINNING OF YEAR		<u>64,791</u>	
FUND BALANCE - END OF YEAR		<u>\$ 65,964</u>	

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ -210,444	\$ -208,725	\$ 1,719	\$ -218,734	\$ -207,552	\$ 11,182
---	208,725	208,725	---	208,725	208,725
---	---	---	---	---	---
---	208,725	208,725	---	208,725	208,725
<u>\$ -210,444</u>	---	<u>\$ 210,444</u>	<u>\$ -218,734</u>	1,173	<u>\$ 219,907</u>
	---			<u>64,791</u>	
	<u>\$ ---</u>			<u>\$ 65,964</u>	

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2007

	1995 Debt	1999 Debt	Durant	Totals
ASSETS				
Cash in Bank	\$ 1,044	\$ 102,070	\$ ---	\$ 103,114
Due from other Funds	---	77,067	---	77,067
Due from other Governments		277		277
Accounts Receivable	---	---	---	---
TOTAL ASSETS	\$ 1,044	\$ 179,414	\$ ---	\$ 180,458
 LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	300	---	300
Due to Other Governments	---	9,405	---	9,405
TOTAL LIABILITIES	---	9,705	---	9,705
FUND EQUITY				
Fund Balance	1,044	169,709	---	170,753
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,044	\$ 179,414	\$ ---	\$ 180,458

HESPERIA COMMUNITY SCHOOLS

Debt Retirement Funds

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

FISCAL YEAR ENDED JUNE 30, 2007

	Durant			1995		
	Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
REVENUE						
Current Taxes	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Delinquent Taxes	---	---	---	---	---	---
Interest and Penalties on Delinquent Property Taxes	---	---	---	---	---	---
Earned Interest	---	---	---	---	51	51
State Aid Revenue	---	---	---	---	---	---
Miscellaneous	---	---	---	---	---	---
TOTAL REVENUE	---	---	---	---	51	51
EXPENDITURES						
Principal on Bonds	---	---	---	---	---	---
Interest on Bonds	---	---	---	---	---	---
Principal on School Bond Loan Fund	---	---	---	---	---	---
Interest on School Bond Loan Fund	---	---	---	---	---	---
Agent Fees and Other	---	---	---	---	---	---
TOTAL EXPENDITURES	---	---	---	---	---	---
EXCESS REVENUE OVER <UNDER> EXPENDITURES	---	---	---	---	51	51
OTHER FINANCING SOURCES						
Loan Proceeds	---	---	---	---	---	---
Operating Transfers In	---	---	---	---	---	---
Operating Transfers Out	---	---	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	<u>\$ ---</u>	---	<u>\$ ---</u>	<u>\$ ---</u>	51	<u>\$ 51</u>
FUND BALANCE - BEGINNING OF YEAR		---			993	
FUND BALANCE - END OF YEAR	<u>\$ ---</u>				<u>\$ 1,044</u>	

1999			Totals		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ 823,001	\$ 818,500	\$ -4,501	\$ 823,001	\$ 818,500	\$ -4,501
---	---	---	---	---	---
---	---	---	---	---	---
3,000	5,336	2,336	3,000	5,387	2,387
---	---	---	---	---	---
---	---	---	---	---	---
826,001	823,836	-2,165	826,001	823,887	-2,114
280,000	280,000	---	280,000	280,000	---
289,842	289,843	-1	289,842	289,843	-1
186,509	186,509	---	186,509	186,509	---
73,516	73,516	---	73,516	73,516	---
400	320	80	400	320	80
830,267	830,188	79	830,267	830,188	79
-4,266	-6,352	-2,086	-4,266	-6,301	-2,035
---	---	---	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
\$ -4,266	-6,352	\$ -2,086	\$ -4,266	-6,301	\$ -2,035
	<u>176,061</u>			<u>177,054</u>	
	<u>\$ 169,709</u>			<u>\$ 170,753</u>	

AGENCY FUNDS

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2007

ASSETS

Cash in Bank	\$ 68,828
Due From General Fund	---
TOTAL ASSETS	<u>\$ 68,828</u>

LIABILITIES

Due to General Fund	\$ 923
Due to Students Groups	64,210
Due to Others	3,695
TOTAL LIABILITIES	<u>\$ 68,828</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2007

	Balance 6/30/06	Receipts	Disbursements	Balance 6/30/07
ASSETS				
Cash	\$ 59,121	\$ 152,708	\$ 143,001	\$ 68,828
Due from General Fund	26	---	26	---
TOTAL ASSETS	<u>\$ 59,147</u>	<u>\$ 152,708</u>	<u>\$ 143,027</u>	<u>\$ 68,828</u>
LIABILITIES				
Due to General Fund	\$ 269	\$ 654	\$ ---	\$ 923
Due to Others				
Community Education	3,644	1,510	1,459	3,695
Bus Drivers	---	---	---	---
Total Due to Others	3,644	1,510	1,459	3,695
Student Groups				
High School Internal	7,643	11,931	16,890	2,684
Middle School Internal	3,055	1,511	505	4,061
Elementary Internal	1,967	5,005	4,885	2,087
Central Office Internal	42,569	132,097	119,288	55,378
Total Student Groups	55,234	150,544	141,568	64,210
TOTAL LIABILITIES	<u>\$ 59,147</u>	<u>\$ 152,708</u>	<u>\$ 143,027</u>	<u>\$ 68,828</u>

HESPERIA COMMUNITY SCHOOLS

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2007

ACTIVITY	Balance 6/30/06	Receipts	Disbursements	Balance 6/30/07
Elementary				
Elementary Art Mural	\$ 207	\$ ---	\$ ---	\$ 207
Elementary Library Fund	403	28	---	431
Elementary Playground	268	---	---	268
Elementary School Store	264	489	566	187
Elementary Student Council	30	---	---	30
Elementary Yearbook	223	---	---	223
Boys Youth Basketball	38	---	---	38
Girls Youth Basketball	4	---	---	4
Middle School				
Student Council - 5th and 6th	203	---	---	203
Student Council - 7 th and 8th	721	---	---	721
8 th Grade Reserve	800	394	800	394
6 th Grade Reserve	981	570	515	1,036
Amusement Park Physics	278	276	---	554
M.S. Resource Room	---	---	---	---
M.S. Combined Fund Raising	1,586	643	1,241	988
M.S. Rocketry Club	455	985	751	689
M.S. School Store	51	---	---	51
M.S. Track & Field	28	---	---	28
M.S. Wrestling	53	---	---	53
Extended Day Program	155	---	129	26
Extended Day Fishing Club	---	---	---	---
Class of 2011	1,320	4,818	5,963	175
Class of 2012	232	4,423	4,083	572
Class of 2013	243	12,450	12,185	508
Class of 2014	---	233	---	233
High School				
Band	4,420	18,989	18,699	4,710
Art - High School	237	612	527	322
Choir	143	--	---	143
Color Guard	969	156	382	743
Drama	695	552	363	884
Forensics	863	---	---	863
H.S. Library	84	---	---	84
H.S. Pride	115	---	52	63
H.S. Scholarship Fund	250	500	250	500
H.S. Student Council	1,628	3,155	1,622	3,161

Industrial Arts	\$ 958	\$ 1,129	\$ 1,281	\$ 806
Journalism	128	---	---	128
National Honor Society	327	976	706	597
Panther Yearbook	2,122	12,181	13,098	1,205
Ski Club	461	---	---	461
Spanish Club	20	1,877	1,178	719
Wild Joe Cappuccino Store	301	---	---	301
Class of 2006	856	---	856	---
Class of 2007	1,149	768	1,302	615
Class of 2008	2,830	6,463	7,746	1,547
Class of 2009	1,670	1,786	185	3,271
Class of 2010	516	520	182	854
High School Athletics				
Baseball Club	148	6,483	6,533	98
Boys Basketball	---	100	55	45
Cheerleaders	890	200	1,044	46
Cross Country	15	4,134	3,837	312
Football Club	2,003	10,486	3,034	9,455
Girls Softball	-8	2,400	2,392	---
Girls Varsity Basketball	685	4,335	1,418	3,602
Golf Team	756	8,840	7,295	2,301
H.S. Boys Track	276	40	---	316
H.S. Girls Track	11	1,427	753	685
Varsity Club	2,168	645	1,113	1,700
Varsity Wrestling	390	13,425	13,630	185
Volleyball Club	254	5,661	2,643	3,272
Community Education				
Community Ed. Art Club	109	---	62	47
C.E. Student Council	15	---	15	---
ESL Student Council	108	---	108	---
Experiential Education	45	---	---	45
Hesperia Alternative Ed	537	---	340	197
Panther Cub/Club Day Care	515	---	266	249
Youth Ed-Ventures	41	---	---	41
Fifty Plus Club	266	997	1,248	15
Mug Partnership Program	76	754	520	310
Interest Earned	4,253	-2,149	-1,679	3,783
Elementary Checking	1,967	5,005	4,884	2,088
Community Ed. Checking	3,644	1,510	1,459	3,695
High School Checking	7,643	11,931	16,890	2,684
Middle School Checking	3,055	1,511	505	4,061
TOTALS	\$ 59,147	\$ 152,708	\$ 143,027	\$ 68,828

STATEMENTS OF BONDED INDEBTEDNESS

Statement Of Bonded Indebtedness

DURANT DEBT

YEAR ENDED JUNE 30, 2007

Durant Issue Dated November 28, 1998 in the amount of	\$ 129,170
Less:	
Bonds paid in prior years	76,229
Bonds due and paid May 1, 2007	<u>---</u>
Balance outstanding - June 30, 2007	<u><u>\$ 52,941</u></u>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
Prior	4.761%	\$ 2,521	\$ 6,548	\$ ---
2008	4.761%	2,209	6,862	---
2009	4.761%	1,882	7,189	9,071
2010	4.761%	1,540	7,531	9,071
2011	4.761%	1,182	7,889	9,071
2012	4.761%	806	8,264	9,070
2013	4.761%	412	8,658	27,210
		<u>\$ 10,552</u>	<u>\$ 52,941</u>	<u>\$ 63,493</u>

HESPERIA COMMUNITY SCHOOLS

Statement Of Bonded Indebtedness

1999 DEBT

YEAR ENDED JUNE 30, 2007

Issue Dated February 3, 1999 in the amount of	\$ 6,895,000
Less:	
Bonds paid in prior years	705,000
Bonds due and paid May 1, 2007	<u>280,000</u>
Balance outstanding - June 30, 2007	<u><u>\$ 5,910,000</u></u>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2008	4.20%	\$ 271,922	\$ 300,000	\$ 571,922
2009	4.30%	258,850	315,000	573,850
2010	4.40%	244,708	335,000	579,708
2011	4.45%	229,661	345,000	574,661
2012	4.50%	214,222	345,000	559,222
2013	4.55%	198,725	340,000	538,725
2014	4.60%	183,170	340,000	523,170
2015	4.65%	167,561	335,000	502,561
2016	4.70%	151,900	335,000	486,900
2017	4.75%	136,190	330,000	466,190
2018	4.80%	120,433	330,000	450,433
2019	4.85%	104,631	325,000	429,631
2020	5.00%	88,625	325,000	413,625
2021	5.00%	72,500	320,000	392,500
2022	5.00%	56,375	325,000	381,375
2023	5.00%	40,125	325,000	365,125
2024	5.00%	24,000	320,000	344,000
2025	5.00%	8,000	320,000	328,000
		<u>\$ 2,571,598</u>	<u>\$ 5,910,000</u>	<u>\$ 8,481,598</u>

FEDERAL FINANCIAL ASSISTANCE

HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2007

Program Title	Federal CFDA Number	Contract Number	Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Pass Through Michigan Department of Education:			
- Title I Carry-over	*84.010	615300607	\$ 42,465
- Title I	*84.010	715300607	297,729
- Title I	*84.010	615300506	285,723
- Title V	84.298	602500506	4,125
- Title V	84.298	702500607	2,292
- Title V Carry-over	84.298	602500607	762
- Adult Basic Education English Literacy	84.002	611206500175	18,900
- Adult Basic Education English Literacy	84.002	711207500177	16,900
- Adult Basic Education	84.002	71130710567	48,200
- Title VI	84.358B	706600607	16,125
- Title IIA Teacher Training and Recruiting	84.367	605200506	80,571
- Title IIA Teacher Training and Recruiting - Carry-over	84.367	605200607	1,081
- Title IIA Teacher Training and Recruiting	84.367	705200607	80,206
- Technology Literacy Challenge	84.318	742900607	3,369
Pass Through Newago County RESA			
- IDEA 94-142 Flow-through	84.027		125,463
TOTAL U.S. DEPARTMENT OF EDUCATION			

* Designates a major program.

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2006	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2007
\$ ---	\$ ---	\$ 42,465	\$ 42,465	\$ ---
---	---	240,381	281,763	41,382
285,724	244	244	---	---
285,724	244	283,090	324,228	41,382
4,125	200	200	---	---
---	---	2,292	2,292	---
---	---	762	762	---
4,125	200	3,254	3,054	---
18,900	944	944	---	---
---	---	11,351	16,900	---
---	---	35,944	48,200	---
18,900	944	48,239	65,100	17,805
---	---	10,229	10,247	18
80,571	1,547	1,547	---	---
---	---	1,081	1,081	---
---	---	68,181	80,206	12,025
80,571	1,547	70,809	81,287	12,025
---	---	3,369	3,369	---
---	---	125,463	125,463	---
	\$ 2,935	\$ 544,453	\$ 612,748	\$ 71,230

HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2007

<u>Program Title</u>	<u>Federal CFDA Contract Number</u>	<u>Program or Award</u>	<u>Amount</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass Through Oceana County - Schools and Roads	10.665		\$ 13,584
U.S.D.A. Food Distribution:			
- Entitlement Commodities	10.550	Various	24,665
- Bonus Commodities	10.550	Various	269
Pass Through State Department of Education:			
- National School Lunch Program	10.555	61950,61960 71950,71960	205,657
- Special Breakfast	10.553	61970,71970	60,652
TOTAL U.S. DEPARTMENT OF AGRICULTURE			
TOTAL FEDERAL FINANCIAL ASSISTANCE			

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2006	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2007
\$ ---	\$ ---	\$ 13,584	\$ 13,584	\$ ---
---	---	13,319	13,319	---
---	---	269	269	---
---	---	13,588	13,588	---
---	---	205,657	205,657	---
---	---	60,652	60,652	---
---	---	293,481	293,481	---
	\$ 2,935	\$ 837,934	\$ 906,229	\$ 71,230

HESPERIA COMMUNITY SCHOOLS

FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2007

NOTE 1 - MAJOR PROGRAMS

The School has one major program - Title I. Total expenditures during the year ended June 30, 2007 were \$324,228.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Federal Awards was prepared using the modified accrual basis of accounting. For grants from the Departments of Education and Agriculture, revenue is recognized when the related expense is incurred. Amounts spent but not yet received at June 30, 2007 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2007 are recorded as deferred revenue.

NOTE 3 - ANNUAL GRANT REPORTS

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

NOTE 4 - SCHEDULE PREPARATION

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

NOTE 5 - INVENTORY VALUES

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

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

YEAR ENDED JUNE 30, 2007

	<u>Financial Statement</u>	<u>Awards Schedule</u>
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	\$ 324,228	\$ 324,228
IDEA 94-142 Flow-Through	125,463	125,463
Title V	3,054	3,054
Adult Basic Education	65,100	65,100
Title VI	10,247	10,247
Teacher Training and Recruiting	81,287	81,287
Technology Literacy Challenge	3,369	3,369
TOTAL	612,748	612,748
DEPARTMENT OF AGRICULTURE GRANTS		
SCHOOL LUNCH FUND		
Commodities	13,588	13,588
Federal Aid	266,309	266,309
SUB-TOTAL	279,897	279,897
GENERAL FUND		
Schools and Roads	13,584	13,584
TOTAL	293,481	293,481
GRAND TOTAL	\$ 906,229	\$ 906,229

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

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

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

Internal Control Over Financial Reporting

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

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

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

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

Compliance

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

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, PC
Certified Public Accountant

August 23, 2007

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

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

Compliance

We have audited the compliance of Hesperia Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Hesperia Community School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Hesperia Community School's management. Our responsibility is to express an opinion on Hesperia Community School's compliance based on our audit.

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

In our opinion, Hesperia Community School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

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

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

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

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

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, PC
Certified Public Accountant

August 23, 2007

HESPERIA COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2007

Summary of Auditor's Results

1. The auditor issued an unqualified report on the financial statements of Hesperia Community Schools.
2. The audit disclosed no noncompliance that is material to the financial statements of Hesperia Community Schools.
3. The auditor issued an unqualified opinion on compliance for major programs.
4. The audit disclosed no audit findings that are required to be reported under Section 510(a).
5. Hesperia Community Schools had one major program - Title I.
6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Hesperia Community Schools qualified as a low risk auditee under Section 530.

Findings Related to the Financial Statement

NONE

Findings and Questioned Costs for Federal Awards

NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2007

There were no prior audit findings.

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

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Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax
Email: kl Drake@voyager.net

August 23, 2007

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

We have audited the financial statements of Hesperia Community Schools for the year ended June 30, 2007 and have issued our report thereon dated August 23, 2007. In planning and performing our audit of the financial statements, we considered the School's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control structure.

The management of Hesperia Community Schools is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded in accordance with United States generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in this structure that might be a reportable condition, under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve situations coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the school's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Therefore, we have prepared the following comments and recommendations to communicate the results of our testing and observations and to make suggestions to improve upon the existing internal control structure.

FINANCIAL OVERVIEW

Fund Financial Statements

The General Fund finished the year with a fund balance of \$291,328. This is an increase of \$53,004 over the prior year balance. Total General Fund revenue increased by approximately \$140,000, and expenditures decreased by approximately \$300,000. The District had reduced the General Fund balance by over \$350,000 over the past two years, but has turned the financial situation into a positive this year. The District continues to be in very challenging financial health, necessitating annual budget balancing to sustain financial viability.

The Food Service Fund ended with a fund balance of \$65,964, which is an increase of \$1,173 over the prior year balance. Both revenue and expenditures were approximately 4% higher than prior year levels.

District-Wide Statements

The Statement of Net Assets and Statement of Activities based on the total of all governmental funds shows the School District with total net assets of \$-498,204. This is a decrease of approximately \$106,000 from the prior year level. The primary reasons for the reduction is depreciation of prior fixed asset purchases, interest on school bond loan fund debt, and teacher buy-out agreements.

The District has the following net asset make-up at June 30, 2007.

Invested in Capital Assets, net of related Debt	\$-394,134
Restricted for Debt Service	170,753
Unrestricted	-274,643

The negative balance in the Capital Asset line indicates that amounts owed in the various long-term debts of the District exceed the cost of those assets, less accumulated depreciation. Negative unrestricted net assets indicate that all current resources of the District are committed for future expenditures.

BUDGETING

The Department of Education is scrutinizing the area of budgeting more closely. For years, they have monitored the expenditures for overspending. Now they are much more closely monitoring the revenue and fund balance aspects of budgeting as well. The District has historically done an adequate job of monitoring both revenue and expenditures on a periodic basis, and of making the necessary budget amendments. This practice needs to continue to be a priority in order to be in compliance with State requirements.

FEDERAL GRANT BILLING

During this past fiscal year, the federal grants that are billed through the State of Michigan were invoiced infrequently during the year. This revenue totals over \$600,000, and can be invoiced as frequently as desired. The billings are based on the monies that have previously been expended for federal grant programs. By invoicing monthly or bi-monthly, the cash flow position of the District would be improved, limiting the amount of borrowing currently necessary for cash flow.

1995 DEBT SERVICE FUND ACCOUNTS

Over three years ago, the final payment on the 1995 Debt Obligation was made. At the time of the audit, the 1995 Debt Service bank account continued to maintain a balance. This account should be closed, and the balance transferred to the 1999 Debt Service account.

INTERNAL CONTROL

When performing preliminary audit work, it became clear that bank account reconciliations had not been prepared on several of the accounts for several months. This is an important internal control procedure that should not be put off. When bank accounts are not reconciled, errors can occur or items can be omitted, making the financial information inaccurate. At the time of the audit, all accounts were reconciled, and brought up-to-date.

INCREASING RESPONSIBILITIES

Each year there are changes in responsibilities and requirements imposed by either the State of Michigan Department of Education, or Federal authorities (GASB, FASB, IRS, etc.) that require additional time from the business office. It is important as the responsibilities become more and more complex and additional responsibilities added, that business office staff stay on top of all required changes. Continuing education is a necessity for all business office staff, and frequent analysis of job responsibilities is required to ensure that the District remains in compliance with regulations.

TIME REPORTING

The District continues to use more contracted personnel. It is important that contracted personnel fill out time reports, even though they are no longer employees. It is also necessary to document the appropriate allocation of their expense to the proper programs, and the best method of documentation continues to be time reports. This applies to all aides and support staff that work directly with students, and is especially important if there are multiple funding sources.

FUTURE CHALLENGES

These continue to be incredibly challenging times for school districts throughout Michigan. Hesperia Community Schools had a stable year, but continues to be in a very challenging financial situation. Health care, transportation, energy costs, etc. continue to increase at rapid rates. The State of Michigan continues to provide no solid foundation on which to base budget funding levels, forcing districts to guess, and then react quickly to changing circumstances. It is important that the District remain conservative in its expenditure budgeting until the available State funding is known, or until the District maintains a fund balance that will allow for revenue shortfalls.

The above comments are intended for the use of management and the Hesperia Community School Board of Education. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, CPA