

Hartland Consolidated Schools

**Financial Report
with Supplemental Information
June 30, 2007**

Hartland Consolidated Schools

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Independent Auditor's Report

To the Members of the Board of Education
Hartland Consolidated Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hartland Consolidated 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 Hartland Consolidated Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

To the Members of the Board of Education
Hartland Consolidated Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hartland Consolidated Schools' basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The required supplemental information and other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2007 on our consideration of Hartland Consolidated Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 19, 2007

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*

To the Board of Education
Hartland Consolidated Schools

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hartland Consolidated Schools' 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 Hartland Consolidated Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hartland Consolidated Schools' internal control over financial reporting.

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

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

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

To the Board of Education
Hartland Consolidated Schools

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hartland Consolidated Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit 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 solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 30, 2007

Hartland Consolidated Schools

Management's Discussion and Analysis

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

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hartland Consolidated Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements illustrate how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the 2000 Capital Projects Fund, and the 2006 Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statements, the statement of fiduciary net assets and the statement of changes in fiduciary net assets, present financial information about activities for which the School District acts solely as an agent for the benefit of student groups. The order of the annual report, including the management's discussion and analysis, is as follows:

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

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

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

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

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

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

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

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services Fund and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

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

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

The School District as a Whole

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

TABLE I

	Governmental Activities	
	2007	2006
	(in millions)	
Assets		
Current and other assets	\$ 40.3	\$ 16.6
Capital assets	<u>117.6</u>	<u>119.4</u>
Total assets	157.9	136.0
Liabilities		
Current liabilities	18.5	19.6
Long-term liabilities	<u>142.6</u>	<u>121.0</u>
Total liabilities	<u>161.1</u>	<u>140.6</u>
Net Assets (Deficit)		
Invested in property and equipment - Net of related debt	(5.3)	(7.2)
Restricted	1.7	2.5
Unrestricted	<u>0.4</u>	<u>0.1</u>
Total net assets (deficit)	<u><u>\$ (3.2)</u></u>	<u><u>\$ (4.6)</u></u>

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets (deficit) were approximately (\$3.2 million) at June 30, 2007. Capital assets, net of related debt totaling (\$5.3 million), compares the original cost, less depreciation of the School District's capital assets to long-term debt 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 of approximately \$400,000 is unrestricted.

The \$400,000 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. Unrestricted net assets enable the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. 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 the fiscal years ended June 30, 2007 and 2006.

TABLE 2

	Governmental Activities	
	2007	2006
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.8	\$ 3.8
Operating grants	3.1	2.6
General revenue:		
Property taxes	13.1	12.0
State foundation allowance	35.1	33.8
Other	1.0	1.2
Special item - Gain on sale of capital assets	0.4	-
Total revenue	57.5	53.4

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities	
	2007	2006
	(in millions)	
Functions/Program Expenses		
Instruction	\$ 26.9	\$ 24.6
Support services	14.5	14.0
Community services	2.3	2.3
Food services	1.2	1.1
Athletics	0.7	0.7
Interest on long-term debt	6.6	6.2
Depreciation (unallocated)	3.9	3.9
	<u>56.1</u>	<u>52.8</u>
Total functions/program expenses		
	<u>\$ 1.4</u>	<u>\$ 0.6</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$56.1 million. Certain activities were partially funded from those who benefited from the programs, \$4.8 million, or by other governments and organizations that subsidized certain programs with grants and contributions, \$3.1 million. We paid for the remaining "public benefit" portion of our governmental activities with \$13.1 million in taxes, \$35.1 million in state foundation allowance, and \$1.4 million with our other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net assets of approximately \$1,447,000, primarily due to an increase in General Fund fund balance.

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 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 particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

As the School District completed this year, the governmental funds reported a combined fund balance of \$30.0 million, which is an increase of \$25.8 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance increased from June 30, 2006 to June 30, 2007 by \$953,302 to approximately \$2.1 million. The School District had contemplated an increase in the fund balance of \$300,421 at the time the budget was adopted in June 2006.

As noted, at the time of budget adoption, the School District had contemplated an increase of \$300,421 in the fund balance by year end. An expected increase in the per pupil foundation allowance of \$225 plus an estimated addition of 126.5 new students, which also would result in additional foundation allowance revenues, were the leading causes of a projected net increase of \$2,237,083 in General Fund revenues from 2005-2006 to 2006-2007. The School District contemplated a similar educational program to be run in 2006-2007 as had been run in 2005-2006. Total expenditures were contemplated to increase by \$1,721,617, which would include the expenditures for existing programs as well as costs for additional instructional staff for the increased enrollment. When added to the prior year budgeted numbers, which reflected a planned operating loss, with more of an increase planned for in revenues than that planned for in expenditures, the School District had a planned operating gain of \$300,421 for 2006-2007.

The School District did implement budget amendments in June 2007. Expected revenues increased by \$613,444 and expected expenditures increased by \$599,119, to change the expected increase in fund balance at year end by another \$14,325 to a total of \$314,746.

At fiscal year end, the fund balance from June 30, 2006 to June 30, 2007 actually increased by \$953,302 as actual revenues came in over budget by \$272,284 and actual expenditures came in under budget by \$366,272. A further explanation of the changes in the General Fund can be found later in the management's discussion and analysis section under "General Fund budgetary highlights."

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds grew, showing a net increase of approximately \$108,000. The Food Services Fund increased by \$79,483 and remains strong, with a fund balance of \$266,010, which represents 20.4 percent of expenditures. The Athletic Fund balance improved to \$41,294. The fund balance increased by \$28,854 in 2006-2007.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$27,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

The Capital Projects Fund fund balance increased by \$24,709,403. Within the Capital Projects Fund, the 2000 Bond decreased by \$253,646, but the new 2006 Bond, passed in November 2006, had a fund balance at June 30, 2007 of \$24,963,049.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to reflect expected significant changes from the original adopted budget. The budget was adopted on June 26, 2006. A schedule showing the School District's original and final adopted budget amounts compared with amounts actually paid and received is provided in required supplemental information to the financial statements.

As referenced previously, the School District did amend the General Fund in June 2007. Ultimately, the "actual versus budget" resulted in a .58 percent variance in revenues (+ \$272,284 over budget) and a -.8 percent variance in expenditures (- \$366,272 under budget). The combination of these two items improved the fund balance position at June 30, 2007 by \$638,556 from a budgeted fund balance of \$1,502,011 to an actual year-end fund balance of \$2,140,567. Note: The beginning fund balance at July 1, 2006 was \$496,591 higher than contemplated, which also helped in the final fund balance figure being better than expected.

The primary reason for the additional revenue compared to that budgeted (+ \$272,284) was the receipt of \$200,100 of loan proceeds for the purchase of portable classrooms that was inadvertently not budgeted. Additionally, room rental income was over budget by \$44,000. Numerous other revenue categories were up or down compared to budget with a net increase in revenues of another \$28,284.

The primary reasons for the reduced level of expenditures over that budgeted (- \$366,272) include a number of items, some of which occurred primarily because the School District administration was trying to hold off on expenditures in an effort to help the fund balance position. These included reductions in capital projects by \$26,000, less in gasoline purchases by \$26,400 and purchasing fewer vehicle repair parts by \$16,000. Additionally, through energy efficiency efforts, the utility budget was \$65,000 under budget. The School District was also able to come in under budget in total salaries and benefits by \$155,726, in large part by reducing staff and staff hours in the community education department. Finally, by error, the budget expectation for the tax collection chargebacks was overstated by approximately \$36,000.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the School District had \$155.0 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions and disposals) of approximately \$2,058,000, or 1.3 percent, from last year.

	<u>2007</u>	<u>2006</u>
Land	\$ 1,600,321	\$ 1,604,821
Construction in progress	1,396,124	-
Buildings and building improvements	130,590,242	130,061,184
Buses and other vehicles	5,946,429	5,932,616
Furniture and equipment	<u>15,431,708</u>	<u>15,308,216</u>
Total capital assets	<u>\$ 154,964,824</u>	<u>\$ 152,906,837</u>

This year's additions of \$2.1 million included vehicles, technology equipment, new high school construction, and buses.

Debt

At the end of this year, the School District had \$136.5 million in bonds outstanding versus \$116.0 million in the previous year - a change of 17.6 percent. The increase in debt was primarily due to the issuance of the 2006 School Building and Site Bond. Total bonds consisted of the following:

	<u>2007</u>	<u>2006</u>
General obligation bonds	<u>\$ 136,454,567</u>	<u>\$ 115,965,567</u>

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 \$508,567 is significantly below the statutorily imposed limit.

Other obligations include accrued vacation pay and an arbitrage obligation. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2007-2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count of the 2007-2008 fiscal year is 25 percent and 75 percent of the February 2007 and the September 2007 student counts, respectively. With few exceptions, under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund the foundation allowance. Based on enrollment data at the start of the school year, the fall student count will be lower than the School District contemplated by 61 students.

Since 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. In two of the past five years, the State has had to make a mid-year adjustment that reduced the foundation allowance. Although no mid-year adjustment took place, in 2006-2007 we did not know what the foundation allowance would be until May 2007. That type of delay in final notification makes it very difficult to plan appropriately.

For the statutory budget adoption required by June 30, 2007, Hartland Consolidated Schools adopted a "continuing budget." In other words, we adopted a budget for 2007-2008 that was equal to the final amended budget for the 2006-2007 school year. Initially, this was contemplated because of the unprecedented delay by the State of Michigan in determining the final per pupil foundation allowance for public schools for 2006-2007. The potential swing in revenue to Hartland Consolidated Schools equaled as much as \$700,000 and would have also affected expenditures by as much as \$425,000. This made it extremely difficult to even make appropriate budget amendments for 2006-2007, until June 2007. In that the final expected budget for 2006-2007 traditionally serves as a base for the initial estimates for the following year - 2007-2008 - and we were not comfortable amending 2006-2007 until June 2007, we were hesitant to prepare a budget proposal in the typical format.

After further consideration regarding this "continuing budget" format, we became more convinced that this was an appropriate budget adoption method, at least for 2007-2008:

- The 2007-2008 per pupil foundation allowance was not known and in fact is still being debated in the legislature now and may not be known until November 2007. Early estimates from the Michigan School Business Officials were for an increase per pupil of \$50 on the high end to a reduction of \$50 per pupil as an estimate on the low end.
- Key September enrollment numbers are obviously not known in June, although we assumed a smaller net increase than in recent years. We are paid based on our enrollment.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

- Hartland Consolidated Schools' annual salary schedule increases are based on a formula which takes into account both the increase in enrollment and the increase (or decrease) in the per pupil foundation allowance. Salary-driven benefit costs of retirement rate and FICA are then based upon the salary increases. Salary, retirement costs, and FICA represent 68 percent of the budget; thus, with these being unusually unstable, it certainly would devalue a budget adoption prepared in the typical format.
- We were comfortable that we would, in fact, finish the 2006-2007 budget year by increasing fund balance and are just as comfortable that we will have a satisfactory 2007-2008 school year from a financial standpoint. For example, even with a decrease in the foundation allowance (at least within the range suggested by the Michigan School Business Officials), any revenue "hit" will be softened by the salary formula which will in turn be very low and could in some circumstances be a zero percent increase.
- We had already been informed about two significant expense items. The retirement rate we pay as a percentage of all salaries is, in fact, going to be less than in 2006-2007. Secondly, our expected increase in healthcare costs is approximately 5 percent versus the 11 percent we had projected previously.
- The School District had not planned any program changes for 2007-2008 that would negatively affect our budget.
- All significant employee contracts are settled for the year so there will be no unforeseen adjustments related to negotiations.

To conclude, after considering all factors noted above, we presented a "continuing budget" for 2007-2008.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

Because of funding problems at the state level over the past number of years, our School District, like most, has found itself in a position of either making significant expenditure reductions and/or finding revenue enhancements. As a School District we have reduced specific program expenditures and increased fees in five of the past seven years, as illustrated below:

<u>Year</u>	<u>Combined Cost Reduction/Fee Increase</u>
2001-2002	\$ 968,000
2002-2003	-
2003-2004	475,000
2004-2005	729,300
2005-2006	1,765,500
2006-2007	1,295,409
2007-2008	-

As noted, we did not recommend budget reductions for 2007-2008. This was done primarily because we wanted to avoid additional program reductions if we could - and we felt we could. Secondly, we felt the organization needed, if possible, an "off year" from the difficult budget reduction process in order to focus solely on providing quality education to our students. At all times the efforts have been toward maintaining quality educational programs and opportunities, while at the same time being willing to make the tough budget decisions necessary to make that possible.

The Capital Project Fund dollars will be spent over the next three or four years. Projects from the 2006 Bond will be ongoing into the 2009-2010 school year and perhaps longer if money remains from potential excess investment earnings and/or from project budget savings.

The School District will continue to levy 7.6 mills on all property to pay down debt fund obligations. This is the same rate as has been levied since the 2000-2001 fiscal year.

Hartland Consolidated Schools

Statement of Net Assets (Deficit) June 30, 2007

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 5,757,317
Receivables - Net (Note 4)	6,633,860
Inventories and other assets	146,583
Restricted assets (Note 8)	27,777,568
Capital assets - Net (Note 5)	<u>117,566,251</u>
Total assets	157,881,579
Liabilities	
Accounts payable	1,473,098
Accrued payroll and other liabilities	3,635,000
Accrued interest	1,243,747
State aid anticipation note (Note 11)	4,995,000
Long-term liabilities (Note 7):	
Due within one year	7,188,576
Due in more than one year	<u>142,549,141</u>
Total liabilities	<u>161,084,562</u>
Net Assets (Deficit)	
Investment in capital assets - Net of related debt	(5,268,189)
Restricted:	
Debt service	750,461
Capital projects	895,664
Unrestricted	<u>419,081</u>
Total net deficit	<u>\$ (3,202,983)</u>

Hartland Consolidated Schools

Statement of Activities Year Ended June 30, 2007

	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Net Expense and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 26,835,391	\$ 877,177	\$ 2,849,611	\$ (23,108,603)
Support services	14,491,453	-	-	(14,491,453)
Food services	1,236,190	1,119,846	249,418	133,074
Athletics	716,206	267,984	-	(448,222)
Community services	2,329,189	2,495,721	-	166,532
Interest on long-term debt	6,614,073	-	-	(6,614,073)
Depreciation (unallocated)	3,891,165	-	-	(3,891,165)
Total primary government - Governmental activities	<u>\$ 56,113,667</u>	<u>\$ 4,760,728</u>	<u>\$ 3,099,029</u>	(48,253,910)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				4,293,235
Property taxes, levied for debt services				8,868,695
State aid not restricted to specific purposes				35,096,179
Interest and investment earnings				1,015,443
Special item - Gain on sale of capital assets				427,486
Total general revenues and special item				<u>49,701,038</u>
Change in Net Assets				1,447,128
Net Deficit - Beginning of year				<u>(4,650,111)</u>
Net Deficit - End of year				<u>\$ (3,202,983)</u>

Hartland Consolidated Schools

Governmental Funds Balance Sheet June 30, 2007

	General Fund	2000 Capital Projects Fund	2006 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 4,677,936	\$ 2,085,933	\$ 25,691,635	\$ 1,079,381	\$ 33,534,885
Accounts receivable (Note 4)	6,625,285	-	-	8,575	6,633,860
Due from other funds (Note 6)	74,202	-	-	40,562	114,764
Inventories and prepaid costs	133,679	-	-	12,904	146,583
Total assets	\$ 11,511,102	\$ 2,085,933	\$ 25,691,635	\$ 1,141,422	\$ 40,430,092
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 595,139	\$ 163,685	\$ 714,206	\$ 68	\$ 1,473,098
Accrued payroll and other liabilities	3,739,834	62,919	-	7,509	3,810,262
State aid anticipation note (Note 11)	4,995,000	-	-	-	4,995,000
Deferred revenue	-	-	-	16,258	16,258
Due to other funds (Note 6)	40,562	-	14,380	59,822	114,764
Total liabilities	9,370,535	226,604	728,586	83,657	10,409,382
Fund Balances					
Reserved:					
Inventories	118,729	-	-	12,904	131,633
Capital projects	-	1,859,329	24,963,049	-	26,822,378
Debt service	-	-	-	750,461	750,461
Unreserved:					
Designated for new facility operations	300,000	-	-	-	300,000
Designated for early retirement incentive	600,000	-	-	-	600,000
Undesignated - Reported in:					
General Fund	1,121,838	-	-	-	1,121,838
Special Revenue Funds	-	-	-	294,400	294,400
Total fund balances	2,140,567	1,859,329	24,963,049	1,057,765	30,020,710
Total liabilities and fund balances	\$ 11,511,102	\$ 2,085,933	\$ 25,691,635	\$ 1,141,422	\$ 40,430,092

Hartland Consolidated Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) June 30, 2007

Fund Balance - Total Governmental Funds \$ 30,020,710

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

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

Capital assets	\$ 154,964,824	
Accumulated depreciation	<u>(37,398,573)</u>	117,566,251

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

Bonds payable	(136,454,567)
Notes payable	(1,477,896)
School Bond Loan Fund	(10,779,194)
Compensated absences	(190,981)
Early retirement incentives	(600,000)
Arbitrage liability	(235,079)

Accrued interest payable is not included as a liability in governmental funds (1,052,227)

Net Deficit - Governmental Activities **\$ (3,202,983)**

Hartland Consolidated Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	2000 Capital Projects Fund	2006 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Local sources	\$ 7,870,538	\$ 106,317	\$ 525,824	\$ 10,409,149	\$ 18,911,828
State sources	36,728,581	-	-	1,614	36,730,195
Federal sources	201,731	-	-	247,804	449,535
Interdistrict sources	1,015,478	-	-	-	1,015,478
Total revenue	45,816,328	106,317	525,824	10,658,567	57,107,036
Expenditures					
Current:					
Instruction	27,024,595	-	-	-	27,024,595
Support services	14,491,453	-	-	-	14,491,453
Community services	2,329,189	-	-	-	2,329,189
Food services	-	-	-	1,236,190	1,236,190
Athletics	-	-	-	716,206	716,206
Debt service:					
Principal	477,969	-	-	5,901,000	6,378,969
Interest	319,326	-	235,761	5,416,200	5,971,287
Other	-	-	-	21,936	21,936
Capital outlay	376,894	359,963	1,717,014	-	2,453,871
Total expenditures	45,019,426	359,963	1,952,775	13,291,532	60,623,696
Excess of Revenue Over (Under) Expenditures	796,902	(253,646)	(1,426,951)	(2,632,965)	(3,516,660)
Other Financing Sources (Uses)					
Transfers in	66,400	-	-	600,617	667,017
Transfers out	(544,316)	-	-	(122,701)	(667,017)
Long-term debt issued	200,100	-	26,390,000	2,290,057	28,880,157
Proceeds from sale of land	434,216	-	-	-	434,216
Total other financing sources	156,400	-	26,390,000	2,767,973	29,314,373
Net Change in Fund Balances	953,302	(253,646)	24,963,049	135,008	25,797,713
Fund Balances - Beginning of year	1,187,265	2,112,975	-	922,757	4,222,997
Fund Balances - End of year	<u>\$ 2,140,567</u>	<u>\$ 1,859,329</u>	<u>\$24,963,049</u>	<u>\$ 1,057,765</u>	<u>\$ 30,020,710</u>

Hartland Consolidated Schools

Governmental Funds 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	\$	25,797,713
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	\$ (3,891,165)	
Capitalized capital outlay	<u>2,084,787</u>	(1,806,378)
Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of the carrying value of the disposed assets		
		(6,730)
Additional accrued interest related to the School Bond Loan Fund is recorded as expense in the statement of activities when incurred but is not reported in governmental funds until paid		
		(457,745)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		
		(205,965)
Repayment of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		
		6,378,969
School bond loan fund issuance is reported as another financing source in the governmental funds; it is not a revenue in the statement of activities		
		(2,290,057)
2006 Capital Project bond is reported as another financing source in the governmental funds; it is not a revenue in the statement of activities		
		(26,390,000)
2007 portable loan is reported as another financing source in the governmental funds; it is not a revenue in the statement of activities		
		(200,100)
Decreases in compensated absences which are reported as expenditures when financial resources are used in the governmental funds		
		(20,788)
Payment of early retirement incentive liability is recorded as an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)		
		600,000
Payments of arbitrage liability on bonds payable are recorded as reduction of debt in the statement of net assets but are recorded as an expenditure in the governmental funds		
		<u>48,209</u>
Change in Net Assets of Governmental Activities	\$	<u>1,447,128</u>

Hartland Consolidated Schools

Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2007

	Private Purpose Trust	Student Activities Agency Fund
Assets - Cash and investments	\$ 136,923	<u>\$ 467,397</u>
Liabilities - Due to student groups	<u>-</u>	<u>\$ 467,397</u>
Net Assets - Reserved for scholarships/projects awarded	<u>\$ 136,923</u>	

Hartland Consolidated Schools

Fiduciary Fund Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2007

	Fifth Third Bank	Ameritrust	Scholarship Fund	Total
Additions - Interest and contributions	\$ 32,642	\$ 19,947	\$ 4,138	\$ 56,727
Deductions - Scholarships/Projects awarded	<u>56,120</u>	<u>44,120</u>	<u>5,000</u>	<u>105,240</u>
Change in Net Assets	(23,478)	(24,173)	(862)	(48,513)
Net Assets - Beginning of year	<u>52,935</u>	<u>50,770</u>	<u>81,731</u>	<u>185,436</u>
Net Assets - End of year	<u>\$ 29,457</u>	<u>\$ 26,597</u>	<u>\$ 80,869</u>	<u>\$ 136,923</u>

Hartland Consolidated Schools

**Notes to Financial Statements
June 30, 2007**

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

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

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-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 district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Hartland Consolidated Schools

**Notes to Financial Statements
June 30, 2007**

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial 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 School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

Hartland Consolidated Schools

**Notes to Financial Statements
June 30, 2007**

Note I - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental funds:

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

Capital Projects Funds - The 2000 and 2006 Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The funds operate until the purpose for which they were created is accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Food Services and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Funds - The various Debt Service Funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the related bond issues.

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

Trust Funds - The various Trust Funds are used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

Assets, Liabilities, and Net Assets or Equity

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

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds.” All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Services Fund is recorded as inventory until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. These amounts have been classified as restricted assets.

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

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

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

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and early retirement incentives. A liability for these amounts is reported in governmental funds as it comes due for payment.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets (deficit).

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

The face amount of debt issued is reported as other financing sources. 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.

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

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and all Special Revenue Funds. In addition, a budget is adopted for the Capital Projects and Debt Service Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. The School District adopted the budget for the year on June 26, 2006. Expenditures in excess of amounts budgeted are a violation of the Uniform Budgeting Act. State law permits districts to amend their budgets during the year. The School District amended the budget in June 2007.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2007

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Note 3 - Deposits and Investments

State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated two banks for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$9,266,440 had \$8,966,440 of bank deposits (money market, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - Investments under the interlocal agreement (MILAF) are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares. The interlocal agreement (MILAF) is rated at AAAM according to Standards and Poor's.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Citigroup Global Markets	\$ 25,327,902	6/30/2010	*	*

* The investment held with Citigroup Global Markets is classified as a flexible repurchase agreement. This type of investment is not invested in specific investment vehicles, rather it is money held with Citigroup in the School District's name only. A third-party financial institution is required to hold certain investments, such as United States Treasury notes, as collateral for the repurchase agreement. As such, the investment does not have a specific rating.

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Other Nonmajor Funds	Total
Receivables:			
Accounts	\$ 403,921	\$ 8,575	\$ 412,496
Intergovernmental	6,221,364	-	6,221,364
Net receivables	<u>\$ 6,625,285</u>	<u>\$ 8,575</u>	<u>\$ 6,633,860</u>

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2007

Note 4 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the School District's deferred revenue included the following:

	<u>Unavailable</u>	<u>Unearned</u>
Nonmajor funds	<u>\$ -</u>	<u>\$ 16,258</u>

Note 5 - 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
Capital assets not being depreciated:				
Land	\$ 1,604,821	\$ -	\$ (4,500)	\$ 1,600,321
Construction in progress	<u>-</u>	<u>1,396,124</u>	<u>-</u>	<u>1,396,124</u>
Subtotal	1,604,821	1,396,124	(4,500)	2,996,445
Capital assets being depreciated:				
Building and building improvements	130,061,184	529,058	-	130,590,242
Buses and other vehicles	5,932,616	13,813	-	5,946,429
Furniture and equipment	<u>15,308,216</u>	<u>145,792</u>	<u>(22,300)</u>	<u>15,431,708</u>
Subtotal	151,302,016	688,663	(22,300)	151,968,379
Accumulated depreciation:				
Building and building improvements	22,960,440	2,835,341	-	25,795,781
Buses and other vehicles	2,173,457	494,697	-	2,668,154
Furniture and equipment	<u>8,393,581</u>	<u>561,127</u>	<u>(20,070)</u>	<u>8,934,638</u>
Subtotal	<u>33,527,478</u>	<u>3,891,165</u>	<u>(20,070)</u>	<u>37,398,573</u>
Net capital assets being depreciated	<u>117,774,538</u>	<u>(3,202,502)</u>	<u>(2,230)</u>	<u>114,569,806</u>
Net governmental capital assets	<u>\$ 119,379,359</u>	<u>\$ (1,806,378)</u>	<u>\$ (6,730)</u>	<u>\$ 117,566,251</u>

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

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
General Fund	Nonmajor funds	\$ 59,822
General Fund	2006 Capital Project Fund	14,380
Nonmajor funds	General Fund	<u>40,562</u>
Total		<u>\$ 114,764</u>

Interfund balances between the General Fund and the nonmajor funds represent funds owed for normal operating expenditures for the current year. Amounts owed to the General Fund from the 2006 Capital Project Fund are for reimbursements of expenditures reported in the 2006 Capital Project Fund.

Interfund Transfers

The following are the interfund transfers for the year ended June 30, 2007:

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor funds	\$ 544,316
Cafeteria Fund	General Fund	66,400
Nonmajor funds	Nonmajor funds	<u>56,301</u>
Total		<u>\$ 667,017</u>

Transfers between the General Fund and the other nonmajor funds represent transfers made to cover operating costs of the Athletics Fund of \$473,556, and \$70,760 was transferred to the Debt Service Funds to cover principal and interest payments.

Transfers made from the Cafeteria Fund to the General Fund represent reimbursements made on behalf of the nonmajor funds.

Transfers made from other nonmajor funds to other nonmajor funds are between the various Debt Service Funds to service long-term debt.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt

The School District issues bonds and notes to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences and arbitrage obligations.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds	\$ 115,965,567	\$ 26,390,000	\$ 5,901,000	\$ 136,454,567	\$ 6,681,000
Notes	1,755,765	200,100	477,969	1,477,896	507,576
School Bond Loan Fund	8,031,392	2,747,802	-	10,779,194	-
Other obligations	1,653,481	20,788	648,209	1,026,060	-
Total governmental activities	\$ 127,406,205	\$ 29,358,690	\$ 7,027,178	\$ 149,737,717	\$ 7,188,576

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 7,188,576	\$ 6,643,904	\$ 13,832,480
2009	7,430,995	6,040,378	13,471,373
2010	7,511,547	5,745,910	13,257,457
2011	7,771,466	5,452,405	13,223,871
2012	7,970,229	5,116,831	13,087,060
2013-2017	33,204,650	20,651,950	53,856,600
2018-2022	30,200,000	13,385,393	43,585,393
2023-2027	25,355,000	6,435,362	31,790,362
2028-2030	11,300,000	900,568	12,200,568
Total	\$ 137,932,463	\$ 70,372,701	\$ 208,305,164

Hartland Consolidated Schools

Notes to Financial Statements
June 30, 2007

Note 7 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

\$11,645,000 - 2000 building and site serial and term bonds due in annual installments of \$1,575,000 to \$1,650,000 through May 1, 2010; interest from 5.50 percent to 5.75 percent	\$ 4,800,000
\$71,470,000 - 2001 refunding of 1978 and a portion of 2000 building and site serial and term bond issues due in annual installments of \$235,000 to \$3,870,000 through May 1, 2029; interest from 4.00 percent to 5.50 percent	68,505,000
\$580,000 - 2002 energy improvement bonds due in annual installments of \$60,000 to \$70,000 through May 1, 2012; interest from 4.00 percent to 4.40 percent	320,000
\$8,715,000 - 2003 refunding of the School District's outstanding 1993 refunding bonds due in annual installments of \$910,000 to \$1,065,000 through May 1, 2011; interest from 2.50 percent to 4.00 percent	3,950,000
\$319,357 Durant Non-Plaintiff Bond due in annual installments ranging from \$17,773 to \$111,264 through May 15, 2013, bearing interest at 4.76 percent	188,567
\$23,321,060 - 2003 refunding of the School Bond Loan Fund due in annual installments of \$2,361,000 to \$2,862,000 through May 1, 2014; interest at 3.32 percent	18,236,000
\$14,825,000 - 2004 partial refunding of the School District's 1996 building and site serial bonds, due in annual installments of \$705,000 to \$1,000,000 through May 1, 2022; interest from 2.75 percent to 5.00 percent	14,065,000
\$26,390,000 - 2007 building and site bond, due in annual installments of \$640,000 to \$1,350,000 through May 1, 2030; interest from 4.00 percent to 4.25 percent	<u>26,390,000</u>
Total bonded debt	<u>\$ 136,454,567</u>

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Notes consist of the following:

Date	Original Amount	Due Date	Interest Rate	Remaining to Maturity	
				Interest	Principal
07/23/02	\$ 1,014,897	11/01/2008	3.60	\$ 9,135	\$ 253,725
10/15/03	666,721	5/1/2009	3.40	13,090	255,000
08/01/04	483,693	11/01/2010	3.32	18,735	282,153
06/01/05	649,224	11/01/2011	3.52	42,849	486,918
06/25/07	200,100	6/25/2014	4.90	38,694	200,100
Total	<u>\$ 3,014,635</u>			<u>\$ 122,503</u>	<u>\$ 1,477,896</u>

Other governmental activities long-term obligations include the following:

Arbitrage	\$ 235,079
Early retirement incentives	600,000
Compensated absences	<u>190,981</u>
Total	<u>\$ 1,026,060</u>

Durant Non-Plaintiff Bond - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources.

School Bond Loan - The school bond loan payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranged from 4.039 percent to 5.041 percent from July 1, 2006 to June 30, 2007. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below seven mills. The School District is required to levy seven mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Advance Refundings - In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2007, \$83,885,000 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent bond proceeds and related interest	<u>\$ 27,777,568</u>

Note 9 - Risk Management

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

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at P.O. Box 30171, Lansing, MI 48909-7671.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2007

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

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

The pension benefit rate totals 16.34 percent for the period from July 1, 2006 through September 30, 2006 and 17.74 percent for the period from October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2007, 2006, and 2005 were \$4,308,967, \$4,039,556, and \$3,643,304, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for postemployment healthcare benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

Note 11 - State Aid Anticipation Note

In August 2006, the School District borrowed \$4,995,000 in a state aid anticipation note. The note bears interest at 4.5 percent and is due in August 2007. At June 30, 2007, the School District has accrued interest of \$191,520 on this note.

Note 12 - Subsequent Event

Subsequent to June 30, 2007, the School District was authorized to borrow \$3,965,000 bearing interest at 4.25 percent on a state aid anticipation note. The note, plus interest, is due August 28, 2008.

Required Supplemental Information

Hartland Consolidated Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 7,900,948	\$ 7,868,970	\$ 7,870,538	\$ 1,568
State sources	36,753,963	36,619,951	36,728,581	108,630
Federal sources	310,040	231,803	201,731	(30,072)
Interdistrict sources	607,716	1,025,636	1,015,478	(10,158)
Total revenue	45,572,667	45,746,360	45,816,328	69,968
Expenditures - Current				
Instruction:				
Basic programs	22,480,457	22,148,810	22,125,522	(23,288)
Added needs	4,835,462	4,853,651	4,899,073	45,422
Support services:				
Pupil	644,818	828,053	826,416	(1,637)
Instructional staff	1,400,689	1,582,817	1,593,597	10,780
General administration	1,069,841	1,092,337	1,062,782	(29,555)
School administration	2,620,076	2,670,034	2,673,171	3,137
Business services	898,960	1,036,779	952,415	(84,364)
Security, operations, and maintenance	4,794,971	4,886,283	4,748,635	(137,648)
Pupil transportation services	2,376,750	2,382,405	2,339,040	(43,365)
Central staff	266,683	266,683	295,397	28,714
Community services	2,493,822	2,458,134	2,329,189	(128,945)
Debt service:				
Principal	477,969	477,969	477,969	-
Interest and other	244,214	288,209	319,326	31,117
Capital outlay	235,834	414,294	376,894	(37,400)
Total expenditures	44,840,546	45,386,458	45,019,426	(367,032)
Other Financing Sources (Uses)				
Transfers in	58,649	61,400	66,400	5,000
Transfers out	(490,349)	(543,556)	(544,316)	(760)
Long-term debt issued	-	-	200,100	200,100
Proceeds from sale of land	-	437,000	434,216	(2,784)
Total other financing sources (uses)	(431,700)	(45,156)	156,400	201,556
Net Change in Fund Balance	300,421	314,746	953,302	638,556
Fund Balance - July 1, 2006	1,187,265	1,187,265	1,187,265	-
Fund Balance - June 30, 2007	<u>\$ 1,487,686</u>	<u>\$ 1,502,011</u>	<u>\$ 2,140,567</u>	<u>\$ 638,556</u>

Other Supplemental Information

Hartland Consolidated Schools

	Special Revenue Funds		Debt Service Funds	
	Food Services	Athletics	2000	2001
Assets				
Cash and investments	\$ 271,106	\$ 57,814	\$ 138,802	\$ 161,701
Accounts receivable	8,575	-	-	-
Due from other funds	40,562	-	-	-
Inventories and other assets	12,904	-	-	-
Total assets	<u>\$ 333,147</u>	<u>\$ 57,814</u>	<u>\$ 138,802</u>	<u>\$ 161,701</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 68	\$ -	\$ -
Accrued payroll and other liabilities	6,667	842	-	-
Due to other funds	44,212	15,610	-	-
Deferred revenue	16,258	-	-	-
Total liabilities	67,137	16,520	-	-
Fund Balances				
Reserved:				
Inventories	12,904	-	-	-
Debt service	-	-	138,802	161,701
Unreserved - Undesignated - Reported in Special Revenue Funds	253,106	41,294	-	-
Total fund balances	266,010	41,294	138,802	161,701
Total liabilities and fund balances	<u>\$ 333,147</u>	<u>\$ 57,814</u>	<u>\$ 138,802</u>	<u>\$ 161,701</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Debt Service Funds					
2003	School Bond Loan Fund Refunding	2004 Refunding	2002 Energy Improvement Bonds	2006	Total
\$ 87,945	\$ 205,163	\$ 131,981	\$ 277	\$ 24,592	\$ 1,079,381
-	-	-	-	-	8,575
-	-	-	-	-	40,562
-	-	-	-	-	12,904
<u>\$ 87,945</u>	<u>\$ 205,163</u>	<u>\$ 131,981</u>	<u>\$ 277</u>	<u>\$ 24,592</u>	<u>\$ 1,141,422</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68
-	-	-	-	-	7,509
-	-	-	-	-	59,822
-	-	-	-	-	16,258
-	-	-	-	-	83,657
-	-	-	-	-	12,904
87,945	205,163	131,981	277	24,592	750,461
-	-	-	-	-	294,400
<u>87,945</u>	<u>205,163</u>	<u>131,981</u>	<u>277</u>	<u>24,592</u>	<u>1,057,765</u>
<u>\$ 87,945</u>	<u>\$ 205,163</u>	<u>\$ 131,981</u>	<u>\$ 277</u>	<u>\$ 24,592</u>	<u>\$ 1,141,422</u>

Hartland Consolidated Schools

	Special Revenue Funds		Debt Service Funds		
	Food Services	Athletics	1996	2000	2001
Revenue					
Local	\$ 1,132,655	\$ 271,504	\$ -	\$ 1,865,272	\$ 2,173,088
State	1,614	-	-	-	-
Federal	247,804	-	-	-	-
Total revenue	1,382,073	271,504	-	1,865,272	2,173,088
Expenditures					
Current:					
Food services	1,236,190	-	-	-	-
Athletics	-	716,206	-	-	-
Debt service:					
Principal	-	-	-	1,575,000	265,000
Interest	-	-	-	366,562	3,559,792
Other	-	-	-	4,857	6,685
Total expenditures	1,236,190	716,206	-	1,946,419	3,831,477
Excess of Revenue Over (Under) Expenditures					
	145,883	(444,702)	-	(81,147)	(1,658,389)
Other Financing Sources (Uses)					
Transfers in	-	473,556	-	-	-
Transfers out	(66,400)	-	(56,072)	-	-
Long-term debt issued	-	-	-	93,615	1,674,868
Total other financing sources (uses)	(66,400)	473,556	(56,072)	93,615	1,674,868
Net Change in Fund Balances	79,483	28,854	(56,072)	12,468	16,479
Fund Balances - Beginning of year	186,527	12,440	56,072	126,334	145,222
Fund Balances - End of year	\$ 266,010	\$ 41,294	\$ -	\$ 138,802	\$ 161,701

**Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2007**

Debt Service Funds					
2003	School Bond Loan Fund Refunding	2004 Refunding	2002 Energy Improvement Bonds	2007	Total
\$ 1,172,893	\$ 2,788,058	\$ 981,077	\$ 10	\$ 24,592	\$ 10,409,149
-	-	-	-	-	1,614
-	-	-	-	-	247,804
1,172,893	2,788,058	981,077	10	24,592	10,658,567
-	-	-	-	-	1,236,190
-	-	-	-	-	716,206
1,100,000	2,286,000	620,000	55,000	-	5,901,000
180,175	680,920	612,991	15,760	-	5,416,200
3,405	4,012	2,728	249	-	21,936
1,283,580	2,970,932	1,235,719	71,009	-	13,291,532
(110,687)	(182,874)	(254,642)	(70,999)	24,592	(2,632,965)
-	-	56,301	70,760	-	600,617
-	(229)	-	-	-	(122,701)
19,307	206,170	296,097	-	-	2,290,057
19,307	205,941	352,398	70,760	-	2,767,973
(91,380)	23,067	97,756	(239)	24,592	135,008
179,325	182,096	34,225	516	-	922,757
\$ 87,945	\$ 205,163	\$ 131,981	\$ 277	\$ 24,592	\$ 1,057,765

Hartland Consolidated Schools

June 30	Durant	2000 Debt	2001 Refunding	2002 Energy Improvement Bonds
	Principal	Principal	Principal	Principal
2008	\$ -	\$ 1,575,000	\$ 275,000	\$ 60,000
2009	17,773	1,575,000	235,000	60,000
2010	18,619	1,650,000	245,000	65,000
2011	19,505	-	2,005,000	65,000
2012	111,264	-	3,035,000	70,000
2013	21,406	-	3,180,000	-
2014	-	-	3,325,000	-
2015	-	-	3,495,000	-
2016	-	-	3,660,000	-
2017	-	-	3,795,000	-
2018	-	-	3,820,000	-
2019	-	-	3,845,000	-
2020	-	-	3,870,000	-
2021	-	-	3,870,000	-
2022	-	-	3,845,000	-
2023	-	-	3,815,000	-
2024	-	-	3,785,000	-
2025	-	-	3,750,000	-
2026	-	-	3,720,000	-
2027	-	-	3,685,000	-
2028	-	-	3,645,000	-
2029	-	-	3,605,000	-
2030	-	-	-	-
Total	<u>\$ 188,567</u>	<u>\$ 4,800,000</u>	<u>\$ 68,505,000</u>	<u>\$ 320,000</u>
Principal payments due	May 15	May 1	May 1	May 1
Interest payments due	May 15	May 1 and November 1	May 1 and November 1	May 1 and November 1
Interest rate	4.76%	5.50% to 5.75%	4.00% to 5.50%	4.00% to 4.40%
Original issue	<u>\$ 319,357</u>	<u>\$ 11,645,000</u>	<u>\$ 71,470,000</u>	<u>\$ 580,000</u>

**Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2007**

2003 Refunding	School Bond Loan Fund Refunding	2004 Refunding	2006 School Building and Site Bonds
Principal	Principal	Principal	Principal
\$ 1,065,000	\$ 2,361,000	\$ 705,000	\$ 640,000
1,055,000	2,439,000	845,000	775,000
920,000	2,517,000	980,000	900,000
910,000	2,600,000	970,000	1,025,000
-	2,685,000	960,000	1,025,000
-	2,772,000	950,000	1,025,000
-	2,862,000	935,000	1,050,000
-	-	920,000	1,075,000
-	-	915,000	1,100,000
-	-	935,000	1,125,000
-	-	950,000	1,150,000
-	-	1,000,000	1,175,000
-	-	1,000,000	1,200,000
-	-	1,000,000	1,225,000
-	-	1,000,000	1,250,000
-	-	-	1,275,000
-	-	-	1,300,000
-	-	-	1,325,000
-	-	-	1,350,000
-	-	-	1,350,000
-	-	-	1,350,000
-	-	-	1,350,000
-	-	-	1,350,000
\$ 3,950,000	\$ 18,236,000	\$ 14,065,000	\$ 26,390,000
May 1	May 1	May 1	May 1
May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1
2.50% to 4.00%	3.32%	2.75% to 5.00%	4.00% to 4.25%
\$ 8,715,000	\$ 23,321,060	\$ 14,825,000	\$ 26,390,000