

Hartland Consolidated Schools

**Financial Report
with Supplementary Information
June 30, 2009**

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, 2009, 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, 2009 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary 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 supplementary 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 other supplementary information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplementary information is presented for the purpose of additional analysis. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated October 21, 2009 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 21, 2009

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, 2009. 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 government-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 government-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 Supplementary Information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)

Budgetary Information for Major Funds

Other Supplementary Information

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

Reporting the School District as a Whole - Government-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.

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:

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

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.

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.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

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, 2009 and 2008:

	Governmental Activities	
	June 30	
	2009	2008
	(in millions)	
Assets		
Current and other assets	\$ 21.0	\$ 27.5
Capital assets	130.4	128.1
Total assets	151.4	155.6
Liabilities		
Current liabilities	18.4	18.7
Long-term liabilities	135.2	139.1
Total liabilities	153.6	157.8
Net Assets (Deficit)		
Invested in capital assets - Net of related debt	(13.7)	(1.6)
Restricted	7.9	3.6
Unrestricted	3.6	(4.2)
Total net assets	\$ (2.2)	\$ (2.2)

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 deficit was approximately \$2.2 million at June 30, 2009. Capital assets, net of related debt totaling negative \$13.7 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 \$3.6 million is unrestricted.

The \$3.6 million 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.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

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, 2009 and 2008.

TABLE 2

	Governmental Activities	
	2009	2008
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.5	\$ 4.6
Operating grants	3.9	3.3
General revenue:		
Property taxes	13.6	13.9
State foundation allowance	34.7	35.9
Federal sources - Unrestricted	2.1	
Other	0.5	1.1
Total revenue	59.3	58.8
Functions/Program Expenses		
Instruction	27.5	27.3
Support services	15.1	14.5
Community services	2.8	2.5
Food services	1.4	1.3
Athletics	0.8	0.8
Interest on long-term debt	6.9	7.3
Depreciation (unallocated)	4.8	4.1
Total functions/program expenses	59.3	57.8
Increase in Net Assets	\$ -	\$ 1.0

As reported in the statement of activities, the cost of all of our governmental activities this year was \$59.3 million. Certain activities were partially funded from those who benefited from the programs, \$4.5 million, or by other governments and organizations that subsidized certain programs with grants and contributions, \$3.9 million. We paid for the remaining "public benefit" portion of our governmental activities with \$13.6 million in taxes, \$34.7 million in state foundation allowance, \$2.1 in federal stabilization money, and \$0.5 million with our other revenues, i.e., interest and general entitlements.

The School District experienced no change in net assets during the year.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

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.

As the School District completed this year, the governmental funds reported a combined fund balance of \$11.7 million, which is a decrease of \$5.4 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance increased from June 30, 2008 to June 30, 2009 by \$865,729 to approximately \$3.5 million. The School District had contemplated an increase in the fund balance of \$203,103 at the time the budget was adopted in June 2008.

As noted, at the time of budget adoption, the School District had contemplated an increase of \$203,103 in the fund balance by year end. The School District did implement budget amendments in June 2009. Between the original adoption and the amendment, expected budgeted revenues increased by \$519,323 and expected budgeted expenditures increased by \$208,863, to increase the expected increase in fund balance at year end by \$310,460 to a total of \$513,563 (\$203,103 + \$310,460).

At fiscal year end, the fund balance from June 30, 2008 to June 30, 2009 actually increased by \$865,729. Along with the budgeted increase in fund balance of \$513,563, actual revenues came in over budget by \$244,885 and actual expenditures came in under budget by \$107,281. This had the effect of increasing fund balance over that budgeted by another \$352,166 for a total of \$865,729. 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 \$15,328. The Food Services Fund increased by \$11,203 and remains strong, with a fund balance of \$275,056, which represents approximately 19.2 percent of expenditures. The Athletic Fund balance improved to \$56,052. The fund balance increased by \$4,125 in 2008-2009.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

Combined, the Debt Service Funds showed a fund balance decrease of \$16,832. 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.

The Capital Projects Fund fund balance decreased by \$6,240,167. Within the Capital Projects Fund, the 2000 Bond decreased by \$674,764 and the 2006 Bond decreased by \$5,565,403, reflective of spending as the project continued.

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 30, 2008. A schedule showing the School District's original and final adopted budget amounts compared with amounts actually paid and received is provided in required supplementary information to the financial statements.

The School District did amend the General Fund in June 2009. Ultimately, the "actual versus budget" resulted in a + .51 percent variance in revenues (\$244,885 over budget) and a - .23 percent variance in expenditures (\$107,281 under budget). The combination of these two items improved the fund balance position at June 30, 2009 by \$352,166 from an amended budget fund balance of \$3,116,252 to an actual year-end fund balance of \$3,468,418. Note: The beginning fund balance at July 1, 2008 was \$259,019 higher than contemplated, which also helped in the final fund balance figure being better than expected.

In that for the second time we had adopted a "continuation budget" (i.e., the adopted 2008-2009 budget was the same as the final amended budget for 2007-2008), there were numerous changes in both revenues and expenditures too numerous to review. The primary reasons for the actual additional revenue for the year over the original budget (+ \$764,208) were from an increase in special education funding from the State (+ \$294,000) and because of a \$109 per pupil increase from the State.

The primary reasons for the actual additional expenditures for the year over the original continuation budget (+ \$101,582) are from salary increases and salary-driven benefits. For example, teacher-related salaries alone, not including the salary-driven benefits, accounted for approximately \$703,000. Certainly there were many more adjustments up and down with the largest reduction being that we no longer had a \$600,000 teacher buyout payment. We also had increased costs for heating offset by lower bus loan payments (we had purchased buses with Bond dollars in 2007, which reduced our original out-year bus repayment schedule).

Hartland Consolidated Schools

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2009, the School District had \$176 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 \$7,014,967, or 4.2 percent, from last year.

	<u>2009</u>	<u>2008</u>
Land	\$ 2,419,502	\$ 1,600,321
Construction in progress	514,370	2,997,146
Buildings and building improvements	147,611,500	140,018,850
Buses and other vehicles	6,884,226	7,002,708
Furniture and equipment	<u>18,067,070</u>	<u>16,862,676</u>
Total capital assets	<u>\$ 175,496,668</u>	<u>\$ 168,481,701</u>

This year's additions of \$7.1 million included an 80-acre property acquisition, the purchase of sewer capacity, as well as the construction activities related to various building projects.

Debt

At the end of this year, the School District had \$122.8 million in bonds outstanding versus \$129.8 million in the previous year - a change of 5.4 percent. Total bonds consisted of the following:

	<u>2009</u>	<u>2008</u>
General obligation bonds	<u>\$ 122,771,794</u>	<u>\$ 129,773,567</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 \$200,000 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 2009-2010 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 2009-2010 fiscal year is 25 percent and 75 percent of the February 2009 and the September 2009 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 68 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 seven years, the State has had to make a mid-year adjustment that reduced the foundation allowance. Additionally, 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.

In light of the recent history noted above, for the third consecutive year for the statutory budget adoption required by June 30, 2009, Hartland Consolidated Schools adopted a "continuing budget." In other words, we adopted a budget for 2009-2010 that was equal to the final amended budget for the 2008-2009 school year. This is the third year in a row that we have used this budget adoption method. For some background on the "continuing budget" scenario, initially, for 2007-2008, 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, as noted above. The potential swing in revenue to Hartland 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 would traditionally serve 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, thus the "continuing budget" scenario.

Hartland Consolidated Schools

Management's Discussion and Analysis (Continued)

After further consideration regarding this “continuing budget” format, we became more convinced that this was an appropriate budget adoption method for 2007-2008, again for 2008-2009 and now again for 2009-2010. This decision was made after consideration of the following:

- The 2009-2010 per pupil foundation allowance would not be known until after our June 30, 2009 budget adoption process. Estimates by spring were for “no increase” by the use of federal stimulus funds or an actual decrease of \$110 per pupil. The State did not adopt a school budget by October 1, 2009 and it now appears the per pupil foundation allowance could be reduced by \$165 per pupil or more.
- Key September enrollment numbers are obviously not known in June, although we assumed a loss in students. We are paid based on our enrollment. As referenced above, we ultimately actually lost students.
- Hartland Schools’ annual salary schedule increases are based on a formula which takes into account both the increase/decrease in enrollment and the increase/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 70 percent of the budget; thus, with these large budget categories being unknown in June, it certainly devalues a budget adoption prepared in the typical format.
- We were comfortable we would, in fact, finish the 2008-2009 budget year by increasing fund balance, and were just as comfortable we had built our fund balance up enough to deal with a reduction in our foundation allowance during 2009-2010.
- Before the time to make our budget format decision, we had already been informed on two significant expense items for 2009-2010. The retirement rate we pay as a percentage of all salaries only increased .5 percent. Secondly, our expected increase in healthcare costs is approximately 3 percent versus the 5 percent we had anticipated previously.
- The School District had not planned any program changes for 2009-2010 that would negatively affect our budget. Further, we knew we would have some opportunities to not fill some teacher positions, by attrition, which would help 2009-2010 expenditures.
- All employee contracts had been settled for the year, and, in fact, all salary schedules were figured by contract formula, at a 0 percent increase.

To conclude, after considering all factors noted above, we presented a “continuing budget” for 2009-2010.

Hartland Consolidated Schools

Statement of Net Assets (Deficit) June 30, 2009

	<u>Governmental Activities</u>
Assets	
Cash and investments (Note 3)	\$ 5,540,766
Receivables (Note 4)	7,385,426
Inventories	215,372
Prepaid costs	82,982
Restricted assets (Note 8)	7,754,067
Capital assets - Net (Note 5)	<u>130,397,570</u>
Total assets	151,376,183
Liabilities	
Accounts payable	754,274
Accrued payroll and other liabilities	4,332,014
State aid anticipation note (Note 11)	4,094,415
Accrued interest	1,658,609
Other current liabilities	58,687
Deferred revenue	26,004
Long-term liabilities (Note 7):	
Due within one year	7,511,547
Due in more than one year	<u>135,169,289</u>
Total liabilities	<u>153,604,839</u>
Net Assets (Deficit)	
Invested in capital assets - Net of related debt	(13,735,724)
Restricted:	
Debt service	725,282
Capital projects	7,188,411
Unrestricted	<u>3,593,375</u>
Total net deficit	<u>\$ (2,228,656)</u>

Hartland Consolidated Schools

Statement of Activities Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 27,554,425	\$ 686,283	\$ 3,428,131	\$ (23,440,011)
Support services	15,097,550	-	-	(15,097,550)
Athletics	818,293	295,246	-	(523,047)
Food services	1,362,908	997,030	440,764	74,886
Community services	2,769,716	2,550,103	-	(219,613)
Interest on long-term debt	6,944,767	-	-	(6,944,767)
Depreciation expense (unallocated)	4,840,047	-	-	(4,840,047)
Total primary government	\$ 59,387,706	\$ 4,528,662	\$ 3,868,895	(50,990,149)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				4,343,633
Property taxes, levied for debt service				9,279,587
State aid not restricted to specific purposes				34,699,699
Federal sources - Unrestricted				2,090,163
Interest and investment earnings				494,211
Gain on the sale of capital assets				22,380
Other				18,748
Total general revenues				50,948,421
Change in Net Assets				(41,728)
Net Deficit - Beginning of year				(2,186,928)
Net Deficit - End of year				\$ (2,228,656)

Hartland Consolidated Schools

Governmental Funds Balance Sheet June 30, 2009

	General Fund	2000 Capital Projects Fund	2006 Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 4,530,008	\$ -	\$ -	\$ 1,010,758	\$ 5,540,766
Receivables (Note 4)	7,374,228	-	-	11,198	7,385,426
Due from other funds (Note 6)	22,363	-	-	4,572	26,935
Inventories	134,623	-	-	80,749	215,372
Prepaid costs	82,982	-	-	-	82,982
Restricted assets	-	1,377,750	6,376,317	-	7,754,067
Total assets	\$12,144,204	\$ 1,377,750	\$ 6,376,317	\$ 1,107,277	\$ 21,005,548
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 255,784	\$ 8,745	\$ 489,374	\$ 371	\$ 754,274
Accrued payroll and other liabilities	4,321,015	-	-	10,999	4,332,014
State aid anticipation note (Note 11)	4,094,415	-	-	-	4,094,415
Construction retainages	-	-	58,687	-	58,687
Due to other funds (Note 6)	4,572	-	8,850	13,513	26,935
Deferred revenue (Note 4)	-	-	-	26,004	26,004
Total liabilities	8,675,786	8,745	556,911	50,887	9,292,329
Fund Balances					
Reserved:					
Capital projects	-	1,369,005	5,819,406	-	7,188,411
Debt service	-	-	-	725,282	725,282
Inventories and prepaid costs	217,605	-	-	80,749	298,354
Unreserved - Undesignated - Reported in:					
General Fund	3,250,813	-	-	-	3,250,813
Special Revenue Funds	-	-	-	250,359	250,359
Total fund balances	3,468,418	1,369,005	5,819,406	1,056,390	11,713,219
Total liabilities and fund balances	\$12,144,204	\$ 1,377,750	\$ 6,376,317	\$ 1,107,277	\$ 21,005,548

Hartland Consolidated Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) June 30, 2009

Fund Balance Reported in Governmental Funds \$ 11,713,219

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 funds:

Cost of capital assets	\$ 175,496,668	
Accumulated depreciation	<u>(45,099,098)</u>	130,397,570

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

Bonds and school bond loan fund payable	(141,573,417)	
Compensated absences	(206,151)	
Arbitrage liability	(360,168)	
Notes payable	<u>(541,100)</u>	(142,680,836)

Accrued interest payable is not included as a liability in governmental funds

(1,658,609)

Net Assets of Governmental Activities **\$ (2,228,656)**

Hartland Consolidated Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2009

	General Fund	2000 Capital Projects Fund	2006 Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Local sources	\$ 7,643,189	\$ 47,177	\$ 372,520	\$ 10,587,719	\$ 18,650,605
State sources	36,369,254	-	-	56,598	36,425,852
Federal sources	2,736,394	-	-	384,166	3,120,560
Interdistrict sources	1,112,345	-	-	-	1,112,345
Total revenue	47,861,182	47,177	372,520	11,028,483	59,309,362
Expenditures					
Current:					
Instruction	28,179,210	-	-	-	28,179,210
Support services	14,838,268	-	-	3	14,838,271
Athletics	-	-	-	818,293	818,293
Food services	-	-	-	1,362,908	1,362,908
Community services	2,769,716	-	-	-	2,769,716
Debt service:					
Principal	446,994	-	-	6,984,000	7,430,994
Interest	180,118	-	-	6,014,236	6,194,354
Other	-	-	-	7,943	7,943
Capital outlay	101,741	467,630	6,192,234	-	6,761,605
Total expenditures	46,516,047	467,630	6,192,234	15,187,383	68,363,294
Excess of Revenue Over (Under) Expenditures	1,345,135	(420,453)	(5,819,714)	(4,158,900)	(9,053,932)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	52,000	-	-	-	52,000
Transfers in	66,400	235,063	-	597,822	899,285
Transfers out	(597,806)	-	(235,063)	(66,416)	(899,285)
School Bond Loan Revolving Fund proceeds	-	-	-	3,625,990	3,625,990
Total other financing sources (uses)	(479,406)	235,063	(235,063)	4,157,396	3,677,990
Net Change in Fund Balances	865,729	(185,390)	(6,054,777)	(1,504)	(5,375,942)
Fund Balances - Beginning of year	2,602,689	1,554,395	11,874,183	1,057,894	17,089,161
Fund Balances - End of year	<u>\$ 3,468,418</u>	<u>\$ 1,369,005</u>	<u>\$ 5,819,406</u>	<u>\$ 1,056,390</u>	<u>\$ 11,713,219</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

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, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (5,375,942)

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

Governmental funds report capital outlays as

expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (4,840,047)	
Capitalized capital outlay	<u>7,133,449</u>	2,293,402

Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of carrying value of the disposed assets (29,620)

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities (3,625,990)

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) 7,430,994

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (742,470)

Compensated absences, as well as self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than was earned (or more was earned than paid out) (6,338)

Payments of arbitrage liability on bonds payable are recorded as a reduction of debt in the statement of net assets but are recorded as an expenditure in the governmental funds 14,236

Change in Net Assets of Governmental Activities \$ (41,728)

Hartland Consolidated Schools

Fiduciary Funds Statement of Net Assets June 30, 2009

	Student Activities Agency Fund	Private Purpose Trust
Assets - Cash and investments	<u>\$ 515,037</u>	\$ 158,772
Liabilities - Due to student groups	<u>\$ 515,037</u>	<u>-</u>
Net Assets - Reserved for scholarships/projects awarded		<u>\$ 158,772</u>

Hartland Consolidated Schools

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2009

	Fifth Third Bank	Ameritrust	Scholarship Fund
Additions - Interest and contributions	\$ 30,194	\$ 28,772	\$ 4,387
Deductions - Scholarships/projects awarded	<u>29,550</u>	<u>31,650</u>	<u>5,000</u>
Change in Net Assets	644	(2,878)	(613)
Net Assets - Beginning of year	<u>32,607</u>	<u>53,097</u>	<u>75,915</u>
Net Assets - End of year	<u><u>\$ 33,251</u></u>	<u><u>\$ 50,219</u></u>	<u><u>\$ 75,302</u></u>

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

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.

Government-wide and Fund Financial Statements

The government-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 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.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general 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.

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.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

Note I - Summary of Significant Accounting Policies (Continued)

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 issue.

Student Activities Agency Funds - 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.

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.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

Note I - Summary of Significant Accounting Policies (Continued)

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 Service Fund is recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-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 government-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 additions	20 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	5 to 10 years

Compensated Absences - The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

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 (deficit).

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.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General 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. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in June 2009 in a legally permissible manner.

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

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

Note 3 - Deposits and Investments (Continued)

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 \$4,200,572 had \$3,355,409 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.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not hold any uninsured and unregistered investment securities.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the School District's cash requirements.

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 Standard and Poor's.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

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:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Michigan Liquid Asset Fund	\$ 3,239,884	N/A	AAAm	S&P
Citigroup Global Markets	<u>6,253,852</u>	6/30/2010	*	*
Total investments	<u>\$ 9,493,736</u>			

* 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.

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer.

Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the School District's individual major funds and the nonmajor funds in the aggregate are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:			
Accounts receivable	\$ 288,190	\$ 11,198	\$ 299,388
Intergovernmental	<u>7,086,038</u>	<u>-</u>	<u>7,086,038</u>
Total receivables	<u>\$ 7,374,228</u>	<u>\$ 11,198</u>	<u>\$ 7,385,426</u>

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

Note 4 - Receivables and Deferred Revenue (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 various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Nonmajor funds	\$ -	\$ 26,004

Note 5 - Capital Assets

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

Governmental Activities	<u>Balance July 1, 2008</u>	<u>Additions and Reclassifications</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2009</u>
Capital assets not being depreciated:				
Land	\$ 1,600,321	\$ 819,181	\$ -	\$ 2,419,502
Construction in progress	2,997,146	(2,482,776)	-	514,370
Subtotal	4,597,467	(1,663,595)	-	2,933,872
Capital assets being depreciated:				
Buildings and building improvements	140,018,850	7,592,650	-	147,611,500
Furniture and equipment	16,862,676	1,204,394	-	18,067,070
Buses and other vehicles	7,002,708	-	118,482	6,884,226
Subtotal	163,884,234	8,797,044	118,482	172,562,796
Accumulated depreciation:				
Buildings and building improvements	28,700,081	3,335,755	-	32,035,836
Furniture and equipment	9,504,586	829,752	-	10,334,338
Buses and other vehicles	2,143,246	674,540	88,862	2,728,924
Subtotal	40,347,913	4,840,047	88,862	45,099,098
Net capital assets being depreciated	123,536,321	3,956,997	29,620	127,463,698
Net capital assets	<u>\$ 128,133,788</u>	<u>\$ 2,293,402</u>	<u>\$ 29,620</u>	<u>\$ 130,397,570</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, 2009

Note 5 - Capital Assets (Continued)

Construction Commitments - The School District has active construction projects related to the 2006 Bond issue. At year end, the School District's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Contractual Commitment</u>
2006 Bond issue	\$ 22,027,680	\$ 201,433

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>Total</u>
	<u>General Fund</u>	<u>2006 Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ 8,850	\$ 13,513	\$ 22,363
Nonmajor governmental funds	4,572	-	-	4,572
Total	<u>\$ 4,572</u>	<u>\$ 8,850</u>	<u>\$ 13,513</u>	<u>\$ 26,935</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Advanced To</u>	<u>Fund Advanced From</u>			<u>Total</u>
	<u>General Fund</u>	<u>2006 Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ -	\$ 66,400	\$ 66,400
2000 Capital Projects Fund	-	235,063	-	235,063
Nonmajor governmental funds	597,806	-	16	597,822
Total	<u>\$ 597,806</u>	<u>\$ 235,063</u>	<u>\$ 66,416</u>	<u>\$ 899,285</u>

Transfers between the General Fund and the other nonmajor funds represent transfers made to cover operating costs of the Athletics Fund of \$526,396 and \$71,410 was transferred to the Debt Service Funds to cover principal and interest payments.

Transfers made from the 2006 Capital Projects Fund to the 2000 Capital Projects Fund were for reimbursement of payment made on behalf of the 2006 Capital Projects Fund.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Transfers made from the Cafeteria Fund to the General Fund represent reimbursements for various overhead charges.

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

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 liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 129,773,567	\$ -	\$ 7,001,773	\$ 122,771,794	\$ 7,295,619
Notes	970,321	-	429,221	541,100	215,928
School Bond Loan Fund	15,175,633	3,625,990	-	18,801,623	-
Other obligations	574,217	6,338	14,236	566,319	-
Total governmental activities	<u>\$ 146,493,738</u>	<u>\$ 3,632,328</u>	<u>\$ 7,445,230</u>	<u>\$ 142,680,836</u>	<u>\$ 7,511,547</u>

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2010	\$ 7,511,547	\$ 5,754,411	\$ 13,265,958
2011	7,771,468	5,443,680	13,215,148
2012	7,970,229	5,158,762	13,128,991
2013	7,979,750	4,778,013	12,757,763
2014	8,204,900	4,438,288	12,643,188
2015-2019	28,960,000	17,665,284	46,625,284
2020-2024	28,435,000	10,476,815	38,911,815
2025-2029	25,130,000	3,957,500	29,087,500
2030	1,350,000	57,375	1,407,375
Total	<u>\$ 123,312,894</u>	<u>\$ 57,730,128</u>	<u>\$ 181,043,022</u>

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

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 a final installment of \$1,650,000 on May 1, 2010; interest at 5.75%	\$ 1,650,000
\$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 \$245,000 to \$3,870,000 through May 1, 2029; interest from 4.25% - 5.50%	67,995,000
\$580,000 - 2002 energy improvement bonds due in annual installments of \$65,000 to \$70,000 through May 1, 2012; interest from 4.25% - 4.40%	200,000
\$8,715,000 - 2003 refunding of the School District's outstanding 1993 refunding bonds due in annual installments of \$910,000 to \$920,000 through May 1, 2011; interest at 4.00%	1,830,000
\$319,357 - Durant Non-Plaintiff Bond due in annual installments of \$18,619 to \$111,264 through May 15, 2013; interest at 4.76%	170,794
\$23,321,060 - 2003 refunding of the School Bond Loan Fund due in annual installments of \$2,517,000 to \$2,862,000 through May 1, 2014; interest at 3.32%	13,436,000
\$14,825,000 - 2004 partial refunding of the School District's 1996 building and site serial bonds due in annual installments of \$915,000 to \$1,000,000 through May 1, 2022; interest from 3.50% - 5.00%	12,515,000
\$26,390,000 - 2007 building and site serial bond due in annual installments of \$900,000 to \$1,350,000 through May 1, 2030; interest from 4.00% - 4.25%	<u>24,975,000</u>
Total bonded debt	<u>\$ 122,771,794</u>

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

Note 7 - Long-term Debt (Continued)

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.

Notes consist of the following:

<u>Date</u>	<u>Original Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Remaining to Maturity</u>	
				<u>Interest</u>	<u>Principal</u>
08/01/04	\$ 483,693	11/01/2010	3.32	\$ 4,015	\$ 120,923
06/01/05	649,224	11/01/2011	3.52	14,283	270,510
06/25/07	200,100	06/25/2014	4.90	20,899	149,667
Total	<u>\$ 1,333,017</u>			<u>\$ 39,197</u>	<u>\$ 541,100</u>

Other governmental activities long-term obligations include the following:

Arbitrage	\$ 360,168
Compensated absences	206,151
Total	<u>\$ 566,319</u>

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 4.125 percent to 6.220 percent from July 1, 2008 to June 30, 2009. 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.

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, 2009, \$80,185,000 of bonds outstanding are considered defeased.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

Note 8 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent bond proceeds and related interest	\$ 7,754,067

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 system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Hartland Consolidated Schools

Notes to Financial Statements June 30, 2009

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

Pension Benefits - Employer contributions to the pension system 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. The employer contribution rate was 10.17 percent of covered payroll for the period from July 1, 2008 through September 30, 2008 and 9.73 percent for the period from October 1, 2008 through June 30, 2009. Basic plan members make no contributions, but member investment plan or MIP plus members contribute at rates ranging from 3 percent to 6.4 percent of gross wages depending on the plan. The School District's required and actual contributions to the plan for the years ended June 30, 2009, 2008, and 2007 were \$2,465,764, \$2,739,137, and \$2,581,688, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage 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 coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2008 through September 30, 2008 and 6.81 percent for the period from October 1, 2008 through June 30, 2009. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2009, 2008, and 2007 were \$1,690,201, \$1,603,337, and \$1,727,279, respectively

Note 11 - State Aid Anticipation Note

In August 2008, the School District borrowed \$4,000,000 in a state aid anticipation note. The note bears interest at 2.75 percent and is due in August 2009. At June 30, 2009, the School District has accrued interest of \$94,415 on this note. The note plus the accrued interest were paid subsequent to June 30, 2009.

Note 12 - Subsequent Events

Subsequent to June 30, 2009, the School District borrowed \$4,000,000 at 2.50 percent annual interest on a state aid anticipation note. The note, plus interest, is due August 20, 2010.

Required Supplementary Information

Hartland Consolidated Schools

Required Supplementary Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Over (Under) <u>Final Budget</u>
Revenue				
Local sources	\$ 7,941,769	\$ 7,529,439	\$ 7,643,189	\$ 113,750
State sources	37,306,339	36,284,791	36,369,254	84,463
Federal sources	423,936	2,684,688	2,736,394	51,706
Interdistrict sources	<u>1,148,980</u>	<u>1,117,379</u>	<u>1,112,345</u>	<u>(5,034)</u>
Total revenue	46,821,024	47,616,297	47,861,182	244,885
Expenditures				
Current:				
Instruction:				
Basic program	23,147,994	23,067,336	23,050,716	(16,620)
Added needs	4,925,942	5,107,611	5,128,494	20,883
Support services:				
Pupil	876,669	888,295	887,498	(797)
Instructional staff	1,750,089	1,825,709	1,789,433	(36,276)
General administration	1,106,705	1,099,440	1,117,212	17,772
School administration	2,720,329	2,724,970	2,678,272	(46,698)
Business services	858,146	804,129	783,966	(20,163)
Security, operations, and maintenance	4,821,788	4,920,195	4,957,212	37,017
Pupil transportation services	2,531,409	2,477,417	2,346,275	(131,142)
Central staff	264,481	276,421	278,400	1,979
Community services	2,442,968	2,603,231	2,769,716	166,485
Debt service:				
Principal	507,575	446,994	446,994	-
Interest	254,752	179,500	180,118	618
Capital outlay	<u>242,861</u>	<u>202,700</u>	<u>101,741</u>	<u>(100,959)</u>
Total expenditures	<u>46,451,708</u>	<u>46,623,948</u>	<u>46,516,047</u>	<u>(107,901)</u>
Excess of Revenue Over Expenditures	369,316	992,349	1,345,135	352,786
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	327,950	52,000	52,000	-
Transfers in	66,400	66,400	66,400	-
Transfers out	<u>(560,563)</u>	<u>(597,186)</u>	<u>(597,806)</u>	<u>(620)</u>
Total other financing uses	<u>(166,213)</u>	<u>(478,786)</u>	<u>(479,406)</u>	<u>(620)</u>
Net Change in Fund Balance	203,103	513,563	865,729	352,166
Fund Balance - Beginning of year	<u>2,602,689</u>	<u>2,602,689</u>	<u>2,602,689</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 2,805,792</u>	<u>\$ 3,116,252</u>	<u>\$ 3,468,418</u>	<u>\$ 352,166</u>

Other Supplementary Information

Hartland Consolidated Schools

	Special Revenue Funds			Debt Service		
	Food Services	Athletics	2000	2001	2003	School Bond Loan Fund Refunding
Assets						
Cash and investments	\$ 225,983	\$ 59,493	\$ 120,202	\$ 146,201	\$ 80,383	\$ 197,292
Receivables	11,198	-	-	-	-	-
Due from other funds	4,572	-	-	-	-	-
Inventories	80,749	-	-	-	-	-
Total assets	<u>\$ 322,502</u>	<u>\$ 59,493</u>	<u>\$ 120,202</u>	<u>\$ 146,201</u>	<u>\$ 80,383</u>	<u>\$ 197,292</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 331	\$ 40	\$ -	\$ -	\$ -	\$ -
Accrued payroll and other liabilities	9,026	1,973	-	-	-	-
Due to other funds	12,085	1,428	-	-	-	-
Deferred revenue	26,004	-	-	-	-	-
Total liabilities	47,446	3,441	-	-	-	-
Fund Balances						
Reserved:						
Debt service	-	-	120,202	146,201	80,383	197,292
Inventories	80,749	-	-	-	-	-
Unreserved - Undesignated - Reported in Special Revenue Funds	194,307	56,052	-	-	-	-
Total fund balances	<u>275,056</u>	<u>56,052</u>	<u>120,202</u>	<u>146,201</u>	<u>80,383</u>	<u>197,292</u>
Total liabilities and fund balances	<u>\$ 322,502</u>	<u>\$ 59,493</u>	<u>\$ 120,202</u>	<u>\$ 146,201</u>	<u>\$ 80,383</u>	<u>\$ 197,292</u>

**Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009**

Funds			Total
2004 Refunding	2002 Energy Improvement Bonds	2007	Nonmajor Governmental Funds
\$ 83,818	\$ 31	\$ 97,355	\$ 1,010,758
-	-	-	11,198
-	-	-	4,572
-	-	-	80,749
\$ 83,818	\$ 31	\$ 97,355	\$ 1,107,277
\$ -	\$ -	\$ -	\$ 371
-	-	-	10,999
-	-	-	13,513
-	-	-	26,004
-	-	-	50,887
83,818	31	97,355	725,282
-	-	-	80,749
-	-	-	250,359
83,818	31	97,355	1,056,390
\$ 83,818	\$ 31	\$ 97,355	\$ 1,107,277

Hartland Consolidated Schools

	Special Revenue Funds			Debt Service		
	Food Services	Athletics	2000	2001	2003	School Bond Loan Fund Refunding
Revenue						
Local sources	\$ 999,747	\$ 296,022	\$ 1,539,491	\$ 1,887,997	\$ 1,022,344	\$ 2,546,506
State sources	56,598	-	-	-	-	-
Federal sources	384,166	-	-	-	-	-
Total revenue	1,440,511	296,022	1,539,491	1,887,997	1,022,344	2,546,506
Expenditures						
Current:						
Instruction:						
Support services:						
Business services	-	-	-	-	-	-
Athletics	-	818,293	-	-	-	-
Food services	1,362,908	-	-	-	-	-
Debt service:						
Principal	-	-	1,575,000	235,000	1,055,000	2,439,000
Interest	-	-	185,438	3,539,657	115,400	526,733
Other	-	-	1,536	2,119	1,041	1,884
Total expenditures	1,362,908	818,293	1,761,974	3,776,776	1,171,441	2,967,617
Excess of Revenue Over (Under) Expenditures						
	77,603	(522,271)	(222,483)	(1,888,779)	(149,097)	(421,111)
Other Financing Sources (Uses)						
Transfers in	-	526,396	-	-	-	-
Transfers out	(66,400)	-	-	-	(16)	-
School Bond Loan Revolving Fund proceeds	-	-	213,710	1,878,563	142,750	417,032
Total other financing sources (uses)	(66,400)	526,396	213,710	1,878,563	142,734	417,032
Net Change in Fund Balances	11,203	4,125	(8,773)	(10,216)	(6,363)	(4,079)
Fund Balances - Beginning of year	263,853	51,927	128,975	156,417	86,746	201,371
Fund Balances - End of year	<u>\$ 275,056</u>	<u>\$ 56,052</u>	<u>\$ 120,202</u>	<u>\$ 146,201</u>	<u>\$ 80,383</u>	<u>\$ 197,292</u>

**Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2009**

Funds			Total
2004	2002 Energy Improvement		Nonmajor Governmental
Refunding	Bonds	2007	Funds
\$ 1,066,139	\$ -	\$ 1,229,473	\$ 10,587,719
-	-	-	56,598
-	-	-	384,166
<u>1,066,139</u>	<u>-</u>	<u>1,229,473</u>	<u>11,028,483</u>
-	-	3	3
-	-	-	818,293
-	-	-	1,362,908
845,000	60,000	775,000	6,984,000
574,791	11,160	1,061,057	6,014,236
888	250	225	7,943
<u>1,420,679</u>	<u>71,410</u>	<u>1,836,285</u>	<u>15,187,383</u>
(354,540)	(71,410)	(606,812)	(4,158,900)
16	71,410	-	597,822
-	-	-	(66,416)
<u>361,555</u>	<u>-</u>	<u>612,380</u>	<u>3,625,990</u>
<u>361,571</u>	<u>71,410</u>	<u>612,380</u>	<u>4,157,396</u>
7,031	-	5,568	(1,504)
<u>76,787</u>	<u>31</u>	<u>91,787</u>	<u>1,057,894</u>
<u>\$ 83,818</u>	<u>\$ 31</u>	<u>\$ 97,355</u>	<u>\$ 1,056,390</u>

Hartland Consolidated Schools

June 30	Durant Principal	2000 Bond Principal	2001 Refunding Principal	2002 Energy Improvement Bonds Principal
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 principal	\$ 170,794	\$ 1,650,000	\$ 67,995,000	\$ 200,000
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%	5.75%	4.25% to 5.50%	4.25% to 4.40%
Original issue	\$ 319,357	\$ 11,645,000	\$ 71,470,000	\$ 580,000

**Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2009**

2003 Refunding	School Bond Loan Fund Refunding	2004 Refunding	2006 School Building and Site Bonds
<u>Principal</u>	<u>Principal</u>	<u>Principal</u>	<u>Principal</u>
\$ 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
<u>\$ 1,830,000</u>	<u>\$ 13,436,000</u>	<u>\$ 12,515,000</u>	<u>\$ 24,975,000</u>
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
4.00%	3.32%	3.50% to 5.00%	4.00% to 4.25%
<u>\$ 8,715,000</u>	<u>\$ 23,321,060</u>	<u>\$ 14,825,000</u>	<u>\$ 26,390,000</u>