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HALE AREA SCHOOLS
HALE, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

November 8, 2010

Board of Education
Hale Area Schools
Hale, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hale Area Schools as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 Hale Area Schools, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated November 8, 2010, on our consideration of Hale Area Schools' internal control over financial reporting and 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 an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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WEINLANDER FITZHUGH

Board of Education
Hale Area Schools
November 8, 2010

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hale Area Schools' basic financial statements. The combining and individual nonmajor fund financial statements and debt schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and debt schedules 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.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

HALE AREA SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2010

Our discussion and analysis of the Hale Area Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2010.

Financial Highlights

The School District's net assets increased by approximately \$180,000 or 11%. Program revenues accounted for approximately \$1,589,000 or 23% of total revenues, and general revenues accounted for approximately \$5,360,000 or 77%.

The General Fund reported a negative fund balance of approximately \$135,000.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hale Area 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 tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds – the General Fund and the 1996 / 2004 Refunding Debt, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

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

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

HALE AREA SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2010

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the School District's finances is, "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector businesses. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net assets as a way to measure the School District's financial position. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School District.

Reporting the 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. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left remaining at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

HALE AREA SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2010

Fiduciary Funds

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

District-wide Financial Analysis

The statement of net assets provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net assets as of June 30, 2010 and 2009:

<u>Exhibit A</u>	Governmental Activities (in thousands)	
	2010	2009
Assets		
Current and other assets	\$ 889	\$ 1,047
Capital assets - net of accumulated depreciation	8,060	8,267
Total assets	8,949	9,314
Liabilities		
Current liabilities	1,254	1,367
Long-term liabilities	5,815	6,247
Total liabilities	7,069	7,614
Net Assets		
Invested in property and equipment - net of related debt	1,824	1,620
Restricted	209	202
Unrestricted	(153)	(122)
Total net assets	\$ 1,880	\$ 1,700

The Exhibit above focuses on net assets. The School District's net assets were approximately \$1,880,000 at June 30, 2010. Capital assets, net of related debt, totaling approximately \$1,824,000 compares the original costs, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. The majority of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. All remaining debt will be paid from General Fund resources. Restricted net assets of approximately \$209,000 are reported separately to show legal constraints from debt requirements and legislation that limits the School District's ability to use those net assets for day-to-day operations.

HALE AREA SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2010

The \$(153,000) in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

Exhibit B

	Governmental Activities (in thousands)	
Revenue	2010	2009
Program revenue:		
Charges for services	\$ 138	\$ 125
Grants and categoricals	1,451	1,361
General revenue:		
Property taxes	3,590	3,468
State foundation allowance	1,634	1,919
Other	136	68
Total revenue	6,949	6,941
 Function/Program Expenses		
Instruction	4,030	4,112
Support services	1,699	1,856
Community services	57	47
Food services	358	327
Athletics	57	136
Interest on long-term debt	288	297
Depreciation and amortization (unallocated)	280	299
Total expenses	6,769	7,074
Increase (Decrease) in Net Assets	\$ 180	\$ (133)

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$6,769,000. Certain activities were partially funded from those who benefited from the programs (\$138,000) or by the other governments and organizations that subsidized certain programs with grants and categoricals (\$1,451,000). We paid for the remaining "public benefit" portion of our governmental activities with \$3,590,000 in taxes, \$1,634,000 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

HALE AREA SCHOOLS
 Management's Discussion & Analysis
For the Year Ended June 30, 2010

The School District experienced an increase in net assets of \$180,000. Key reasons for the change in net assets is due to the overall reduction of expenditures.

The School District's Funds

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.

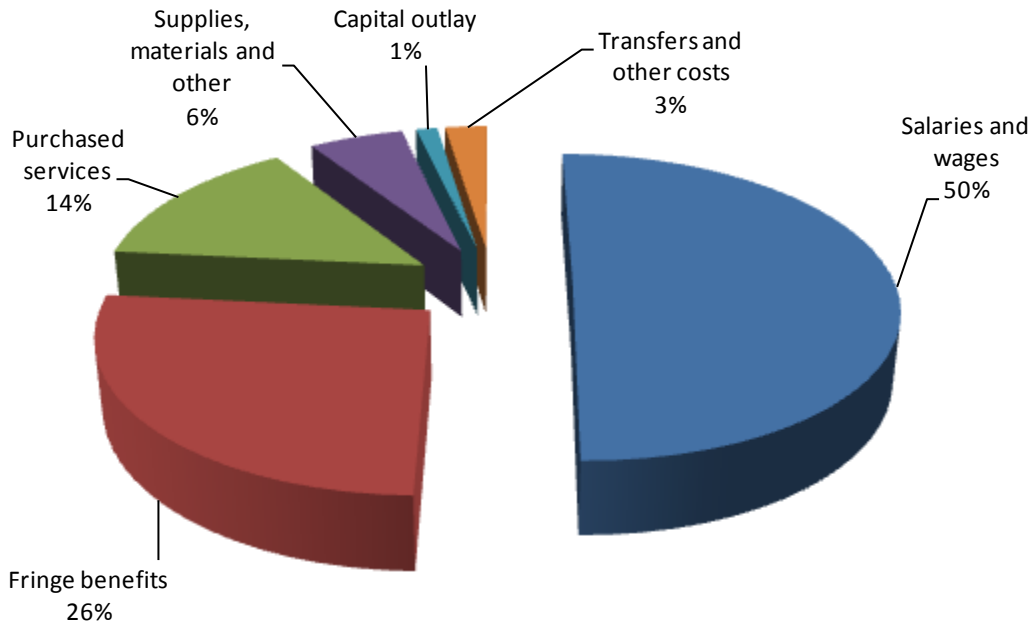
The School District's governmental funds reported a combined fund balance of approximately \$74,000, which is below last year's total of approximately \$85,000. The schedule below indicates the fund balances and the total change in fund balances as of June 30, 2010 and 2009.

	<u>Fund Balance</u> <u>June 30, 2010</u>	<u>Fund Balance</u> <u>June 30, 2009</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ (134,799)	\$ (117,820)	\$ (16,979)
Special Revenue	25,931	44,730	(18,799)
Debt Service	182,791	158,344	24,447
Total	<u>\$ 73,923</u>	<u>\$ 85,254</u>	<u>\$ (11,331)</u>

- The General Fund decrease is attributable to overall expenditures reduced, still being higher than revenue sources.
- The Special Revenue Funds increase is due to the district providing services to Iosco RESA special education students offering more ala cart, an increase in free/reduced lunch eligibility, and the overall participation in the Food Service program.
- The Debt Service Fund increase is due to higher property tax collections over debt service requirements.

HALE AREA SCHOOLS
 Management's Discussion & Analysis
For the Year Ended June 30, 2010

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



<i>General Fund Expenditures by Object</i>	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Salaries and wages	\$2,966,473	\$3,100,138	-4%
Fringe benefits	1,573,009	1,623,453	-3%
Purchased services	823,723	876,950	-6%
Supplies, materials and other	341,078	340,821	0%
Capital outlay	53,986	77,167	-30%
Transfers and other costs	149,718	150,843	-1%
Total	<u>\$5,907,987</u>	<u>\$6,169,372</u>	<u>-4.2%</u>

Expenditures are down approximately \$261,000 or 4.2% from 2009 primarily due to a reduction in personnel costs.

HALE AREA SCHOOLS
 Management's Discussion & Analysis
For the Year Ended June 30, 2010

General Fund Budgetary Highlights

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

- Budgeted revenues were decreased due to the reduction of state aid.
- Budgeted expenditures were decreased due to the continuing reduction of state aid.

Capital Assets

At June 30, 2010, the School District had approximately \$8,060,000 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$207,000, or 2.5%, from last year.

	2010	2009
	(in thousands)	(in thousands)
Land	\$ 19	\$ 19
Buildings and improvements	12,612	12,563
Buses and other vehicles	474	624
Furniture and equipment	795	795
Total capital assets	13,900	14,001
Less accumulated depreciation	5,840	5,734
Net capital assets	\$ 8,060	\$ 8,267

Capital assets added to building and improvements were athletic bleacher with a press box and there were disposals of old buses.

HALE AREA SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2010

Debt

At the end of this year, the School District had approximately \$6,188,000 in bonds and notes outstanding versus \$6,596,000 in the previous year – a decrease of 6.5%. Those bonds consisted of the following:

	2010	2009
General Obligation Bonds		
1996 and 2004 refunded bond issue - to be repaid		
from property tax levy	\$ 5,890,000	\$ 6,275,000
All others - repaid from General Fund and State of Michigan resources	298,027	321,456
	\$ 6,188,027	\$ 6,596,456

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

Factors Expected to have an Effect on Future Operations

Many factors are considered when setting the School District's 2011 fiscal 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 2011 fiscal year budget was adopted in June 2010, based on an estimate of students that will be enrolled in September 2010. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. A Headlee override was passed in May 2007 to secure the full funding of the 18 mills under Proposal A.

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 the school district. The State periodically holds a revenue-estimating conference to estimate revenues. The outcome of these conferences will ultimately determine if promised levels of revenue will be met or reduced based on existing economic conditions within the state.

Challenges also exist on controlling certain expenditures due to mandates in the area of employee retirement. This obligation was formerly paid by the State, but then transferred to the school district with only minimal reimbursement. This transfer was similar to the shifting of the FICA burden from the State to districts a few years prior to Proposal A.

HALE AREA SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2010

Management of the District is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Formal budgetary integration is employed as a management control device during the years for the General Fund, Special Revenue Funds and Debt Service Funds. Under the guidelines of Bulletin 1022 (revised), the State of Michigan's School Accounting Manual, detailed line item budget information is provided and appropriate administrators are delegated the responsibility for monitoring and controlling their respective budget allocations. An encumbrance system is utilized to measure the uncommitted budget amount available at any given point in time during the year.

The administration believes that the existing system of budgetary and accounting controls provides a reasonable level of assurance that errors or irregularities that could be material to the financial statements are prevented or that they would be detected within a timely manner.

Continued diligence in fiscal management and timely communication between the Administration and Board of Education will facilitate efforts to exceed the present high level of excellence expected by its constituents.

With the passage of the No Child Left Behind (NCLB) Act signed by President Bush in 2002, local education agencies across the country are faced with the tremendous task of ensuring that all children have a fair, equal, and significant opportunity to obtain a high-quality education. A few examples of the requirements under this legislation include the following:

- ◆ *Close the achievement gap for low-income students, minority students, and students with disabilities by holding schools accountable for all students performing at a "higher level."*
- ◆ *Produce annual district and school report cards by the beginning of each school year with disaggregated MEAP results, information on other Adequate Yearly Progress (AYP) indicators, and information on Title I schools identified for improvement.*
- ◆ *Provide progress reports to the public on the status of having all teachers and educational assistants in every classroom "highly qualified" by the end of the 2005-06 school year.*

On January 30, 2004 the Michigan Department of Education released letter grades for the first time for all public schools and public school academies in the State of Michigan. The *Education YES! School Report Card* is Michigan's way of complying with the NCLB Act.

NCLB requires that each state have a single school accountability system that addresses all public schools in the state and that includes Adequate Yearly Progress (AYP) in conformance with the specific federal requirements. While *Education YES!* and AYP may be seemingly contradictory on specific details, both are focused on the same goal of high levels of achievement for all students.

HALE AREA SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2010

The *Education YES!* letter grades will be given once every school year. The report card is broken down into three components: 1) average of Michigan Educational Assessment Program (MEAP) test scores from the last three years and some other factors like parent involvement in schools; 2) how the MEAP scores have improved at the school in the last year based on the 11 performance indicators of the school; and 3) whether the MEAP scores have improved from the year before or made AYP. Performance indicators include: •Curriculum Alignment, •Continuous Improvement, •Performance Management Systems, •Teacher Quality and Professional Development, •Arts Education and Humanities for All Students, •Extended Learning Opportunities, •Advanced Coursework, •Family Involvement, •Student Attendance and Dropout Rate, •Four-Year Education Plans, and •School Facilities.

Each school team assigned their building a rating for each component, using the following scale: meeting criteria, progressing toward criteria, starting to meet criteria, or not yet meeting criteria. The ratings were scored on a scale where the number of possible points for each indicator total 36. The possible score for all schools is 396 (11 indicators times 36 points). A single grade is assigned to the group of 11 indicators. The school's grade is based on the percentage of the possible points that the school could score for the total of all 11 indicators.

The Report Card's single letter grade is a shorthand way to show how our schools are doing. Just as a student's report card is an accounting of how he or she did on tests and assignments throughout the year, *Education YES!* is an accounting of how students in specific grades did on selected tests at a given time during the school year. But a school—like a student—is much more than a letter grade. A student's report card is just one way we assess progress.

The district contracted with Blue Prints for Communication, a writing consultant firm, to provide professional development in the writing content area. Sharon Spencer visited classrooms throughout the school year and teachers were able to experience on-site role classroom modeling from a professional educator. Mrs. Spencer was active with elementary, middle school and high school teachers. The district purchased benchmark classroom sets for each grade level during 2007-08 school year.

Math instruction was added as a content area to pursue with additional professional development for teachers. In August 2008, we partnered with the Regional Math and Science Center from Saginaw Valley State University to provide an overall assessment of student scores and curriculum alignment. Teachers from grades 5-12 collectively worked on pacing guides, summative and formative assessments, and alignment during the school year. The professional development opportunity was funded by federal grants approved for the district.

A total of 317 Hale students were tested in 2009; with 238 students (75 percent) earning proficiency levels in all tested areas based on grade level. 2008 was 76 percent; 2007 was 60 percent. The scores in grades 3-9 met or exceeded the state average in 9 out of 16 categories.

Overall, the district MEAP scores improved by 15 percent over the 2007 results. The scores in grades 3-9 met or exceeded the state average in 17 out of 28 categories.

Hale Elementary School completed an extended year with the federal literacy grant called *Reading First*. All K-3 students instructional day included 90 minutes of uninterrupted literacy instruction. Students were assessed based on benchmark, strategic or intense needs. A representative from the Michigan Department of Education was assigned to the district over the three-year duration.

HALE AREA SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2010

Intensive professional development was required of all K-4 staff and K-12 special education teachers. The professional staff continue to use the Harcourt-Trophies series for the literacy project.

Title I services continue to be delivered on a school wide program to K-8 students. In order to qualify for school wide status a school must have 50% or more students qualify for free or reduced lunch. Staff members must participate in specific school improvement in-service projects. Hale Elementary completed the school wide requirements during the 1996-1997 school year. Title I funding was used to purchase Compass Learning, a computer-aided instruction for Math and Reading assessments.

Hale Middle School continued to integrate technology into the CORE curriculum as a result of the *Freedom to Learn* program. Professional development for staff in the area of technology continues to take place as we take students to new levels of learning styles. The laptops are placed on a mobile cart for teacher, student and classroom use to integrate the CORE areas of curriculum; i.e., English/Language Arts, Math, Science, and Social Studies. Algebra I was offered to students enrolled in the eighth grade.

Hale Middle School continues to award students fifth through eighth grade with a Celebrate Excellence program. Students who received no disciplines from each card marking were eligible to attend the field trips during the 2009-10 school year. Over 76 percent of the middle school students were eligible to attend this award program.

Hale Middle School students continue to participate in the Veterans Project. The middle school has a long-standing relationship with the local V.F.W. and American Legion by visiting our classrooms and participating in our curriculum opportunities. Former military service men were interviewed, video taped, and a DVD was produced by students for the veteran and the township and district library. A recent presentation was shared with the Sixty Lakes Association who funded the video recorder for the project.

Hale High School offered on-line classes to students during the school day through Education 2020. Many classes were aligned to the credit recovery model. Students also had the opportunity to participate in dual enrollment classes through Alpena Community College. ACT Preparation was offered to juniors and seniors in the traditional curriculum offerings and after school during the 2009-10 school year. The enrollment and participation in this field proved to be beneficial to college preparatory and vocational students moving ACT scores upward by two bases points.

In January 2010, the counseling department offered a college and scholarship evening for all juniors and seniors to promote awareness of the many resources available for post-secondary planning and the importance of the standardized test (ACT) required for college admission. Community agencies who have traditionally offered scholarships in the spring were in attendance.

The after-school assisted study program continued in 2009-10 for high school students. Community volunteers offered tutoring services to students two days per week. Teachers had the opportunity to refer students to the program for additional help. National Honor Society students also gained community service hours by helping their fellow high school students in content areas where difficulty occurred.

In 2009-10 Hale Area Schools offered a Mentoring Program for all K-12 students. The program titled "Give an Hour, Make a Difference" proved to be successful. A total of 25 students participated in the program during the school year of which many community members volunteered their time and talents to this worthy endeavor.

HALE AREA SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2010

A great deal of time was spent this year implementing the new High School Reform requirements. To ensure Michigan's students have the skills and knowledge needed for the jobs of the 21st Century global economy, on April 20, 2006, Governor Jennifer M. Granholm signed into law a rigorous new set of statewide graduation requirements that are among the best in the nation. This law is a result of an extraordinary partnership between the Executive Branch, State Board of Education, Superintendent of Public Instruction, Legislature and numerous education associations who worked together to better prepare students for greater success and to secure the economic future of our state.

Beginning with the Class of 2011, the changes will take effect as follows:

- 4 English Language Arts
- 4 Mathematics (1 in senior year)
- 3 Science
- 3 Social Studies
- 1 Physical Education/Health
- 1 Visual, Performing, and Applied Arts
- On-line course/experience

Class of 2016 Requirements

- 2 credits/experience in Languages other than English

Enacting Michigan Merit Curriculum required political leadership and courage. Implementing it well, will continue to require the skill and dedication of Michigan's educators, a challenge we are surely up to in achieving rigor, relevance and relationships. The personal curriculum is the next step in this process.

In January 2010, Iosco County school districts worked with the Iosco RESA Career and Technical Education Center established a framework a/k/a crosswalks for tech center programs to offer high school credit. The process is currently under review by the new administration at the Iosco RESA with intentions to implement by second semester in the 2010-11 school year. The Bay-Arenac Intermediate School District Career Center has established crosswalks for core content curriculums as well.

On June 28, 2010, the board of education voted to move to a K-12 continuing campus at 311 N. Washington Street, Hale. Due to the number of retirements, history of declining enrollment, administrative realignment, and building occupancy only at 60 percent, it was a vast cost savings measure to pursue this one campus plan. The board will consider options to repurpose the former high school for early on programs, post-secondary opportunities, and community use.

Effective July 1, 2010, all district employees moved to a traditional Blue Cross-Blue Shield health insurance plan with similar benefits as the previous Michigan Employee Benefit Services (MEBS) plan. The increase projected with the MEBS plan for 2010-11 was a 22 percent increase in costs. The direct blues plan was a savings of approximately five percent. These actions demonstrate management and bargaining units working together during the difficult economic times facing Michigan school districts.

A new program will be launched in 2010-11 called the HALE WAY Program. Helping Alternative Learners Excel is a cyber school opportunity for 14-19 years olds who have dropped out of high school due to a variety of reasons; i.e., expelled from the traditional environment, pregnant teens, teen parents, home schooled, students with attendance issues, etc. This new initiative is a revenue enhancement for the district as well as serving an at-risk population through an alternative method of instruction. The goal is to enroll 30 researchers/students by Fall 2010. It will be interesting to see the success of this program as we are the only district north of Clio and south of Sault St. Marie, Michigan.

HALE AREA SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2010

Requests For Information

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

Office of the Superintendent
Hale Area Schools
200 West Main Street
Hale, MI 48739

HALE AREA SCHOOLS
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 302,940
Receivables:	
Accounts receivable	45,421
Due from other governmental units	416,236
Pledges receivable	15,000
Inventory	10,071
Prepaid expense	49,400
Bond discount and issuance costs less accumulated amortization of \$24,630	49,260
Capital assets less accumulated depreciation of \$5,840,073	<u>8,060,317</u>
Total assets	<u>8,948,645</u>
<u>Liabilities</u>	
Accounts payable	105,377
Accrued payroll and other liabilities	659,768
Accrued interest payable	48,500
Long-term liabilities:	
Due within one year	440,322
Due in more than one year	<u>5,815,230</u>
Total liabilities	<u>7,069,197</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	1,823,790
Restricted for food service	25,931
Restricted for debt service	182,791
Unrestricted	<u>(153,064)</u>
Total net assets	<u><u>\$ 1,879,448</u></u>

See accompanying notes to financial statements.

HALE AREA SCHOOLS
Statement of Activities
For the Year Ended June 30, 2010

	Program Revenues		Governmental Activities	
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 4,029,890	\$ 0	\$ 586,639	\$ (3,443,251)
Support services	1,699,641	42,147	518,527	(1,138,967)
Community services	56,965	0	20,898	(36,067)
Food services	357,733	64,889	310,059	17,215
Athletics	57,094	31,035	15,000	(11,059)
Interest and fees on debt	287,559	0	0	(287,559)
Amortization (unallocated)	4,105	0	0	(4,105)
Depreciation (unallocated)	276,152	0	0	(276,152)
	<u>\$ 6,769,139</u>	<u>\$ 138,071</u>	<u>\$ 1,451,123</u>	<u>(5,179,945)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes			2,909,810	
Property taxes, levied for debt services			680,535	
State aid not restricted to specific purposes			1,633,480	
Interest and investment earnings			9,602	
Other			126,135	
			<u>5,359,562</u>	
				179,617
				<u>1,699,831</u>
				<u>\$ 1,879,448</u>

See accompanying notes to financial statements.

HALE AREA SCHOOLS
Governmental Funds
Balance Sheet
June 30, 2010

	General	1996 / 2004 Refunding Debt	Nonmajor Governmental Funds	Total
<u>ASSETS</u>				
Cash and investments	\$ 81,112	\$ 193,619	\$ 28,209	\$ 302,940
Receivables:				
Other receivables	44,454	0	967	45,421
Due from other funds	35,568	0	31,116	66,684
Due from other governmental units	413,904	0	2,332	416,236
Pledges receivable	15,000	0	0	15,000
Prepaid Expense	46,868	0	2,532	49,400
Inventory	0	0	10,071	10,071
Total assets	<u>\$ 636,906</u>	<u>\$ 193,619</u>	<u>\$ 75,227</u>	<u>\$ 905,752</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>Liabilities</u>				
Accounts payable	\$ 105,377	\$ 0	\$ 0	\$ 105,377
Accrued payroll and other liabilities	654,691	0	5,077	659,768
Due to other funds	11,637	10,828	44,219	66,684
Total liabilities	<u>771,705</u>	<u>10,828</u>	<u>49,296</u>	<u>831,829</u>
<u>Fund Balance</u>				
Reserved for inventory	0	0	10,071	10,071
Reserved for food service	0	0	15,860	15,860
Reserved for debt service	0	182,791	0	182,791
Unreserved	(134,799)	0	0	(134,799)
Total fund balance	<u>(134,799)</u>	<u>182,791</u>	<u>25,931</u>	<u>73,923</u>
Total Liabilities and Fund Balance	<u>\$ 636,906</u>	<u>\$ 193,619</u>	<u>\$ 75,227</u>	<u>\$ 905,752</u>

See accompanying notes to financial statements.

HALE AREA SCHOOLS
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2010

Total fund balance - governmental funds	\$	73,923
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and are not reported in the funds:</p>		
Cost of the capital assets	\$ 13,900,390	
Accumulated depreciation	<u>(5,840,073)</u>	8,060,317
<p>Other assets used in governmental activities are not financial resources and therefore are not reported in governmental funds:</p>		
Bond issuance costs	73,890	
Accumulated amortization	<u>(24,630)</u>	49,260
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>		
Bonds and notes payable	(6,188,027)	
Compensated absences	<u>(67,525)</u>	(6,255,552)
Accrued interest payable is not included as a liability in governmental activities		<u>(48,500)</u>
Total net assets - governmental activities	\$	<u><u>1,879,448</u></u>

See accompanying notes to financial statements.

HALE AREA SCHOOLS
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2010

	General	1996 / 2004 Refunding Debt	Nonmajor Governmental Funds	Total
<u>Revenues</u>				
Local sources:				
Property taxes	\$ 2,909,810	\$ 680,535	\$ 0	\$ 3,590,345
Other	190,784	1,014	97,011	288,809
State sources	1,876,909	0	32,426	1,909,335
Federal sources	857,607	0	281,762	1,139,369
Interdistrict sources	20,898	0	0	20,898
	<u>5,856,008</u>	<u>681,549</u>	<u>411,199</u>	<u>6,948,756</u>
<u>Expenditures</u>				
Instruction	4,023,572	0	0	4,023,572
Support services	1,696,933	0	0	1,696,933
Community services	56,965	0	0	56,965
Food service	0	0	357,733	357,733
Athletics	0	0	126,595	126,595
Debt service:				
Principal	20,000	385,000	3,429	408,429
Interest and fees	17,057	272,102	701	289,860
	<u>5,814,527</u>	<u>657,102</u>	<u>488,458</u>	<u>6,960,087</u>
Excess (deficiency) of revenues over expenditures	41,481	24,447	(77,259)	(11,331)
<u>Other Financing Sources (Uses)</u>				
Operating transfers in from other funds	35,000	0	93,460	128,460
Operating transfers out to other funds	(93,460)	0	(35,000)	(128,460)
	<u>(58,460)</u>	<u>0</u>	<u>58,460</u>	<u>0</u>
Net change in fund balance	(16,979)	24,447	(18,799)	(11,331)
Fund balance - beginning of year	(117,820)	158,344	44,730	85,254
Fund balance - end of year	<u>\$ (134,799)</u>	<u>\$ 182,791</u>	<u>\$ 25,931</u>	<u>\$ 73,923</u>

See accompanying notes to financial statements.

HALE AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

Net change in fund balance - total governmental funds		\$ (11,331)
<p>Amounts reported for governmental activities in the statements of activities are different because:</p> <p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>		
Depreciation expense		(276,152)
Capital outlay		69,501
<p>Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid</p>		
		2,300
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statements of Net Assets. Other costs related to debt issuance and retirement use governmental fund resources but recognize them as expenses through amortization on the Statement of Net Assets</p>		
Repayment of bonds and notes	408,429	
Amortization of costs and discounts	<u>(4,105)</u>	
		404,324
<p>Increase in compensated absences are reported as revenue when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6</p>		
		<u>(9,025)</u>
Change in net assets of governmental activities		<u>\$ 179,617</u>

See accompanying notes to financial statements.

HALE AREA SCHOOLS
Statement of Fiduciary Net Assets
June 30, 2010

		<u>Student Activity Fund</u>
	<u>ASSETS</u>	
Cash and investments		<u>\$ 57,129</u>
	<u>LIABILITIES</u>	
Due to student groups		<u>\$ 57,129</u>

See accompanying notes to financial statements.

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hale Area Schools (School District) conform to U.S. generally accepted accounting principles applicable to governments. The School District is considered to be a local government unit. The following is a summary of the significant accounting policies:

Reporting Entity

The School District is governed by an elected 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. The School District has no component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

1996 / 2004 Refunding Debt Fund - The 1996 / 2004 Refunding Debt Fund is used to account for the servicing of debt activities relative to the refunding debt issue.

Assets, Liabilities, and Net Assets or Equity

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

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Inventory – 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.

Bond Issuance Costs – Bond issuance costs are reflected in the district wide financial statements and are being amortized over the life of the bonds they relate to which is eighteen years.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. 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 lives 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 improvements	15 to 50 years
Buses and other vehicles	8 years
Furniture and equipment	5 to 20 years

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method in which sick leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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.

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

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property Taxes – For Hale Area Schools' taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

State Aid – For the fiscal year ended June 30, 2010, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2010, the foundation allowance was based on the average pupil membership counts taken in February and September of 2009.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2009 - August 2010. The local revenue is recognized as outlined in Note 1 Basis of Accounting. Amounts receivable from the State of Michigan at June 30, 2010 relating to state aid is \$336,826.

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

Events Occurring After Reporting Date - The District has evaluated events and transactions that occurred between June 30, 2010 and November 8, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 2 - BUDGETARY POLICIES AND DATA

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

Hale Area Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

During the year ended June 30, 2010, the School District incurred revenues and expenditures in certain budgetary funds which were unfavorable variance amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriation</u>	<u>Actual</u>	<u>Budget Variance</u>
General Fund:			
Revenues:			
Local sources			
Property taxes	\$ 2,926,704	\$ 2,909,810	\$ 16,894
Federal sources	867,689	857,607	10,082
Interdistrict sources	25,000	20,898	4,102
Expenditures:			
Instruction			
Basic programs	2,610,457	2,693,245	82,788
Support			
Pupil	500	19,326	18,826
Instructional	26,000	29,567	3,567
School Administration	349,466	349,856	390
Transportation	299,118	306,746	7,628
Community service	44,200	56,965	12,765
Debt service			
Interest	14,065	17,057	2,992

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office 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.

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 302,940	\$ 57,129	\$ 360,069

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings, certificates of deposit, and money market accounts)	\$ (10,767)
Investments in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity of 60 days or less	370,536
Petty cash and cash on hand	300
Total	\$ 360,069

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2010, none of the School District's bank balance of \$206,063 was exposed to custodial credit risk because it was insured and did not exceed the available federal depository insurance limits.

Credit Risk - Investments

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2010, the School District's investment in the investment pool was rated AAA by Standard & Poor's.

The School District's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 4 - CAPITAL ASSETS

A summary of changes in Governmental capital assets follows:

	Balance July 1, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
<u>Assets not being depreciated:</u>				
Land	\$ 18,801	\$ 0	\$ 0	\$ 18,801
<u>Capital assets being depreciated:</u>				
Building and improvements	12,562,936	69,501	19,886	12,612,551
Buses and other vehicles	624,272	0	150,466	473,806
Furniture and equipment	795,232	0	0	795,232
Subtotal	<u>13,982,440</u>	<u>69,501</u>	<u>170,352</u>	<u>13,881,589</u>
<u>Accumulated depreciation:</u>				
Building and improvements	4,361,783	245,472	19,886	4,587,369
Buses and other vehicles	593,378	14,207	150,466	457,119
Furniture and equipment	779,112	16,473	0	795,585
Subtotal	<u>5,734,273</u>	<u>276,152</u>	<u>170,352</u>	<u>5,840,073</u>
Net capital assets being depreciated	<u>8,248,167</u>	<u>(206,651)</u>	<u>0</u>	<u>8,041,516</u>
Net capital assets	<u>\$ 8,266,968</u>	<u>\$ (206,651)</u>	<u>\$ 0</u>	<u>\$ 8,060,317</u>

Depreciation for the fiscal year ended June 30, 2010 amounted to \$276,152. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

A summary of interfund receivable and payable balances at June 30, 2010 and transfers made during the year ended June 30, 2010 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 35,568	\$ 11,637	\$ 35,000	\$ 93,460
Special Revenue:				
Cafeteria	31,116	38,238	0	35,000
Athletics	0	5,981	93,460	0
Debt Service	0	10,828	0	0
	<u>\$ 66,684</u>	<u>\$ 66,684</u>	<u>\$ 128,460</u>	<u>\$ 128,460</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

Athletic transfers are used to reflect funding support for athletic salaries and benefits.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2010 consist of accounts (fees), intergovernmental grants and interest.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$ 336,826
Federal grants	65,648
Interdistrict	<u>13,762</u>
	<u>\$ 416,236</u>

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 7 - SHORT-TERM DEBT ACTIVITY

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its general fund. These notes are necessary because the School District's cash flow obligation to operating expenses precede the collection of state aid.

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid anticipation notes	<u>\$200,000</u>	<u>\$ 0</u>	<u>\$ 200,000</u>	<u>\$ 0</u>

NOTE 8 - LONG-TERM DEBT

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2010:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2010</u>	<u>Amount Due Within One Year</u>
Bonds payable	\$6,596,456	\$ 0	\$ 408,429	\$6,188,027	\$ 440,322
Compensated absences	<u>58,500</u>	<u>9,025</u>	<u>0</u>	<u>67,525</u>	<u>0</u>
Total	<u>\$6,654,956</u>	<u>\$ 9,025</u>	<u>\$ 408,429</u>	<u>\$6,255,552</u>	<u>\$ 440,322</u>

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Bonds and note payable at June 30, 2010 are comprised of the following issues:

1998 school improvement bond Durant issue - due in annual incrementing principal installments of \$3,429 to \$20,322 through May 15, 2013; interest at 4.75%.	\$ 28,027
2002 athletic facility for track and field - due in annual incrementing principal installments of \$20,000 to \$30,000 through May 1, 2021; interest at 4.85%. This debt is paid by the General Fund.	270,000
1996 / 2004 refunding bond issue - due in annual incrementing principal installments of \$385,000 to \$585,000 through May 1, 2022; interest at 3.25% to 4.40%	<u>5,890,000</u>
Total bonds and note payable	<u><u>\$6,188,027</u></u>

The 1996 / 2004 refunding bonds were issued in 2004 to take advantage of lower interest rates. The 2004 refunding bond issue is dated September 28, 2004 and bears interest at 3.25 to 4.40 percent and are due serially through the year 2022. The 2004 refunding bonds will pledge full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the School District without limitation as to rate or amount.

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 8 - LONG-TERM DEBT (CONTINUED)

The 1998 Durant bond issue, including interest, was issued in anticipation of payments appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (the State Aid payments) to the District. This bond is a self-liquidating bond and is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid payments.

The 2002 bonds were authorized at an election for the purpose of building an athletic facility for track and field. The bonds will pledge the full faith, credit and resources of the School District for payment of the principal and interest thereon, and will be payable from ad valorem taxes, which may be levied without limitation as to rate or amount as provided by Article IX, Section 6, and Article IX, Section 16, of Michigan Constitution of 1963.

Compensated absences (unused sick pay) is calculated using the termination payoff rate of \$50 for eligible certified personnel for every unused day between 120 and 140 days, \$37.50 per unused day between 90 and 119 days, \$25 per unused days between 60 and 89 days and less than 60 days will not be paid. Eligible hourly personnel will be \$20 per day for days accumulated over 60 days. At June 30, 2010, the amount of \$67,525 has been reflected in the district-wide financial statements.

The annual requirements to amortize the bonds and notes outstanding as of June 30, 2010, including interest payments, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 440,322	\$ 256,727	\$ 697,049
2012	433,763	234,695	668,458
2013	448,942	219,196	668,138
2014	460,000	202,100	662,100
2015	485,000	183,530	668,530
2016-2020	2,730,000	606,681	3,336,681
2021-2022	1,190,000	77,660	1,267,660
	<u>\$6,188,027</u>	<u>\$1,780,589</u>	<u>\$7,968,616</u>

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

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 medical and workers' compensation claims and participates in the SET-SEG risk pool for claims relating to general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG 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 Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the system result from the implementing 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 health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.54% for the period from July 1, 2009 through September 30, 2009 and 16.94% for the period from October 1, 2009 through June 30, 2010 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 MPERS plan for the years ended June 30, 2010, 2009, and 2008 were \$527,178, \$535,196 and \$615,110, respectively.

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

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 10, the School District provides a retirement incentive, in accordance with contractual language, to all teaching and qualifying personnel who obtain the age of 55 or older or to employees who are at least 50 years of age and have 30 years of service to the School District. The School District will pay \$4,500. During the year ended June 30, 2010, the School District incurred expenditures of \$18,000 plus related payroll taxes.

NOTE 12 - GRANTS

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

NOTE 13 - ECONOMIC DEPENDENCY

The School District received approximately 32% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

NOTE 14 - DEFICIT FUND BALANCE

At June 30, 2010 the School District has a deficit of \$134,799 in the General Fund. This deficit results from consecutive years of excess expenditures over revenues. The School District has experienced major losses in its General Fund where losses for the prior two years were \$422,898. Hale Area Schools has had reduced enrollment and cuts to State funding sources. These losses of revenues were not fully offset by cuts in expenditures causing the consecutive reductions in fund balance.

The School District will look at options related to personnel expenditures with attrition, health care benefits, student to teacher ratio, and other economic factors. Class sizes under 20 will be scrutinized and prompt attention needs to be given for collaborative instructional opportunities for students. Small schools will continue to experience these challenges to meet the academic needs in the future. The School District will develop a plan to transfer excess funds from special revenue fund accounts on an annual basis.

HALE AREA SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 15 - LEASES

The School District has entered into various leases for equipment and buses. These leases are for 36 months with annual payments ranging from \$1,730 to \$26,559. For the fiscal year ended June 30, 2010, the lease expense amounted to \$28,289.

Future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2010 are as follows; 2011 - \$28,289.

HALE AREA SCHOOLS
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2010

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>				
Local sources				
Property taxes	\$ 2,926,704	\$ 2,926,704	\$ 2,909,810	\$ (16,894)
Other	111,500	111,500	190,784	79,284
State sources	2,108,495	1,831,252	1,876,909	45,657
Federal sources	725,196	867,689	857,607	(10,082)
Interdistrict sources	25,000	25,000	20,898	(4,102)
	<u>5,896,895</u>	<u>5,762,145</u>	<u>5,856,008</u>	<u>93,863</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	2,758,006	2,610,457	2,693,245	(82,788)
Added needs	1,347,094	1,347,094	1,330,327	16,767
Support services:				
Pupil	500	500	19,326	(18,826)
Instructional staff	26,000	26,000	29,567	(3,567)
General administration	290,500	287,627	269,246	18,381
School administration	392,260	349,466	349,856	(390)
Business services	107,771	138,771	120,425	18,346
Operations and maintenance	579,917	574,012	573,167	845
Transportation	354,560	299,118	306,746	(7,628)
Central services	36,920	36,920	25,330	11,590
Other supporting services	4,400	4,050	3,270	780
Community services	45,900	44,200	56,965	(12,765)
Debt Service:				
Principal	15,000	20,000	20,000	0
Interest	16,000	14,065	17,057	(2,992)
	<u>5,974,828</u>	<u>5,752,280</u>	<u>5,814,527</u>	<u>(62,247)</u>
Excess (deficiency) of revenues over expenditures	<u>(77,933)</u>	<u>9,865</u>	<u>41,481</u>	<u>31,616</u>
<u>Other Financing Uses</u>				
Operating transfer in from other funds	0	0	35,000	35,000
Operating transfers out to other funds	(110,115)	(110,465)	(93,460)	17,005
	<u>(110,115)</u>	<u>(110,465)</u>	<u>(58,460)</u>	<u>52,005</u>
Net change in fund balance	(188,048)	(100,600)	(16,979)	83,621
Fund balance - beginning of year	(117,820)	(117,820)	(117,820)	0
Fund balance - end of year	<u>\$ (305,868)</u>	<u>\$ (218,420)</u>	<u>\$ (134,799)</u>	<u>\$ 83,621</u>

HALE AREA SCHOOLS
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	<u>Special Revenue Funds</u>		Debt	<u>Totals</u>
	<u>Food Service</u>	<u>Athletics</u>	<u>Retirement Fund</u> 1998 School Improvement Bonds	
<u>ASSETS</u>				
Cash and investments	\$ 22,228	\$ 5,981	\$ 0	\$ 28,209
Accounts receivable	967	0	0	967
Due from other governmental units	2,332	0	0	2,332
Inventory	10,071	0	0	10,071
Prepaid expenses	2,532	0	0	2,532
Due from other funds	31,116	0	0	31,116
Total assets	<u>\$ 69,246</u>	<u>\$ 5,981</u>	<u>\$ 0</u>	<u>\$ 75,227</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>Liabilities</u>				
Deferred revenue	\$ 5,077	\$ 0	\$ 0	\$ 5,077
Due to other funds	38,238	5,981	0	44,219
Total liabilities	<u>43,315</u>	<u>5,981</u>	<u>0</u>	<u>49,296</u>
<u>Fund Balance</u>				
Reserved for inventory	10,071	0	0	10,071
Reserved for food service	15,860	0	0	15,860
Unreserved:				
Undesignated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total fund balance	<u>25,931</u>	<u>0</u>	<u>0</u>	<u>25,931</u>
Total Liabilities and Fund Balance	<u>\$ 69,246</u>	<u>\$ 5,981</u>	<u>\$ 0</u>	<u>\$ 75,227</u>

HALE AREA SCHOOLS
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes
in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	Special Revenue Funds		Debt Retirement Fund	Totals
	Food Service	Athletics	1998 School Improvement Bonds	
<u>Revenues</u>				
Local sources:				
Other	\$ 64,954	\$ 32,057	\$ 0	\$ 97,011
State sources	28,296	0	4,130	32,426
Federal sources	281,762	0	0	281,762
Total revenues	375,012	32,057	4,130	411,199
<u>Expenditures</u>				
Current				
Food service	357,733	0	0	357,733
Athletics	0	126,595	0	126,595
Debt Service				
Principal	0	0	3,429	3,429
Interest and fees	0	0	701	701
Total expenditures	357,733	126,595	4,130	488,458
Excess (deficiency) of revenues over expenditures	17,279	(94,538)	0	(77,259)
<u>Other Financing Sources (Uses)</u>				
Operating transfer in from other funds	0	93,460	0	93,460
Operating transfers out to other funds	(35,000)	0	0	(35,000)
Total other financing sources (uses)	(35,000)	93,460	0	58,460
Net change in fund balance	(17,721)	(1,078)	0	(18,799)
Fund balance - beginning of year	43,652	1,078	0	44,730
Fund balance - end of year	\$ 25,931	\$ 0	\$ 0	\$ 25,931

HALE AREA SCHOOLS
Detail of Bonded Debt
June 30, 2010

Maturity Date	Percent of Interest Rate	Bonds Outstanding July 1, 2009	Additions	Bonds Retired This Year	Bonds Outstanding June 30, 2010	Annual Interest Payment	Total Annual Payment
<u>1998 School Improvement Bonds - Durant</u>							
Fiscal Year:							
2010	4.751353	\$ 3,429	\$ 0	\$ 3,429	\$ 0	\$ 0	\$ 0
2011	4.751353	20,322	0	0	20,322	7,430	27,752
2012	4.751353	3,763	0	0	3,763	367	4,130
2013	4.751353	3,942	0	0	3,942	188	4,130
Total 1998 Issue		31,456	0	3,429	28,027	7,985	36,012
<u>General Obligation 2002 Bond Issue</u>							
Fiscal Year:							
2010	4.85	\$ 20,000	\$ 0	\$ 20,000	\$ 0	\$ 0	\$ 0
2011	4.85	20,000	0	0	20,000	13,095	33,095
2012	4.85	20,000	0	0	20,000	12,125	32,125
2013	4.85	20,000	0	0	20,000	11,155	31,155
2014	4.85	20,000	0	0	20,000	10,185	30,185
2015	4.85	25,000	0	0	25,000	9,215	34,215
2016 to 2020	4.85	135,000	0	0	135,000	27,646	162,646
2021	4.85	30,000	0	0	30,000	1,455	31,455
Total 2002 Issue		290,000	0	20,000	270,000	84,876	354,876

HALE AREA SCHOOLS
Detail of Bonded Debt
June 30, 2010

Maturity Date	Percent of Interest Rate	Bonds Outstanding July 1, 2009	Additions	Bonds Retired This Year	Bonds Outstanding June 30, 2010	Annual Interest Payment	Total Annual Payment
<u>1996/2004 Refunding Bond Issue</u>							
Fiscal Year:							
2010	3.25	\$ 385,000	\$ 0	\$ 385,000	\$ 0	\$ 0	\$ 0
2011	3.50	400,000	0	0	400,000	236,202	636,202
2012	3.50	410,000	0	0	410,000	222,203	632,203
2013	3.75	425,000	0	0	425,000	207,853	632,853
2014	4.00	440,000	0	0	440,000	191,915	631,915
2015	4.00	460,000	0	0	460,000	174,315	634,315
2016 to 2020	4.00 - 4.20	2,595,000	0	0	2,595,000	579,035	3,174,035
2021 to 2022	4.30 to 4.40	1,160,000	0	0	1,160,000	76,205	1,236,205
Total 1996/2004 Issue		<u>6,275,000</u>	<u>0</u>	<u>385,000</u>	<u>5,890,000</u>	<u>1,687,728</u>	<u>7,577,728</u>
Total All Issues		<u>\$ 6,596,456</u>	<u>\$ 0</u>	<u>\$ 408,429</u>	<u>\$ 6,188,027</u>	<u>\$ 1,780,589</u>	<u>\$ 7,968,616</u>



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November 8, 2010

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

Board of Education
Hale Area Schools
Hale, Michigan

We have audited the financial statements of Hale Area Schools as of and for the year ended June 30, 2010, and have issued our report thereon dated November 8, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Board of Education
Hale Area Schools
November 8, 2010

We consider the deficiencies 2010-1, 2010- 2 and 2010-3 described in the accompanying *schedule of findings and questioned costs* to be material weaknesses.

Compliance and Other Matters

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

Hale Area Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Hale Area Schools' response and, accordingly, we express no opinion on it.

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

Weinlander Fitzhugh



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November 8, 2010

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

Board of Education
Hale Area Schools
Hale, Michigan

Compliance

We have audited the compliance of Hale Area Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Hale Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hale Area Schools' management. Our responsibility is to express an opinion on Hale Area Schools' compliance based on our audit.

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

In our opinion, Hale Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

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Board of Education
Hale Area Schools
November 8, 2010

Internal Control Over Compliance

The management of Hale Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hale Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hale Area Schools' internal control over compliance requirements.

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

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies 2010-1, 2010-2 and 2010-3 described in the accompanying schedule of findings and questioned costs be material weaknesses.

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

Weinlander Fitzhugh

HALE AREA SCHOOLS
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2010

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified? YES NO
- Significant deficiencies identified not considered to be material weaknesses? YES NO

Noncompliance material to financial statements noted? YES NO

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? YES NO
- Significant deficiencies identified not considered to be material weaknesses? YES NO

Type of auditor’s report issued on compliance of major programs: Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? YES NO

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.389	ARRA Title I
84.394	ARRA Stabilization Funds

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

Auditee qualified as low-risk auditee? YES NO

HALE AREA SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

SECTION II - Financial Statement Findings

2010-1 (Repeat Finding 2009-1, 2008-1 and 2007-1)

Criteria or Specific Requirement

Lack of segregation of duties between personnel working on General, Hot Lunch, Athletic and Debt Service funds.

Condition

In each instance, one person has the ability to enter data into accounting software, draft checks (checks printed with bank authorized signature), and has the responsibility to reconcile the bank statements which reduces the likelihood of misstatements being identified and corrected.

Criteria

Financial processing responsibilities should be segregated to increase the likelihood that misstatements made by one individual will be identified and corrected by other personnel of the School District.

Effect

The effect of this condition is that one person could purposefully or accidentally materially misstate expenditures.

Recommendation

The School District should implement increased segregation of duties by having secretarial or other designated personnel perform month end bank reconciliations.

Views of responsible officials and planned corrective actions

Management has increased segregation of duties and restructured those with signatory authority to eliminate reliance on one person to handle all accounting functions for any of the funds listed above. In addition, bank reconciliations will no longer be completed by the person who handles day to day accounting for any of the accounting functions.

HALE AREA SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

2010-2 (Repeat Finding 2009-2, 2008-2 and 2007-2)

Criteria or Specific Requirement

Establishment and maintenance of internal control over the financial reporting process.

Condition

Due to the complexity of the required government-wide financial statements and related note disclosures in accordance with GASB 34, the School District does not maintain personnel who can report in accordance with U.S. generally accepted accounting principles without auditor involvement.

Criteria

Internal controls should be in place to provide reasonable assurance to the School District that management possesses the skills necessary to monitor and report annual financial activity without auditor involvement.

Effect

The effect of this condition places a reliance on the independent auditor to be part of the School District's internal control over financial reporting.

Recommendation

The School District should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Views of Responsible Officials and Planned Corrective Action

As a result of the state of educational funding, the School District has not allocated resources to fund this process. We intend to re-evaluate once funding becomes available for the additional education and monitoring.

HALE AREA SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

2010-3

Criteria or Specific Requirement

Establishment and maintenance of internal control over the fund level and budget reporting process.

Condition

Due to the complexity of the required presentation of fund level and budgetary reporting, the School District does not maintain personnel who can report in accordance with U.S. generally accepted accounting principles without auditor involvement.

Criteria

Internal controls should be in place to provide reasonable assurance to the School District that the management possesses the skills necessary to monitor and report annual financial activity without auditor involvement.

Effect

The effect of this condition places a reliance on the independent auditor to be part of the School District's internal control over financial reporting.

Recommendation

The School District should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Views of Responsible Officials and Planned Corrective Action

As a result of the state of educational funding, the School District has not allocated resources to fund this process. We intend to re-evaluate once funding becomes available for the additional education and monitoring.

HALE AREA SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

SECTION III - Federal Award Findings and Questioned Costs

See findings 2010-1, 2002-2, and 2010-3 identified in section II as it relates to all the federal programs identified in the Schedule of Expenditures of Federal Awards.

HALE AREA SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2009	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2010
<u>U. S. Department of Agriculture</u>								
Passed through Michigan Department of Education:								
Child Nutrition Cluster:								
School Breakfast Program	10.553							
Cash Assistance		\$ 106,723	\$ 0	\$ 0	\$ 0	\$ 106,723	\$ 106,723	\$ 0
National School Lunch Program	10.555							
Cash Assistance		156,557	0	0	0	156,557	156,557	0
Non-Cash Assistance (Commodities)								
Entitlement		16,863	0	0	0	16,863	16,863	0
Bonus		1,619	0	0	0	1,619	1,619	0
National School Lunch Program Subtotal		<u>175,039</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>175,039</u>	<u>175,039</u>	<u>0</u>
Total Child Nutrition Cluster		<u>281,762</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>281,762</u>	<u>281,762</u>	<u>0</u>
<u>U.S. Department of Education</u>								
Passed Through MDE								
Title I:	84.010							
Title I Part A Imp Basic Pro:								
Project 091530 0809		386,309	386,309	40,541	0	40,541	0	0
Project 101530 0910		369,764	0	0	0	342,281	369,764	27,483
		<u>756,073</u>	<u>386,309</u>	<u>40,541</u>	<u>0</u>	<u>382,822</u>	<u>369,764</u>	<u>27,483</u>
ARRA Title I, Part A								
Project 101535 0910	84.389	76,330	0	0	0	38,165	76,330	38,165
Title I cluster		<u>832,403</u>	<u>386,309</u>	<u>40,541</u>	<u>0</u>	<u>420,987</u>	<u>446,094</u>	<u>65,648</u>
Reading First State Grants	84.357							
Reading First State Grants								
Project 092930 0809		95,679	95,679	11,269	0	11,269	0	0
Rural and Low Income Schools	84.358B							
Title VI Part B Rural:								
Project 100660 0910		17,144	0	0	0	17,144	17,144	0

HALE AREA SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor Pass Through Grantor <u>Program Title Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2009</u>	<u>Adjustments and Transfers</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2010</u>
Improving Teacher Quality Title II Part A Tech Trn: Project 100520 0910	84.367	\$ 57,039	\$ 0	\$ 0	\$ 0	\$ 57,039	\$ 57,039	\$ 0
ARRA Title II Part D Enhancing Education Through Technology Project 104295 0910	84.386	7,811	0	0	0	7,811	7,811	0
ARRA - State Stabilization Funds 092525 0809 102525 0910	84.394	250,601 188,974 <u>439,575</u>	250,601 0 <u>250,601</u>	250,601 0 <u>250,601</u>	0 0 <u>0</u>	250,601 188,974 <u>439,575</u>	0 188,974 <u>188,974</u>	0 0 <u>0</u>
Passed thru Iosco Regional Educational Service Agency ARRA Special Education 100455 0910	84.391	140,545	0	0	0	140,545	140,545	0
Total U.S. Department of Education		<u>1,590,196</u>	<u>732,589</u>	<u>302,411</u>	<u>0</u>	<u>1,094,370</u>	<u>857,607</u>	<u>65,648</u>
Total Federal Financial Assistance		<u>\$ 1,871,958</u>	<u>\$ 732,589</u>	<u>\$ 302,411</u>	<u>\$ 0</u>	<u>\$ 1,376,132</u>	<u>\$ 1,139,369</u>	<u>\$ 65,648</u>

See accompanying notes to the schedule of expenditures of federal awards

HALE AREA SCHOOLS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Hale Area Schools and is presented in the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.

NOTE 2 - OTHER DISCLOSURES

Management has utilized the Grants Section Auditors Report and the Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.