

HOUGHTON LAKE COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2009

CONTENTS

	<u>Page</u>
Independent auditors' report	iv - v
Management's Discussion and Analysis	vi - xiii
Basic financial statements	1
Government-wide financial statements	
Statement of net assets	2 - 3
Statement of activities.....	4
Fund financial statements	
Balance sheet - governmental funds	5 - 6
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	7 - 8
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	9
Agency funds	
Statement of fiduciary assets and liabilities.....	10
Notes to financial statements.....	11 - 27
Required supplementary information	28
Budgetary comparison schedule - general fund.....	29
Additional information	30
Nonmajor governmental fund types	
Combining balance sheet	31
Combining statement of revenues, expenditures, and changes in fund balances	32

CONTENTS

	<u>Page</u>
Special revenue funds	
Combining balance sheet	33
Combining statement of revenues, expenditures and changes in fund balances	34
Debt service funds	
Combining balance sheet	35
Combining statement of revenues, expenditures and changes in fund balances	36
Fiduciary funds	
Schedule of cash receipts and disbursements.....	37
Long-term debt	
Bonded debt - Qualified Zone Academy Bond	38
Bonded debt - Qualified Zone Academy Bond	39
Schedule of installment note payable	40

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Houghton Lake Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houghton Lake Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2009, on our consideration of Houghton Lake Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi - xiii and 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Houghton Lake Community Schools' basic financial statements. The additional information on pages 31 through 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has 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.

Manes Costeiran PC

October 21, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Houghton Lake Community Schools (HLCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL OVERVIEW

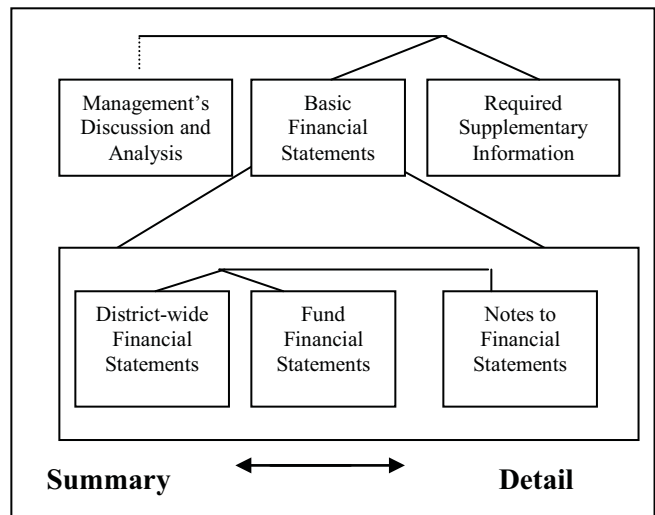
- The District's general fund financial situation improved from the 2008 fiscal year to 2009. This is the third consecutive year in which the general fund showed improvement, despite declining enrollment.
- For the 2008-09 school year, general fund equity was increased by \$274,984.
- During the 2008-09 school year compared to 2007-08, general fund revenues decreased by \$575,255 (3.7 percent), while expenditures decreased by \$215,653 (1.4 percent).
- Student enrollment decreased by 72 students from September of 2007 to September of 2008. This represents a decline of approximately 4.1 percent from the September 2007 figure.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

**Figure A-1
Organization of Houghton Lake
Community Schools' Annual Financial**



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	<u>District-wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Houghton Lake's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets were less on June 30, 2009 than the year before, decreasing by \$78,871 to \$3,416,027.

Table A-3		
Houghton Lake Community Schools Net Assets		
	<u>2009</u>	<u>2008</u>
Current assets	\$ 9,988,031	\$ 2,857,651
Capital assets and other	<u>3,599,128</u>	<u>3,531,453</u>
Total assets	<u>13,587,159</u>	<u>6,389,104</u>
Long-term debt outstanding	8,685,001	1,689,942
Other liabilities	<u>1,486,131</u>	<u>1,204,264</u>
Total liabilities	<u>10,171,132</u>	<u>2,894,206</u>
Net assets:		
Invested in capital assets, net of related debt	2,035,159	2,323,088
Restricted for debt service	178,777	163,697
Unrestricted	<u>1,202,091</u>	<u>1,008,113</u>
Total net assets	<u><u>\$ 3,416,027</u></u>	<u><u>\$ 3,494,898</u></u>

Table A-4
Changes in Houghton Lake Community Schools' Net Assets

	2009	2008
Revenues:		
Program revenues:		
Charges for services	\$ 337,908	\$ 385,275
Federal and state categorical grants	3,020,895	2,864,816
General revenues:		
Property taxes	8,010,998	7,850,874
Investment	101,793	127,431
State aid - unrestricted	3,451,868	4,796,590
Federal ARRA sources - unrestricted	626,366	
Other	367,275	375,387
Total revenues	<u>15,917,103</u>	<u>16,400,373</u>
Expenses:		
Instruction	9,374,496	9,439,545
Support services	5,228,801	5,452,999
Community services	126,086	-
Food services	696,772	589,535
Athletics	212,051	214,388
Interest on long-term debt	234,723	16,846
Unallocated depreciation	123,045	127,882
Total expenses	<u>15,995,974</u>	<u>15,841,195</u>
Change in net assets	<u>\$ (78,871)</u>	<u>\$ 559,178</u>

District Governmental Activities

The District's financial condition has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has increased that amount from \$4,352 per student in 1995 to \$7,316 per student in 2009.
- The District continues to work earnestly toward aligning expenditures with declining revenue each year. The District looks to manage staffing levels in accordance with student count, and seeks to save money in non-instructional areas whenever possible.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the District as a whole its *combined* fund balance, excluding capital projects funds, is \$2,301,464 compared to \$1,947,102 in 2008. The fund balance increased by \$353,075 for the year primarily due to an increase of \$274,984 in the general fund.

General Fund and Budget Highlights

During the 2008-09 fiscal year the original district budget was amended twice to reflect changes which affected the District. The final budget was amended to show a current year balance of \$1,476,964 while the actual fund balance for the year was \$1,727,803. The better-than-anticipated final result was due largely to budgeted funds going unspent at the building and departmental levels and lower claims than were expected through the District's self-funded dental plan.

The District has adopted a minimum fund balance for the general fund of 10 percent of total expenditures, with a stated goal of reaching 12 percent. The 10 percent minimum level of fund balance will allow the District to operate without the need for cash flow borrowing, and will also allow the District to absorb mild mid-year cuts to funding from the State of Michigan without adversely affecting programs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5				
Houghton Lake Community Schools' Capital Assets				
	2009			2008
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ -	\$ -	\$ -	\$ -
Buildings and improvements	11,416,305	8,752,013	2,664,292	2,926,240
Machinery and equipment	1,194,598	1,076,564	118,034	127,729
Construction in progress	247,679	-	247,679	-
Transportation equipment	1,140,144	924,370	215,774	278,312
Total	<u>\$ 13,998,726</u>	<u>\$ 10,752,947</u>	<u>\$ 3,245,779</u>	<u>\$ 3,332,281</u>

The original cost of land is not determinable and is recorded at zero.

LONG-TERM DEBT

At year end the District had \$8,940,570 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

	2009	2008
QZAB bonds	\$ 1,000,000	\$ 1,000,000
2008 General Obligation Bonds	7,201,375	-
Notes payable	102,138	153,206
Compensated absences and termination benefits	637,057	655,804
	<u>\$ 8,940,570</u>	<u>\$ 1,809,010</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Contracts with the District's three bargaining units expired at June 30, 2009. As of the writing of these statements a tentative agreement has been reached with one of the three units. The District believes it will be able to negotiate fair contracts with the remaining units.
- The impact of declining enrollment continues to affect the District. The 2008-09 fall pupil count was 72 pupils lower than the fall count for the 2007-08 year. The District does not anticipate the trend of declining enrollment to cease any time soon. The District is able to combat the resulting decline in revenues through appropriately sizing its staff. To a high degree this will be accomplished through attrition, as the District has many employees near retirement age.
- The State of Michigan is experiencing troubled economic times. As of the writing of these statements the State had voted to decrease school funding by \$165 per pupil for the 2009-10 school year. The threat of additional cuts for the 2010-11 school year looms. State aid represents approximately 30 percent of general fund revenue for the District.
- While the District has been able to add to its general fund balance in each of the last three fiscal years, balancing budgets has become increasingly difficult. Declining enrollment continues to force the District to operate with less revenue each year. For 2008-09, the District was able to decrease expenditures by 1.4 percent from the prior year, but revenue declined by 3.7 percent. The amount added to fund balance declined from \$642,164 in 2007-08 to \$274,984 in 2008-09.

- The District passed a roughly \$7 million bond issue during 2008-09 for the purposes of renovating and upgrading existing facilities. Management believes that these upgrades will enhance opportunities for students and will enable the District to remain a desirable and effective place for student learning.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Houghton Lake Community Schools, 6001 W. Houghton Lake Drive; Houghton Lake, MI 48629.

BASIC FINANCIAL STATEMENTS

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2009**

ASSETS	<u>Governmental activities</u>
CURRENT ASSETS:	
Cash	\$ 879,011
Investments	953,042
Receivables:	
Accounts receivable	11,588
Due from other governmental units	1,267,563
Inventories	3,090
Prepaid expenditures	80,334
Restricted cash - capital projects	1,792,499
Restricted investments - capital projects	<u>5,000,904</u>
TOTAL CURRENT ASSETS	<u>9,988,031</u>
NONCURRENT ASSETS:	
Investments - restricted for debt service set-aside	230,739
Deferred charges, net of amortization	122,610
Capital assets	13,998,726
Less accumulated depreciation	<u>(10,752,947)</u>
TOTAL NONCURRENT ASSETS	<u>3,599,128</u>
TOTAL ASSETS	<u>\$ 13,587,159</u>

	<u>Governmental activities</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 139,404
Accrued salaries and related items	863,483
Accrued interest	52,800
Deferred revenue	50,490
Due to other governmental units	124,385
Current portion of long-term obligations	201,069
Current portion of severance and termination benefits	14,500
Current portion of compensated absences	<u>40,000</u>
TOTAL CURRENT LIABILITIES	<u>1,486,131</u>
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	8,102,444
Noncurrent severance and termination benefits	129,204
Noncurrent compensated absences	<u>453,353</u>
TOTAL NONCURRENT LIABILITIES	<u>8,685,001</u>
TOTAL LIABILITIES	<u>10,171,132</u>
NET ASSETS:	
Invested in capital assets, net of related debt	2,035,159
Restricted for debt service	178,777
Unrestricted	<u>1,202,091</u>
TOTAL NET ASSETS	<u>3,416,027</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 13,587,159</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 9,374,496	\$ -	\$ 1,892,075	\$ (7,482,421)
Support services	5,228,801	-	473,019	(4,755,782)
Community services	126,086	-	78,790	(47,296)
Food services	696,772	204,771	577,011	85,010
Athletics	212,051	133,137	-	(78,914)
Interest on long-term debt	234,723	-	-	(234,723)
Unallocated depreciation	123,045	-	-	(123,045)
Total governmental activities	<u>\$ 15,995,974</u>	<u>\$ 337,908</u>	<u>\$ 3,020,895</u>	<u>(12,637,171)</u>
General revenues:				
Property taxes, levied for general purposes				8,010,998
Investment earnings				101,793
State sources				3,451,868
Federal ARRA sources - unrestricted				626,366
Intermediate sources				229,631
Other				<u>137,644</u>
Total general revenues				<u>12,558,300</u>
CHANGE IN NET ASSETS				(78,871)
NET ASSETS, beginning of year				<u>3,494,898</u>
NET ASSETS, end of year				<u>\$ 3,416,027</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	<u>General Fund</u>	<u>2008 Capital projects fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 621,334	\$ -	\$ 257,677	\$ 879,011
Investments	953,042	-	-	953,042
Receivables:				
Accounts receivable	5,933	-	5,655	11,588
Due from other governmental units	1,267,563	-	-	1,267,563
Due from other funds	36,601	-	81,313	117,914
Inventories	-	-	3,090	3,090
Prepaid expenditures	20,334	-	60,000	80,334
Restricted cash - capital projects	-	1,792,499	-	1,792,499
Restricted investments - capital projects	-	5,000,904	-	5,000,904
Investments - restricted for debt service set-aside	-	-	230,739	230,739
TOTAL ASSETS	<u>\$ 2,904,807</u>	<u>\$ 6,793,403</u>	<u>\$ 638,474</u>	<u>\$ 10,336,684</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 57,333	\$ 53,859	\$ 28,212	\$ 139,404
Accrued salaries and related items	863,483	-	-	863,483
Due to other funds	81,313	-	36,601	117,914
Due to other governmental units	124,385	-	-	124,385
Deferred revenue	50,490	-	-	50,490
TOTAL LIABILITIES	<u>1,177,004</u>	<u>53,859</u>	<u>64,813</u>	<u>1,295,676</u>

See notes to financial statements.

	<u>General Fund</u>	<u>2008 Capital projects fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
\$	-	-	\$ 3,090	\$ 3,090
	20,334	-	60,000	80,334
	-	-	231,577	231,577
	-	6,739,544	115,301	6,854,845
Unreserved:				
Designated for subsequent year expenditures	229,121	-	-	229,121
Undesignated - special revenue funds	<u>1,478,348</u>	-	<u>163,693</u>	<u>1,642,041</u>
TOTAL FUND BALANCES	<u>1,727,803</u>	<u>6,739,544</u>	<u>573,661</u>	<u>9,041,008</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,904,807</u>	<u>\$ 6,793,403</u>	<u>\$ 638,474</u>	<u>\$ 10,336,684</u>
Total governmental fund balances				\$ 9,041,008
Amounts reported for governmental activities in the statement of net assets are different because:				
Value of amortized bond issuance costs			\$ 137,616	
Accumulated amortization			<u>(15,006)</u>	122,610
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			13,998,726	
Accumulated depreciation is			<u>(10,752,947)</u>	3,245,779
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Accrued severance and termination benefit				(143,704)
Bonds payable and unamortized premium				(8,303,513)
Compensated absences				(493,353)
Accrued interest is not included as a liability in government funds, it is recorded when paid				<u>(52,800)</u>
Net assets of governmental activities				<u>\$ 3,416,027</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009**

	<u>General Fund</u>	<u>2008 Capital projects fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ 8,010,998	\$ -	\$ -	\$ 8,010,998
Tuition	3,170	-	-	3,170
Investment earnings	38,209	54,499	9,085	101,793
Food sales, athletics, and community service	-	-	337,908	337,908
Other	182,638	-	5,536	188,174
Total local sources	8,235,015	54,499	352,529	8,642,043
State sources	4,495,654	-	43,882	4,539,536
Federal sources	1,978,300	-	533,129	2,511,429
Incoming transfers and other	224,095	-	-	224,095
Total revenues	14,933,064	54,499	929,540	15,917,103
EXPENDITURES:				
Current:				
Instruction	9,113,459	-	-	9,113,459
Supporting services	5,281,234	-	-	5,281,234
Food service activities	-	-	708,467	708,467
Athletic activities	-	-	206,206	206,206
Community service activities	126,086	-	-	126,086
Outgoing transfers and other transactions	5,487	-	-	5,487
Capital outlay	-	247,679	-	247,679

See notes to financial statements.

	<u>General Fund</u>	<u>2008 Capital projects fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	\$ 51,068	\$ -	\$ -	\$ 51,068
Interest	6,159	-	181,315	187,474
Bond issuance costs	-	100,116	-	100,116
Total expenditures	<u>14,583,493</u>	<u>347,795</u>	<u>1,095,988</u>	<u>16,027,276</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>349,571</u>	<u>(293,296)</u>	<u>(166,448)</u>	<u>(110,173)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from issuance of bonds	-	6,978,761	171,239	7,150,000
Bond premium	-	54,079	-	54,079
Operating transfers from other funds	40,097	-	114,684	154,781
Operating transfers to other funds	<u>(114,684)</u>	<u>-</u>	<u>(40,097)</u>	<u>(154,781)</u>
Total other financing sources (uses)	<u>(74,587)</u>	<u>7,032,840</u>	<u>245,826</u>	<u>7,204,079</u>
NET CHANGE IN FUND BALANCES	274,984	6,739,544	79,378	7,093,906
FUND BALANCES:				
Beginning of year	<u>1,452,819</u>	<u>-</u>	<u>494,283</u>	<u>1,947,102</u>
End of year	<u>\$ 1,727,803</u>	<u>\$ 6,739,544</u>	<u>\$ 573,661</u>	<u>\$ 9,041,008</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009**

Net change in fund balances total governmental funds \$ 7,093,906

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

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

Depreciation expense	(381,845)
Capital outlay	295,343

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

Accrued interest payable, beginning of the year	5,475
Accrued interest payable, end of the year	(52,800)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Proceeds from issuance of bonds	(7,150,000)
Payments on debt	51,068
Bond issuance costs	100,116
Premium on issuance of bonds	(54,079)
Amortization of bond issuance costs	(7,506)
Amortization of bond premium	2,704

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences, beginning of the year	471,521
Accrued compensated absences, end of the year	(493,353)
Accrued severance and termination benefits, beginning of the year	184,283
Accrued severance and termination benefits, end of the year	<u>(143,704)</u>

Change in net assets of governmental activities \$ (78,871)

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2009**

	<u>Agency fund</u>
ASSETS:	
Cash	<u>\$ 240,090</u>
LIABILITIES:	
Accounts payable	\$ 1,521
Due to student and other groups	<u>238,569</u>
TOTAL LIABILITIES	<u><u>\$ 240,090</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Houghton Lake Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Houghton Lake Community Schools (the "District") is governed by the Houghton Lake Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The District's reporting entity contains no significant component units as defined in GASB Statements No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as 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 or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

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

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

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

The 2008 *capital projects fund* is used to account for the 2008 debt proceeds and related expenditures.

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

Other Non-major Funds (Concluded)

The following is a summary of the revenues and expenditures for the capital project bond activity since inception:

	2008 Bond
Revenues and other financing sources	\$ 7,087,339
Expenditures	\$ 347,795

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for the receipt of the QZAB bond proceeds and the acquisition of fixed assets or construction of capital projects.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

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

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide 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, 2009, the foundation allowance was based on pupil membership counts taken in February and September of 2008.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October 2008 to August 2009. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

1. Cash and equivalents (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2009, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund - Non- Principal Residence Exemption (PRE)	17.9406
Commercial Personal Property	6.0000

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years
Land improvement	20 years
Transportation equipment	8 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation, sick leave with pay and contain termination incentives. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements upon the legally enforceable due date.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue, debt service and capital projects funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2009. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2009, the District had the following investments.

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
MILAF External Investment pool - MIMAX	<u>\$ 953,042</u>	0.0027	AAAm	<u>100.00%</u>
Total fair value	<u><u>\$ 953,042</u></u>			<u><u>100.00%</u></u>
Portfolio weighted average maturity		<u><u>0.0027</u></u>		

1 day maturity equals 0.0027, one year equals 1.00

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2009, the fair value of the District’s investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2009, \$3,296,563 of the District’s bank balance of \$8,519,399 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$8,143,243.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)

The above amounts are previously reported in Note 3:

Deposits - including fiduciary funds of \$240,090	\$ 8,143,243
Investments	<u>953,042</u>
	<u><u>\$ 9,096,285</u></u>

The above amounts are reported in the financial statements as follows:

Cash - agency fund	\$ 240,090
Government wide:	
Cash	879,011
Investments	953,042
Restricted cash - capital projects	1,792,499
Restricted investments - capital projects	5,000,904
Restricted investments - debt service	<u>230,739</u>
	<u><u>\$ 9,096,285</u></u>

NOTE 4 - RECEIVABLES

Receivables from governmental units at June 30, 2009 consist of the following:

	<u>General fund</u>
Other governmental units:	
State aid	\$ 364,719
Federal revenue	902,676
Other	<u>168</u>
	<u><u>\$ 1,267,563</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 247,679	\$ -	\$ 247,679
Total capital assets, not being depreciated	<u>-</u>	<u>247,679</u>	<u>-</u>	<u>247,679</u>
Capital assets, being depreciated				
Site improvements	245,168	5,487	-	250,655
Buildings and improvements	11,252,044	-	86,394	11,165,650
Machinery and equipment	1,173,671	20,927	-	1,194,598
Transportation equipment	<u>1,584,630</u>	<u>21,250</u>	<u>465,736</u>	<u>1,140,144</u>
Total capital assets, being depreciated	<u>14,255,513</u>	<u>47,664</u>	<u>552,130</u>	<u>13,751,047</u>
Accumulated depreciation:				
Land improvements	188,016	4,496	-	192,512
Buildings and additions	8,382,956	262,939	86,394	8,559,501
Machinery and equipment	1,045,942	30,622	-	1,076,564
Transportation equipment	<u>1,306,318</u>	<u>83,788</u>	<u>465,736</u>	<u>924,370</u>
Total accumulated depreciation	<u>10,923,232</u>	<u>381,845</u>	<u>552,130</u>	<u>10,752,947</u>
Net capital assets being depreciated	<u>3,332,281</u>	<u>(334,181)</u>	<u>-</u>	<u>2,998,100</u>
Net governmental capital assets	<u>\$ 3,332,281</u>	<u>\$ (86,502)</u>	<u>\$ -</u>	<u>\$ 3,245,779</u>

Depreciation for the fiscal year ended June 30, 2009 amounted to \$381,845. The District allocated depreciation expense to the various activities as follows:

Instruction	\$ 250,357
Support services	2,598
Athletics	5,845
Unallocated	<u>123,045</u>
	<u>\$ 381,845</u>

Depreciation of capital assets that serve multiple functions is recorded as unallocated. Original cost of land is not determinable and is recorded at zero.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT

The District may issue general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

The following is a summary of the long-term debt transactions of the District for the year end June 30, 2009:

	Notes payable	QZAB bonds	General obligation bonds	Sub-total bonds and notes	Compensated absences	Severance benefits	Total
Balance, July 1, 2008	\$ 153,206	\$ 1,000,000	\$ -	\$ 1,153,206	\$ 471,521	\$ 184,283	\$ 1,809,010
Additions			7,201,375	7,201,375	21,832		7,223,207
Deletions	<u>51,068</u>	<u>-</u>	<u>-</u>	<u>51,068</u>		<u>40,579</u>	<u>91,647</u>
Balance, June 30, 2009	102,138	1,000,000	7,201,375	8,303,513	493,353	143,704	8,940,570
Less current portion	<u>51,069</u>	<u>-</u>	<u>150,000</u>	<u>201,069</u>	<u>40,000</u>	<u>14,500</u>	<u>255,569</u>
Total due after one year	<u>\$ 51,069</u>	<u>\$ 1,000,000</u>	<u>\$ 7,051,375</u>	<u>\$ 8,102,444</u>	<u>\$ 453,353</u>	<u>\$ 129,204</u>	<u>\$ 8,685,001</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2009 is comprised of the following:

2005 School Building Bond is due in one installment on June 21, 2021. The bond was issued under the Qualified Zone Academy Bond program. Interest is reduced to 1.00% through a tax credit. A set-aside amount of \$64,684 is required each year. Interest of 2.75% will be earned on the set-aside account.	\$ 1,000,000
2002 general obligation bonds due in annual installments of \$150,000 to \$540,000 through May 1, 2012 with interest from 3.50% to 4.05%	7,150,000
Plus: premium on bonds	<u>51,375</u>
Total bonded debt	8,201,375
Chase Bank note for purchase of a bus with annual payments of \$51,069 through October 21, 2011, at 4.02% interest rate.	102,138
Obligation under contract from compensated absences	493,353
Obligation under contract from severance incentives	<u>143,704</u>
Total long-term debt	<u><u>\$ 8,940,570</u></u>

Interest expense (all funds) for the year ended June 30, 2009 was \$187,474.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2009, including interest of \$3,635,679 are as follows:

Year ending June 30,	Principal	Interest	Total
2010	\$ 201,069	\$ 303,267	\$ 504,336
2011	271,069	299,714	570,783
2012	240,000	291,061	531,061
2013	265,000	283,861	548,861
2014	290,000	275,249	565,249
2015 - 2019	1,745,000	1,197,094	2,942,094
2020 - 2024	3,165,000	750,493	3,915,493
2025 - 2028	<u>2,075,000</u>	<u>234,940</u>	<u>2,309,940</u>
Total	8,252,138	3,635,679	11,887,817
Premium on bonds	51,375	-	51,375
Accumulated compensated absences	493,353	-	493,353
Accumulated severance benefits	<u>143,704</u>	<u>-</u>	<u>143,704</u>
	<u>\$ 8,940,570</u>	<u>\$ 3,635,679</u>	<u>\$ 12,576,249</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2009 are as follows:

Receivable fund		Payable fund	
General	\$ 36,601	General	\$ 81,313
School lunch fund	81,313	School lunch fund	19,417
Athletics	<u>-</u>	Athletics	<u>17,184</u>
	<u>\$ 117,914</u>		<u>\$ 117,914</u>

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000 and 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The 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 rates for the year ended June 30, 2009 were 16.72% of payroll through September 30, 2008 and 16.54% effective October 1, 2008 through June 30, 2009. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2009, 2008 and 2007 were approximately \$1,250,000, \$1,420,000 and \$1,480,000, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

The District is not responsible for the payment of retirement benefits or other post-employment benefits which is the responsibility of the State of Michigan.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 10 - TRANSFERS

The general fund transferred \$64,684 to the QZAB debt service fund to fund the required set aside funding requirement and \$50,000 to the Athletic Fund to subsidize operations in this fund. The school lunch fund transferred \$40,097 to the general fund for current year indirect costs.

NOTE 11 - THE AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

During the year ended June 30, 2009 the District recorded \$626,366 of federal ARRA revenue to off-set a shortage in the State of Michigan foundation funding. It is uncertain if the District will receive ARRA funds in the future.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The District has approximately \$6,700,000 committed to complete its capital projects building program.

REQUIRED SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2009**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
REVENUES:				
Local sources	\$ 8,029,500	\$ 8,192,976	\$ 8,235,015	\$ 42,039
State sources	5,130,261	4,459,811	4,495,654	35,843
Federal sources	1,136,000	1,974,588	1,978,300	3,712
Incoming transfers and other	133,500	221,537	224,095	2,558
Total revenues	<u>14,429,261</u>	<u>14,848,912</u>	<u>14,933,064</u>	<u>84,152</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	6,771,387	6,925,614	6,897,869	27,745
Added needs	2,047,699	2,103,985	2,095,193	8,792
Community education	105,009	124,137	120,397	3,740
Total instruction	<u>8,924,095</u>	<u>9,153,736</u>	<u>9,113,459</u>	<u>40,277</u>
Supporting services:				
Pupil	913,248	933,012	930,627	2,385
Instructional staff	345,541	368,461	359,157	9,304
General administration	374,351	313,790	280,992	32,798
School administration	955,583	969,328	962,613	6,715
Business	404,726	336,295	333,857	2,438
Operation/maintenance	1,333,254	1,317,093	1,276,636	40,457
Pupil transportation	942,729	947,665	923,303	24,362
Central	191,100	217,598	214,049	3,549
Total supporting services	<u>5,460,532</u>	<u>5,403,242</u>	<u>5,281,234</u>	<u>122,008</u>
Community services	118,720	130,487	126,086	4,401
Outgoing transfers and other transactions	57,227	62,714	62,714	-
Total expenditures	<u>14,560,574</u>	<u>14,750,179</u>	<u>14,583,493</u>	<u>166,686</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(131,313)</u>	<u>98,733</u>	<u>349,571</u>	<u>250,838</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers from other funds	-	40,097	40,097	-
Operating transfers to other funds	(116,777)	(114,685)	(114,684)	1
Total other financing uses	<u>(116,777)</u>	<u>(74,588)</u>	<u>(74,587)</u>	<u>1</u>
NET CHANGE IN FUND BALANCE	<u>\$ (248,090)</u>	<u>\$ 24,145</u>	<u>274,984</u>	<u>\$ 250,839</u>
FUND BALANCE:				
Beginning of year			<u>1,452,819</u>	
End of year			<u>\$ 1,727,803</u>	

ADDITIONAL INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2009**

	Special revenue	Debt service	Nonmajor capital projects	Total nonmajor governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 141,538	\$ 838	\$ 115,301	\$ 257,677
Investments	-	230,739	-	230,739
Accounts receivable	5,655	-	-	5,655
Due from other funds	81,313	-	-	81,313
Prepaid expenditures	60,000	-	-	60,000
Inventories	3,090	-	-	3,090
	\$ 291,596	\$ 231,577	\$ 115,301	\$ 638,474
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 28,212	\$ -	\$ -	\$ 28,212
Due to other funds	36,601	-	-	36,601
	64,813	-	-	64,813
FUND BALANCES:				
Reserved for inventories	3,090	-	-	3,090
Reserved for debt service	-	231,577	-	231,577
Reserved for prepaid expenditures	60,000	-	-	60,000
Reserved for capital outlay	-	-	115,301	115,301
Unreserved, undesignated	163,693	-	-	163,693
	226,783	231,577	115,301	573,661
TOTAL FUND BALANCES	226,783	231,577	115,301	573,661
TOTAL LIABILITIES AND FUND BALANCES	\$ 291,596	\$ 231,577	\$ 115,301	\$ 638,474

**HOUGHTON LAKE COMMUNITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUND TYPES
 YEAR ENDED JUNE 30, 2009**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Nonmajor capital projects</u>	<u>Total nonmajor governmental funds</u>
REVENUES:				
Local sources:				
Investment earnings	\$ -	\$ 7,797	\$ 1,288	\$ 9,085
Food sales and admissions	337,908	-	-	337,908
Other	5,536	-	-	5,536
Total local sources	343,444	7,797	1,288	352,529
State sources	43,882	-	-	43,882
Federal sources	533,129	-	-	533,129
Total revenues	920,455	7,797	1,288	929,540
EXPENDITURES:				
Current:				
Food service activities	708,467	-	-	708,467
Athletic activities	206,206	-	-	206,206
Debt service:				
Interest expense	-	181,315	-	181,315
Total expenditures	914,673	181,315	-	1,095,988
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>5,782</u>	<u>(173,518)</u>	<u>1,288</u>	<u>(166,448)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of refunding bonds	-	171,239	-	171,239
Operating transfers from other funds	50,000	64,684	-	114,684
Operating transfers to other funds	(40,097)	-	-	(40,097)
Total other financing sources	9,903	235,923	-	245,826
NET CHANGE IN FUND BALANCES	15,685	62,405	1,288	79,378
FUND BALANCES:				
Beginning of year	211,098	169,172	114,013	494,283
End of year	<u>\$ 226,783</u>	<u>\$ 231,577</u>	<u>\$ 115,301</u>	<u>\$ 573,661</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2009
(with comparative totals for June 30, 2008)**

	<u>Food</u>	<u>Athletic</u>	<u>Totals</u>	
	<u>Service</u>		<u>2009</u>	<u>2008</u>
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 117,950	\$ 23,588	\$ 141,538	\$ 173,887
Accounts receivable	119	5,536	5,655	36,029
Due from other funds	81,313	-	81,313	200,240
Prepaid expenditures	60,000	-	60,000	-
Inventories	3,090	-	3,090	2,934
	<u>3,090</u>	<u>-</u>	<u>3,090</u>	<u>2,934</u>
TOTAL ASSETS	<u>\$ 262,472</u>	<u>\$ 29,124</u>	<u>\$ 291,596</u>	<u>\$ 413,090</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 22,012	\$ 6,200	\$ 28,212	\$ 28,335
Due to other funds	19,417	17,184	36,601	173,657
	<u>19,417</u>	<u>17,184</u>	<u>36,601</u>	<u>173,657</u>
TOTAL LIABILITIES	<u>41,429</u>	<u>23,384</u>	<u>64,813</u>	<u>201,992</u>
 FUND BALANCES:				
Reserved for inventories	3,090	-	3,090	2,934
Reserved for prepaid expenditures	60,000	-	60,000	-
Unreserved/undesignated	157,953	5,740	163,693	208,164
	<u>157,953</u>	<u>5,740</u>	<u>163,693</u>	<u>208,164</u>
TOTAL FUND BALANCES	<u>221,043</u>	<u>5,740</u>	<u>226,783</u>	<u>211,098</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 262,472</u>	 <u>\$ 29,124</u>	 <u>\$ 291,596</u>	 <u>\$ 413,090</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2009
(with comparative totals for the year ended June 30, 2008)**

	Food Service Athletic		<u>Totals</u>	
			2009	2008
REVENUES:				
Food service	\$ 204,771	\$ -	\$ 204,771	\$ 203,459
State sources	43,882	-	43,882	47,005
Federal sources	533,129	-	533,129	450,426
Admissions	-	133,137	133,137	181,816
Other	-	5,536	5,536	-
	<u>781,782</u>	<u>138,673</u>	<u>920,455</u>	<u>882,706</u>
Total revenues				
EXPENDITURES:				
Salaries	6,301	66,740	73,041	121,644
Benefits	1,524	16,259	17,783	38,986
Supplies and materials	700,642	123,207	823,849	637,448
	<u>708,467</u>	<u>206,206</u>	<u>914,673</u>	<u>798,078</u>
Total expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>73,315</u>	<u>(67,533)</u>	<u>5,782</u>	<u>84,628</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers from other funds	-	50,000	50,000	50,000
Operating transfers to other funds	<u>(40,097)</u>	<u>-</u>	<u>(40,097)</u>	<u>(46,155)</u>
	<u>(40,097)</u>	<u>50,000</u>	<u>9,903</u>	<u>3,845</u>
Total other financing sources (uses)				
NET CHANGE IN FUND BALANCES	33,218	(17,533)	15,685	88,473
FUND BALANCES:				
Beginning of year	<u>187,825</u>	<u>23,273</u>	<u>211,098</u>	<u>122,625</u>
End of year	<u>\$ 221,043</u>	<u>\$ 5,740</u>	<u>\$ 226,783</u>	<u>\$ 211,098</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2009**

	2008 Debt Service	QZAB	Total nonmajor
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 838	\$ -	\$ 838
Investments	-	230,739	230,739
TOTAL ASSETS	\$ 838	\$ 230,739	\$ 231,577
FUND BALANCES			
FUND BALANCES:			
Reserved for debt service	\$ 838	\$ 230,739	\$ 231,577

**HOUGHTON LAKE COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2009**

	2008 Debt Service	QZAB	Total Nonmajor
REVENUES:			
Local sources:			
Interest	\$ 914	\$ 6,883	\$ 7,797
EXPENDITURES:			
Interest on bonded debt	171,315	10,000	181,315
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(170,401)	(3,117)	(173,518)
OTHER FINANCING SOURCES:			
Proceeds from sale of refunding bonds	171,239	-	171,239
Operating transfers from other funds	-	64,684	64,684
Total other financing sources	171,239	64,684	235,923
NET CHANGE IN FUND BALANCES	838	61,567	62,405
FUND BALANCES:			
Beginning of year	-	169,172	169,172
End of year	\$ 838	\$ 230,739	\$ 231,577

**HOUGHTON LAKE COMMUNITY SCHOOLS
 AGENCY FUNDS
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 YEAR ENDED JUNE 30, 2009**

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Agency funds - due to student groups	<u>\$ 294,490</u>	<u>\$ 34,508</u>	<u>\$ 90,429</u>	<u>\$ 238,569</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
YEAR ENDED JUNE 30, 2009**

<u>Calendar Year</u>	<u>Interest rate</u>	<u>Principal due June 21</u>
2021	1.00%	<u><u>\$ 1,000,000</u></u>

The above bonds dated June 21, 2005 were issued for the purpose of financing renovations and improvements to school properties. The amount of the original bond issue was \$1,000,000.

Bonds of this issue are not subject to redemption prior to maturity.

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
YEAR ENDED JUNE 30, 2009**

2008 General Obligation Bonds

Fiscal year	Principal due May May 1,	Interest due		Total due annually
		November 1	May 1	
2010	\$ 150,000	\$ 146,081	\$ 146,081	\$ 442,162
2011	220,000	143,831	143,831	507,662
2012	240,000	140,531	140,531	521,062
2013	265,000	136,931	136,931	538,862
2014	290,000	132,624	132,624	555,248
2015	315,000	127,912	127,912	570,824
2016	335,000	122,399	122,399	579,798
2017	345,000	116,537	116,537	578,074
2018	365,000	107,912	107,912	580,824
2019	385,000	98,787	98,787	582,574
2020	400,000	91,087	91,087	582,174
2021	415,000	83,087	83,087	581,174
2022	430,000	74,528	74,528	579,056
2023	450,000	65,498	65,498	580,996
2024	470,000	56,048	56,048	582,096
2025	500,000	46,060	46,060	592,120
2026	505,000	35,185	35,185	575,370
2027	530,000	24,075	24,075	578,150
2028	540,000	12,150	12,150	564,300
Total 2008 bonded	\$ 7,150,000	\$ 1,761,263	\$ 1,761,263	\$ 10,672,526

The above bonds dated October 1, 1998 were issued for the purpose of refunding bonds issued in prior years. The amount of the original bond issue was \$34,920,000. The above notes carry interest ranging from 3.50% to 4.05%.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF INSTALLMENT NOTE PAYABLE
YEAR ENDED JUNE 30, 2009**

\$255,342 installment notes payable dated October 21, 2005 for bus purchase.

<u>Principal due</u> <u>October 21,</u>	<u>Interest due</u> <u>October 21,</u>	<u>Debt service requirement</u>	
		<u>June 30,</u>	<u>Amount</u>
51,069	4,106	2010	55,175
<u>51,069</u>	<u>2,053</u>	2011	<u>53,122</u>
<u>\$ 102,138</u>	<u>\$ 6,159</u>		<u>\$ 108,297</u>

The above notes have an interest rate of 4.02%.