

HOUGHTON LAKE COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2010

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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, 2010, 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, 2010, 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 September 15, 2010, 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 28, 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 30 through 39 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 Costeiron PC

September 15, 2010

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, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL OVERVIEW

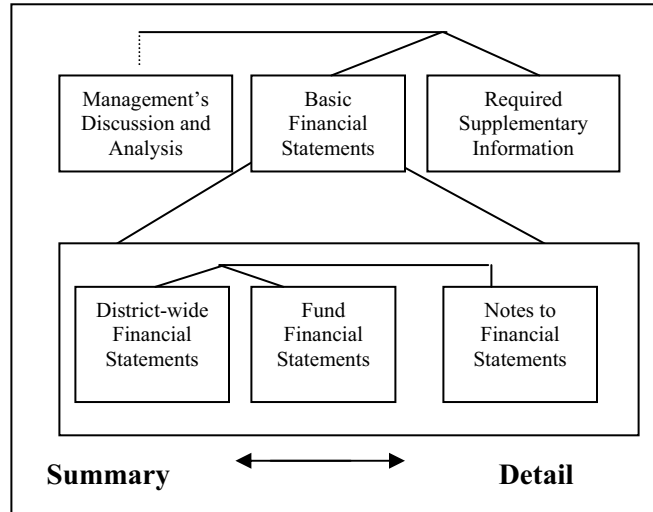
- The District's general fund financial situation improved from the 2009 fiscal year to 2010. This is the fourth consecutive year in which the general fund showed improvement, despite declining enrollment.
- For the 2009-10 school year, general fund equity was increased by \$336,805.
- During the 2009-10 school year compared to 2008-09, general fund revenues decreased by \$99,207 (0.67 percent), while expenditures decreased by \$183,969 (1.26 percent).
- Student enrollment decreased by 48 students from September of 2008 to September of 2009. This represents a decline of approximately 2.9 percent from the September 2008 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			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
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.

District-wide financial statements:

- 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 more on June 30, 2010 than the year before, decreasing by \$722,694 to \$4,138,721.

Table A-3 Houghton Lake Community Schools Net Assets		
	2010	2009
Current assets	\$ 7,941,845	\$ 9,988,031
Capital assets and other	6,505,922	3,599,128
Total assets	14,447,767	13,587,159
Long-term debt outstanding	8,368,188	8,685,001
Other liabilities	1,940,858	1,486,131
Total liabilities	10,309,046	10,171,132
Net assets:		
Invested in capital assets, net of related debt	1,798,286	2,035,159
Restricted for debt service	295,905	178,777
Unrestricted	2,044,530	1,202,091
Total net assets	\$ 4,138,721	\$ 3,416,027

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

	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 308,638	\$ 337,908
Federal and state categorical grants	3,891,306	3,020,895
General revenues:		
Property taxes	9,094,537	8,010,998
Investment	175,190	101,793
State aid - unrestricted	2,394,137	3,451,868
Federal ARRA sources - unrestricted	472,331	626,366
Other	284,862	367,275
Total revenues	16,621,001	15,917,103
Expenses:		
Instruction	9,369,372	9374496
Support services	5,094,253	5228801
Community services	107,045	126086
Food services	677,614	696772
Athletics	194,410	212051
Interest on long-term debt	304,085	234723
Unallocated depreciations	151,528	123045
Total expenses	15,898,307	15,995,974
Change in net assets	\$ 722,694	\$ (78,871)

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 \$7,162 per student in 2010 (\$7,316 less a net reduction of \$154).
- 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 \$2,807,856 compared to \$2,301,464 in 2009. The fund balance increased by \$506,392 for the year primarily due to an increase of \$336,805 in the general fund.

General Fund and Budget Highlights

During the 2009-10 fiscal year the original district budget was amended once to reflect changes which affected the District. The final budget was amended to show a current year balance of \$1,899,336 while the actual fund balance for the year was \$2,064,608. 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 vision plan and its Health Reimbursement Arrangement (HRA).

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. That goal was reached during the 2009-10 fiscal year and, according to the policy, becomes the new minimum. The 12 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 - which was demonstrated in 2009-10.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5 Houghton Lake Community Schools' Capital Assets				
	2010			2009
	Cost	Accumulated depreciation	Net book value	Net book value
Buildings and improvements	\$ 11,416,305	\$ 9,019,460	\$ 2,396,845	\$ 2,664,292
Machinery and equipment	1,234,149	1,105,030	129,119	118,034
Construction in progress	3,017,781	-	3,017,781	247,679
Transportation equipment	1,533,338	978,916	554,422	215,774
Total	<u>\$ 17,201,573</u>	<u>\$ 11,103,406</u>	<u>\$ 6,098,167</u>	<u>\$ 3,245,779</u>

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

LONG-TERM DEBT

At year end the District had \$8,706,757 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

Table A-6 Houghton Lake Community Schools Outstanding Long-Term Debt		
	2010	2009
QZAB bonds	\$ 1,000,000	\$ 1,000,000
2008 General Obligation Bonds	7,048,672	7,201,375
Notes payable	51,069	102,138
Compensated absences and termination benefits	607,016	637,057
	\$ 8,706,757	\$ 8,940,570

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Fair and affordable contracts were settled with all three of the District's bargaining units during the 2009-10 fiscal year. The teachers' contract expires on June 30, 2011, so the District will be bargaining again during the 2010-11 fiscal year.
- The impact of declining enrollment continues to affect the District. The 2009-10 fall pupil count was 48 pupils lower than the fall count for the 2008-09 year. The District does not anticipate the trend of declining enrollment to cease any time soon; however, the trend seems to indicate the loss of students is slowing. The loss of 48 pupils was the lowest since September of 2004 as compared to September of 2003.
- At the end of the 2009-10 school year the District had 21 teachers retire. This will have a significant positive impact on finances for several years to come as long as the District continues to size its staff according to student population.
- The State of Michigan is experiencing troubled economic times. The per pupil foundation allowance was cut \$154 during the 2009-10 year. While no additional cuts are projected for 2010-11 as of the writing of these statements, the District remains cautious with regard to state aid budgets. The legislature recently voted to transfer a roughly \$200 million surplus from the School Aid Fund to help the state offset a large General Fund deficit. The effect of this transfer on K-12 schools for the 2010-11 fiscal year remains to be seen. Approximately 26 percent of the District's 2009-10 general fund revenue was from state sources.

- The District passed a roughly \$7 million bond issue during 2008-09 for the purposes of renovating and upgrading existing facilities. During 2009-10, \$3,218,296 was spent on upgrades. 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.
- The District's financial results for the 2009-10 year were highly dependent upon federal funding, which has been temporarily increased through the American Recovery and Reinvestment Act (ARRA). The District received \$832,713 of ARRA funding during the year. This source of revenue will be depleted after the 2010-11 fiscal year. The District will carefully consider how to preserve programming once these funds are gone.

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, 2010**

ASSETS	<u>Governmental activities</u>
CURRENT ASSETS:	
Cash	\$ 1,207,485
Investments	1,270,347
Receivables:	
Accounts receivable	2,496
Due from other governmental units	1,412,615
Inventories	6,106
Prepaid expenditures	91,098
Restricted cash - capital projects	<u>3,951,698</u>
TOTAL CURRENT ASSETS	<u>7,941,845</u>
NONCURRENT ASSETS:	
Investments - restricted for debt service set-aside	292,651
Deferred charges, net of amortization	115,104
Capital assets	17,201,573
Less accumulated depreciation	<u>(11,103,406)</u>
TOTAL NONCURRENT ASSETS	<u>6,505,922</u>
TOTAL ASSETS	<u><u>\$ 14,447,767</u></u>

	<u>Governmental activities</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 358,169
Accrued salaries and related items	951,642
Accrued interest	50,618
Deferred revenue	33,812
Due to other governmental units	208,048
Current portion of long-term obligations	271,069
Current portion of severance and termination benefits	11,500
Current portion of compensated absences	56,000
	<hr/>
TOTAL CURRENT LIABILITIES	1,940,858
	<hr/>
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	7,828,672
Noncurrent severance and termination benefits	103,329
Noncurrent compensated absences	436,187
	<hr/>
TOTAL NONCURRENT LIABILITIES	8,368,188
	<hr/>
TOTAL LIABILITIES	10,309,046
	<hr/>
NET ASSETS:	
Invested in capital assets, net of related debt	1,798,286
Restricted for debt service	295,905
Unrestricted	2,044,530
	<hr/>
TOTAL NET ASSETS	4,138,721
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 14,447,767
	<hr/> <hr/>

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

<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	\$ 9,369,372	\$ -	\$ 2,565,734	\$ (6,803,638)
Support services	5,094,253	-	641,434	(4,452,819)
Community services	107,045	-	62,846	(44,199)
Food services	677,614	196,925	621,292	140,603
Athletics	194,410	111,713	-	(82,697)
Interest on long-term debt	304,085	-	-	(304,085)
Unallocated depreciation	151,528	-	-	(151,528)
Total governmental activities	<u>\$ 15,898,307</u>	<u>\$ 308,638</u>	<u>\$ 3,891,306</u>	<u>(11,698,363)</u>
General revenues:				
Property taxes, levied for general purposes				8,598,940
Property taxes, levied for debt service				495,597
Investment earnings				175,190
State sources				2,394,137
Federal ARRA sources - unrestricted				472,331
Intermediate sources				208,200
Other				76,662
Total general revenues				<u>12,421,057</u>
CHANGE IN NET ASSETS				722,694
NET ASSETS, beginning of year				<u>3,416,027</u>
NET ASSETS, end of year				<u>\$ 4,138,721</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<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	\$ 776,754	\$ -	\$ 430,731	\$ 1,207,485
Investments	1,270,347	-	-	1,270,347
Receivables:				
Accounts receivable	2,496	-	-	2,496
Due from other governmental units	1,408,181	-	4,434	1,412,615
Due from other funds	48,903	-	20,675	69,578
Inventories	-	-	6,106	6,106
Prepaid expenditures	19,098	-	72,000	91,098
Restricted cash - capital projects	-	3,951,698	-	3,951,698
Investments - restricted for debt service set-aside	-	-	292,651	292,651
TOTAL ASSETS	\$ 3,525,779	\$ 3,951,698	\$ 826,597	\$ 8,304,074
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 56,906	\$ 266,942	\$ 34,321	\$ 358,169
Accrued salaries and related items	951,612	-	30	951,642
Due to other funds	20,675	-	48,903	69,578
Due to other governmental units	207,953	-	95	208,048
Deferred revenue	224,025	-	-	224,025
TOTAL LIABILITIES	1,461,171	266,942	83,349	1,811,462
FUND BALANCES:				
Reserved for inventories	-	-	6,106	6,106
Reserved for prepaid expenditures	19,098	-	72,000	91,098

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>
FUND BALANCES (Concluded):				
Reserved for debt service	\$ -	\$ -	\$ 346,523	\$ 346,523
Reserved for capital outlay	-	3,684,756	115,820	3,800,576
Unreserved:				
Undesignated	2,045,510	-	-	2,045,510
Undesignated - special revenue funds	-	-	202,799	202,799
TOTAL FUND BALANCES	<u>2,064,608</u>	<u>3,684,756</u>	<u>743,248</u>	<u>6,492,612</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,525,779</u>	<u>\$ 3,951,698</u>	<u>\$ 826,597</u>	<u>\$ 8,304,074</u>
Total governmental fund balances				\$ 6,492,612
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>(22,512)</u>	115,104
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is		17,201,573		
Accumulated depreciation is		<u>(11,103,406)</u>		6,098,167
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Accrued severance and termination benefit				(114,829)
Bonds payable and unamortized premium				(8,099,741)
Compensated absences				(492,187)
Accrued interest is not included as a liability in government funds, it is recorded when paid				(50,618)
Deferred revenue at June 30, 2010, expected to be collected after September 1, 2010				190,213
Net assets of governmental activities				<u>\$ 4,138,721</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, 2010**

	<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	\$ 8,408,727	\$ -	\$ 495,597	\$ 8,904,324
Tuition	2,000	-	-	2,000
Investment earnings	3,786	163,508	8,394	175,688
Food sales, athletics, and community service	-	-	308,638	308,638
Other	137,508	-	-	137,508
Total local sources	<u>8,552,021</u>	<u>163,508</u>	<u>812,629</u>	<u>9,528,158</u>
State sources	3,783,755	-	52,602	3,836,357
Federal sources	2,289,881	-	568,690	2,858,571
Incoming transfers and other	208,200	-	-	208,200
Total revenues	<u>14,833,857</u>	<u>163,508</u>	<u>1,433,921</u>	<u>16,431,286</u>
EXPENDITURES:				
Current:				
Instruction	9,100,077	-	-	9,100,077
Supporting services	5,137,228	-	-	5,137,228
Food service activities	-	-	717,664	717,664
Athletic activities	-	-	191,487	191,487
Community service activities	107,045	-	-	107,045
Capital outlay	-	3,218,296	-	3,218,296

See notes to financial statements.

	General Fund	2008 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	\$ 51,068	\$ -	\$ 150,000	\$ 201,068
Interest	4,106	-	302,311	306,417
Total expenditures	<u>14,399,524</u>	<u>3,218,296</u>	<u>1,361,862</u>	<u>18,979,682</u>
	434,333	(3,054,788)	72,059	(2,548,396)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	50,656	-	148,184	198,840
Transfers to other funds	(148,184)	-	(50,656)	(198,840)
Total other financing sources (uses)	<u>(97,528)</u>	<u>-</u>	<u>97,528</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	336,805	(3,054,788)	169,587	(2,548,396)
FUND BALANCES:				
Beginning of year	<u>1,727,803</u>	<u>6,739,544</u>	<u>573,661</u>	<u>9,041,008</u>
End of year	<u>\$ 2,064,608</u>	<u>\$ 3,684,756</u>	<u>\$ 743,248</u>	<u>\$ 6,492,612</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, 2010**

Net change in fund balances total governmental funds \$ (2,548,396)

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	(405,459)
Capital outlay	3,257,847

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	52,800
Accrued interest payable, end of the year	(50,618)

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:

Payments on debt	201,068
Amortization of bond issuance costs	(7,506)
Amortization of bond premium	2,704

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	-
Deferred revenue, end of the year	190,213

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	493,353
Accrued compensated absences, end of the year	(492,187)
Accrued severance and termination benefits, beginning of the year	143,704
Accrued severance and termination benefits, end of the year	(114,829)

Change in net assets of governmental activities \$ 722,694

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2010**

	<u>Agency fund</u>
ASSETS:	
Cash	<u>\$ 220,443</u>
LIABILITIES:	
Due to student and other groups	<u>\$ 220,443</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.

**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 District first utilizes restricted resources to finance qualifying activities.

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	\$ 100,847
Expenditures	\$ 3,566,091

The above revenue figure does not include the original 2008 bond proceeds of \$7,150,000.

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, 2010, the foundation allowance was based on 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 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 2009 to August 2010. 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 include amounts in demand deposits and certificates of deposit. (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, 2010, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund - Non- Principal Residence Exemption (PRE)	18.0000
Commercial Personal Property	6.0000
Debt Service	0.6000

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, 2010. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2010, 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>\$1,270,347</u>	0.0027	AAAm	<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</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, 2010, 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, 2010, \$5,049,626 of the District’s bank balance of \$5,824,068 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$5,672,277.

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 \$220,443	\$ 5,672,277
Investments	1,270,347
	<u>6,942,624</u>
	<u>\$ 6,942,624</u>

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

Cash - agency fund	\$ 220,443
Government wide:	
Cash	1,207,485
Investments	1,270,347
Restricted cash - capital projects	3,951,698
Restricted investments - debt service	292,651
	<u>6,942,624</u>
	<u>\$ 6,942,624</u>

NOTE 4 - RECEIVABLES

Receivables from governmental units at June 30, 2010 consist of the following:

Other governmental units:	
State aid	\$ 780,025
Federal revenue	412,436
Other	220,154
	<u>1,412,615</u>
	<u>\$ 1,412,615</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, 2009	Additions	Deletions	Balance June 30, 2010
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 247,679	\$ 2,770,102	\$ -	\$ 3,017,781
Capital assets, being depreciated				
Site improvements	250,655	-	-	250,655
Buildings and improvements	11,165,650	-	-	11,165,650
Machinery and equipment	1,194,598	39,551	-	1,234,149
Transportation equipment	1,140,144	448,194	55,000	1,533,338
Total capital assets, being depreciated	<u>13,751,047</u>	<u>487,745</u>	<u>55,000</u>	<u>14,183,792</u>
Accumulated depreciation:				
Land improvements	192,512	4,508	-	197,020
Buildings and additions	8,559,501	262,939	-	8,822,440
Machinery and equipment	1,076,564	28,466	-	1,105,030
Transportation equipment	924,370	109,546	55,000	978,916
Total accumulated depreciation	<u>10,752,947</u>	<u>405,459</u>	<u>55,000</u>	<u>11,103,406</u>
Net capital assets being depreciated	<u>2,998,100</u>	<u>82,286</u>	<u>-</u>	<u>3,080,386</u>
Net governmental capital assets	<u>\$ 3,245,779</u>	<u>\$ 2,852,388</u>	<u>\$ -</u>	<u>\$ 6,098,167</u>

Depreciation for the fiscal year ended June 30, 2010 amounted to \$405,459. The District allocated depreciation expense to the various activities as follows:

Instruction	\$ 248,950
Support services	2,058
Athletics	2,923
Unallocated	<u>151,528</u>
	<u>\$ 405,459</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, 2010:

	Notes payable	QZAB bonds	General obligation bonds	Sub-total bonds and notes	Compensated absences	Severance benefits	Total
Balance, July 1, 2009	\$ 102,138	\$ 1,000,000	\$ 7,201,375	\$ 8,303,513	\$ 493,353	\$ 143,704	\$ 8,940,570
Deletions	51,069	-	152,703	203,772	1,166	28,875	233,813
Balance, June 30, 2010	51,069	1,000,000	7,048,672	8,099,741	492,187	114,829	8,706,757
Less current portion	51,069	-	220,000	271,069	56,000	11,500	338,569
Total due after one year	\$ -	\$ 1,000,000	\$ 6,828,672	\$ 7,828,672	\$ 436,187	\$ 103,329	\$ 8,368,188

Long-term obligation debt at June 30, 2010 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
2008 general obligation bonds due in annual installments of \$220,000 to \$540,000 through May 1, 2028 with interest from 3.00% to 5.00%.	7,000,000
Plus: premium on bonds	48,672
Total bonded debt	8,048,672
Chase Bank note for purchase of a bus with annual payments of \$51,069 through October 21, 2011, at 4.02% interest rate.	51,069
Obligation under contract from compensated absences	492,187
Obligation under contract from severance incentives	114,829
Total long-term debt	\$ 8,706,757

Interest expense (all funds) for the year ended June 30, 2010 was \$306,267.

**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, 2010, including interest of \$3,332,412 are as follows:

Year ending June 30,	Principal	Interest	Total
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	315,000	265,824	580,824
2016 - 2020	2,830,000	1,123,444	3,953,444
2021 - 2025	2,265,000	650,439	2,915,439
2026 - 2029	1,575,000	142,820	1,717,820
Total	8,051,069	3,332,412	11,383,481
Premium on bonds	48,672	-	48,672
Accumulated compensated absences	492,187	-	492,187
Accumulated severance benefits	114,829	-	114,829
	<u>\$ 8,706,757</u>	<u>\$ 3,332,412</u>	<u>\$ 12,039,169</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2010 are as follows:

Receivable fund		Payable fund	
General	\$ 48,903	General	\$ 20,675
2008 Capital projects	<u>20,675</u>	Athletics	<u>48,903</u>
	<u>\$ 69,578</u>		<u>\$ 69,578</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 (MPSERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. 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 MPSERS 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, 2010 were 16.72% of payroll through September 30, 2009 and 16.94% effective October 1, 2009 through June 30, 2010. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2010, 2009 and 2008 were approximately \$1,330,000, \$1,125,000 and \$1,420,000, 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 \$83,500 to the Athletic Fund to subsidize operations in this fund. The school lunch fund transferred \$50,656 to the general fund for current year indirect costs.

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

During the year ended June 30, 2010 the District recorded \$472,331 of federal unrestricted ARRA revenue to off-set a shortage in the State of Michigan foundation funding. It is uncertain if the District will receive unrestricted ARRA funds in the future.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The District has approximately \$3,700,000 committed to complete its capital projects building program.

NOTE 13 - FUTURE ACCOUNTING STANDARDS

Effective for the year ending June 30, 2011, the District will be required to implement new accounting standards that revise the classification of fund balance and the definition of special revenue funds. As a result, athletic activities will be included in the general fund rather than a separate fund.

REQUIRED SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2010**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 8,176,437	\$ 8,462,344	\$ 8,552,021	\$ 89,677
State sources	3,764,572	3,902,795	3,783,755	(119,040)
Federal sources	2,094,588	2,251,927	2,289,881	37,954
Incoming transfers and other	190,000	208,200	208,200	-
Total revenues	<u>14,225,597</u>	<u>14,825,266</u>	<u>14,833,857</u>	<u>8,591</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	6,691,614	6,935,760	6,882,660	53,100
Added needs	2,153,985	2,167,648	2,159,902	7,746
Adult education	124,137	60,779	57,515	3,264
Total instruction	<u>8,969,736</u>	<u>9,164,187</u>	<u>9,100,077</u>	<u>64,110</u>
Supporting services:				
Pupil	943,012	943,333	931,273	12,060
Instructional staff	348,461	405,568	392,628	12,940
General administration	353,790	330,078	326,736	3,342
School administration	834,328	908,558	902,485	6,073
Business	328,795	350,520	346,883	3,637
Operation/maintenance	1,242,093	1,274,868	1,245,586	29,282
Pupil transportation	882,665	764,435	749,104	15,331
Central	217,598	252,128	242,533	9,595
Total supporting services	<u>5,150,742</u>	<u>5,229,488</u>	<u>5,137,228</u>	<u>92,260</u>
Community services	130,487	107,355	107,045	310
Outgoing transfers and other transactions	55,175	55,175	55,174	1
Total expenditures	<u>14,306,140</u>	<u>14,556,205</u>	<u>14,399,524</u>	<u>156,681</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(80,543)</u>	<u>269,061</u>	<u>434,333</u>	<u>165,272</u>
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	-	50,656	50,656	-
Transfers to other funds	(148,578)	(148,184)	(148,184)	-
Total other financing uses	<u>(148,578)</u>	<u>(97,528)</u>	<u>(97,528)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (229,121)</u>	<u>\$ 171,533</u>	<u>336,805</u>	<u>\$ 165,272</u>
FUND BALANCE:				
Beginning of year			<u>1,727,803</u>	
End of year			<u>\$ 2,064,608</u>	

ADDITIONAL INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2010**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Nonmajor capital projects</u>	<u>Total nonmajor governmental funds</u>
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 281,619	\$ 33,292	\$ 115,820	\$ 430,731
Investments	-	292,651	-	292,651
Due from other governmental units	4,434	-	-	4,434
Due from other funds	-	20,675	-	20,675
Prepaid expenditures	72,000	-	-	72,000
Inventories	6,106	-	-	6,106
TOTAL ASSETS	<u>\$ 364,159</u>	<u>\$ 346,618</u>	<u>\$ 115,820</u>	<u>\$ 826,597</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 34,321	\$ -	\$ -	\$ 34,321
Accrued salaries and related items	30	-	-	30
Due to other funds	48,903	-	-	48,903
Due from other governmental units	-	95	-	95
TOTAL LIABILITIES	<u>83,254</u>	<u>95</u>	<u>-</u>	<u>83,349</u>
FUND BALANCES:				
Reserved for inventories	6,106	-	-	6,106
Reserved for debt service	-	346,523	-	346,523
Reserved for prepaid expenditures	72,000	-	-	72,000
Reserved for capital outlay	-	-	115,820	115,820
Unreserved, undesignated	202,799	-	-	202,799
TOTAL FUND BALANCES	<u>280,905</u>	<u>346,523</u>	<u>115,820</u>	<u>743,248</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 364,159</u>	<u>\$ 346,618</u>	<u>\$ 115,820</u>	<u>\$ 826,597</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2010**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Nonmajor capital projects</u>	<u>Total nonmajor governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 495,597	\$ -	\$ 495,597
Investment earnings	499	7,376	519	8,394
Food sales and admissions	308,638	-	-	308,638
Total local sources	309,137	502,973	519	812,629
State sources	52,602	-	-	52,602
Federal sources	568,690	-	-	568,690
Total revenues	930,429	502,973	519	1,433,921
EXPENDITURES:				
Current:				
Food service activities	717,664	-	-	717,664
Athletic activities	191,487	-	-	191,487
Debt service:				
Principal repayment	-	150,000	-	150,000
Interest expense	-	302,311	-	302,311
Total expenditures	909,151	452,711	-	1,361,862
EXCESS OF REVENUES OVER EXPENDITURES	21,278	50,262	519	72,059
OTHER FINANCING SOURCES (USES):				
Transfers from general fund	83,500	64,684	-	148,184
Transfers to general fund	(50,656)	-	-	(50,656)
Total other financing sources	32,844	64,684	-	97,528
NET CHANGE IN FUND BALANCES	54,122	114,946	519	169,587
FUND BALANCES:				
Beginning of year	226,783	231,577	115,301	573,661
End of year	\$ 280,905	\$ 346,523	\$ 115,820	\$ 743,248

**HOUGHTON LAKE COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010
(with comparative totals for June 30, 2009)**

	Food Service	Athletic	Totals	
			2010	2009
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 220,991	\$ 60,628	\$ 281,619	\$ 141,538
Accounts receivable	-	-	-	5,655
Due from other governmental units	4,434	-	4,434	-
Due from other funds	-	-	-	81,313
Prepaid expenditures	72,000	-	72,000	60,000
Inventories	6,106	-	6,106	3,090
TOTAL ASSETS	\$ 303,531	\$ 60,628	\$ 364,159	\$ 291,596
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 32,092	\$ 2,229	\$ 34,321	\$ 28,212
Accrued salaries and related items	-	30	30	-
Due to other funds	-	48,903	48,903	36,601
TOTAL LIABILITIES	32,092	51,162	83,254	64,813
FUND BALANCES:				
Reserved for inventories	6,106	-	6,106	3,090
Reserved for prepaid expenditures	72,000	-	72,000	60,000
Unreserved/undesignated	193,333	9,466	202,799	163,693
TOTAL FUND BALANCES	271,439	9,466	280,905	226,783
TOTAL LIABILITIES AND FUND BALANCES	\$ 303,531	\$ 60,628	\$ 364,159	\$ 291,596

**HOUGHTON LAKE COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2010
(with comparative totals for the year ended June 30, 2009)**

	Food Service	Athletic	Totals	
			2010	2009
REVENUES:				
Food service	\$ 196,925	\$ -	\$ 196,925	\$ 204,771
State sources	52,602	-	52,602	43,882
Federal sources	568,690	-	568,690	533,129
Admissions	-	111,713	111,713	133,137
Investment earnings	499	-	499	
Other	-	-	-	5,536
Total revenues	818,716	111,713	930,429	920,455
EXPENDITURES:				
Salaries	-	70,441	70,441	73,041
Benefits	-	17,271	17,271	17,783
Purchased services	-	-	-	
Supplies and materials	717,664	103,775	821,439	823,849
Total expenditures	717,664	191,487	909,151	914,673
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	101,052	(79,774)	21,278	5,782
OTHER FINANCING SOURCES (USES):				
Transfer from general fund	-	83,500	83,500	50,000
Transfer to general fund	(50,656)	-	(50,656)	(40,097)
Total other financing sources (uses)	(50,656)	83,500	32,844	9,903
NET CHANGE IN FUND BALANCES	50,396	3,726	54,122	15,685
FUND BALANCES:				
Beginning of year	221,043	5,740	226,783	211,098
End of year	\$ 271,439	\$ 9,466	\$ 280,905	\$ 226,783

**HOUGHTON LAKE COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010**

	<u>2008 Debt Service</u>	<u>QZAB</u>	<u>Total nonmajor</u>
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 33,292	\$ -	\$ 33,292
Investments	-	292,651	292,651
Due from other governmental funds	20,675	-	20,675
	<u>53,967</u>	<u>292,651</u>	<u>346,618</u>
TOTAL ASSETS	<u>\$ 53,967</u>	<u>\$ 292,651</u>	<u>\$ 346,618</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Due to other governmental funds	<u>\$ 95</u>	<u>\$ -</u>	<u>\$ 95</u>
FUND BALANCES:			
Reserved for debt service	<u>53,872</u>	<u>292,651</u>	<u>346,523</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,967</u>	<u>\$ 292,651</u>	<u>\$ 346,618</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2010**

	2008 Debt Service	QZAB	Total Nonmajor
REVENUES:			
Local sources:			
Property taxes	\$ 495,597	\$ -	\$ 495,597
Interest	148	7,228	7,376
	<u>495,745</u>	<u>7,228</u>	<u>502,973</u>
Total revenues			
	<u>495,745</u>	<u>7,228</u>	<u>502,973</u>
EXPENDITURES:			
Redemption of bonds	150,000	-	150,000
Interest on bonded debt	292,311	10,000	302,311
Other	400	-	400
	<u>442,711</u>	<u>10,000</u>	<u>452,711</u>
Total expenditures			
	<u>442,711</u>	<u>10,000</u>	<u>452,711</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>53,034</u>	<u>(2,772)</u>	<u>50,262</u>
OTHER FINANCING SOURCES:			
Transfer from general fund	-	64,684	64,684
	<u>-</u>	<u>64,684</u>	<u>64,684</u>
NET CHANGE IN FUND BALANCES	53,034	61,912	114,946
FUND BALANCES:			
Beginning of year	838	230,739	231,577
	<u>838</u>	<u>230,739</u>	<u>231,577</u>
End of year	\$ 53,872	\$ 292,651	\$ 346,523
	<u>\$ 53,872</u>	<u>\$ 292,651</u>	<u>\$ 346,523</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
 AGENCY FUNDS
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 YEAR ENDED JUNE 30, 2010**

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Agency funds - due to student groups	\$ 238,569	\$ 38,255	\$ 56,381	\$ 220,443

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
YEAR ENDED JUNE 30, 2010**

<u>Calendar Year</u>	<u>Interest rate</u>	<u>Principal due June 21</u>
2021	1.00%	<u>\$ 1,000,000</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, 2010**

2008 General Obligation Bonds

Fiscal year year	Principal due May May 1,	Interest due		Total due annually
		November 1	May 1	
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	\$ 7,000,000	\$ 1,615,182	\$ 1,615,182	\$ 10,230,364

The above bonds dated September 30, 2008 were issued for the purpose of building and site purposes. The amount of the original bond issue was \$7,150,000. The above bonds carry interest ranging from 3.00% to 5.00%.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF INSTALLMENT NOTE PAYABLE
YEAR ENDED JUNE 30, 2010**

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

Principal due October 21,	Interest due October 21,	Debt service requirement	
		June 30,	Amount
\$ 51,069	\$ 2,053	2011	\$ 53,122

The above notes have an interest rate of 4.02%.

HOUGHTON LAKE COMMUNITY SCHOOLS

**ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133**

YEAR ENDED JUNE 30, 2010

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

To the Board of Education
Houghton Lake Community Schools

We have audited the 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, 2010, which collectively comprise Houghton Lake Community Schools' basic financial statements and have issued our report thereon dated September 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Houghton Lake Community 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*.

We noted certain matters that we reported to management of Houghton Lake Community Schools in a separate letter dated September 15, 2010.

This report is intended solely for the information and use of the Board of Education, management 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.

Maney Costeiron PC

September 15, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Houghton Lake Community Schools

Compliance

We have audited Houghton Lake Community Schools' compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Houghton Lake Community Schools' major federal programs for the year ended June 30, 2010. Houghton Lake Community Schools' major federal programs are identified in the summary of auditors' 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 Houghton Lake Community Schools' management. Our responsibility is to express an opinion on Houghton Lake Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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. 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 Houghton Lake Community 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 of Houghton Lake Community Schools' compliance with those requirements.

In our opinion, Houghton Lake Community Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Houghton Lake Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Houghton Lake Community Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 Houghton Lake Community Schools' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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 a 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.

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

Schedule of Expenditures of Federal Awards

We have audited the 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, 2010, and have issued our report thereon dated September 15, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Houghton Lake Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, others within the District, 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.

Manes Costeiran PC

September 15, 2010

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2009	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2010
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
Non-Cash Assistance (Commodities):								
National School Lunch Program - Commodities Entitlement Bonus	10.555		\$ 28,891 \$ 5,204 34,095	- - -	\$ - - -	\$ 28,891 5,204 34,095	\$ 28,891 5,204 34,095	- - -
Cash assistance:								
School Breakfast Program	10.553	101970 091970	129,149 120,858	- -	- 110,302	129,149 10,556	129,149 10,556	- -
National School Lunch	10.555	101950 091950 101960 091960	45,246 47,105 312,421 319,582	- - - -	- 42,424 - 287,041	45,246 4,682 312,421 32,541	45,246 4,682 312,421 32,541	- - - -
Total child nutrition cluster			724,354	-	329,465	394,890	394,890	-
Total U.S. Department of Agriculture			1,008,456	-	439,767	568,690	568,690	-

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2009	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2010
<u>U.S. Department of Education:</u>							
Passed through C.O.R.I.S.D.:							
Special Education Cluster:							
	090450-0809	\$ 368,447	\$ 103,463	\$ 368,447	\$ 103,463	\$ -	\$ -
84.027	100450-0708	401,324	-	-	255,247	401,324	146,077
84.391A	100455/0910	219,876	-	-	83,331	211,473	128,142
Total Special Education Cluster		989,647	103,463	368,447	442,041	612,797	274,219
Tech-Prep							
84.048	103540/10146	578	-	-	578	578	-
	093540/10146	3,500	854	854	854	-	-
Total Tech-Prep		4,078	854	854	1,432	578	-
Total C.O.R.I.S.D.		993,725	104,317	369,301	443,473	613,375	274,219
Passed through Michigan Department of Education:							
Adult Basic Education							
84.002	091130-910777	30,000	1,644	30,000	1,644	-	-
	101130-101777	30,000	-	-	28,665	28,665	-
	091190-910777	30,287	6,776	25,787	6,776	-	-
	101190-101777	26,000	-	-	22,984	22,984	-
Total Adult Basic Education		116,287	8,420	55,787	60,069	51,649	-
Title I Cluster:							
Title I							
84.010	091530-0809	684,181	116,694	-	157,733	41,039	-
	101530-0910	712,238	-	-	575,914	663,997	88,083
		1,396,419	116,694	-	733,647	705,036	88,083
ARRA Title I, Part A		395,708	-	-	117,421	136,543	19,122
Total Title I Cluster		1,792,127	116,694	-	851,068	841,579	107,205

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2009	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2010
<u>U.S. Department of Education (Concluded):</u>							
Passed through Michigan Department of Education (Concluded):							
	Title II - Improving Teacher Quality						
84.367	091530-0809	\$ 181,046	\$ 20,764	\$ 170,287	\$ 25,336	\$ 4,572	\$ -
	081530-0708	182,322	-	-	141,574	156,102	14,528
	Total Title II - Improving Teacher Quality	363,368	20,764	170,287	166,910	160,674	14,528
84.386	ARRA Title II, Part D	14,044	-	-	10,064	12,366	2,302
84.318	Tech Literacy Challenge Grant (IID)	6,955	168	6,955	168	-	-
84.358B	Title VIB	43,939	-	-	18,720	32,902	14,182
84.394	ARRA - Economic Stabilization Fund	472,331	-	-	472,331	472,331	-
	092525-0809	626,366	626,366	-	626,366	-	-
	Total ARRA - Economic Stabilization Fund	1,098,697	626,366	-	1,098,697	472,331	-
Passed through C.O.P.E.S.D.:							
84.186	Drug Free Schools	9,302	-	-	9,302	9,302	-
	Total Michigan Department of Education	3,444,719	772,412	233,029	2,214,998	1,580,803	138,217
	Total U.S. Department of Education	4,438,444	876,729	602,330	2,658,471	2,194,178	412,436
<u>U.S. Department of Health and Human Services:</u>							
Passed Through the MI Dept of Health and Human Services:							
93.778	Medicaid Outreach	86,762	-	-	86,762	86,762	-
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 5,533,662	\$ 876,729	\$ 1,042,097	\$ 3,313,923	\$ 2,849,630	\$ 412,436

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Houghton Lake Community Schools and is presented on 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*. The amounts presented in this schedule have been reconciled to the amounts used in the preparation of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. (CFDA #84.010 & 84.389) Title I Cluster, (CFDA #84.027 & 84.391A) Special Education Cluster, and (CFDA #84.394) State Fiscal Stabilization Fund were audited as major programs representing 68%.
2. The threshold for distinguishing type A and type B programs was \$300,000.
3. Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Education.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
5. The amounts reported on the Receipt Entitlement Balance Report agree with this schedule for USDA donated food commodities.

NOTE 3 - RECONCILIATION OF FEDERAL REVENUE

Federal expenditures reported as revenue in the following funds in the financial statements.

General fund revenue	\$ 2,289,881
Other non-major governmental funds revenue	568,690
	2,858,571
Less payment in lieu of taxes	(8,941)
Total federal expenditures	\$ 2,849,630

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

➤ Material weakness(es) identified? _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.394	State Fiscal Stabilization Fund
84.027 & 84.391A	Special Education Cluster
84.010 & 84.389	Title I Cluster

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

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

There were no prior year audit findings for the year ended June 30, 2009.