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Holton Public Schools

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2011

Holton Public Schools

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## **Management's Discussion and Analysis 2010-2011**

This section of Holton Public School's Annual Financial Report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2011. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand Holton Public School financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund, the General Fund, and all other funds presented in one column as nonmajor funds. The remaining statement, the Statement of Fiduciary Assets and Liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

### **Overview of the Financial Statements**

This annual report consists of four parts: (1) management's discussion and analysis (this section), (2) the auditor's opinion, (3) the basic financial statements, and (4) the required supplementary information. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the District.

### **Reporting the School District as a Whole – District-Wide Financial Statements**

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



## Management's Discussion and Analysis 2010-2011

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

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

### **Reporting the School District's Most Significant Funds – Fund Financial Statements**

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

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

### **The School District as Trustee – Reporting the School District's Fiduciary Responsibilities**

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



**Management’s Discussion and Analysis 2010-2011**

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. The net assets of the District at June 30, 2011 amounted to approximately \$3.8 million. Table 1 shows a condensed breakdown of the net assets.

	<b>Governmental Activities June 30, 2011</b>	<b>Governmental Activities June 30, 2010</b>
Current assets	\$ 4,049,879	\$ 4,316,935
Capital assets, net	18,050,952	18,516,495
Other non-current assets	232,860	257,764
<b>Total assets</b>	<b>22,333,691</b>	<b>23,091,194</b>
Current liabilities	2,731,845	2,853,474
Non-current liabilities	15,790,662	16,205,592
<b>Total liabilities</b>	<b>18,522,507</b>	<b>19,059,066</b>
Net assets		
Invested in capital assets, net of related debt	2,140,744	2,022,030
Restricted for Debt Service	230,036	173,172
Unrestricted	1,440,404	1,836,926
<b>Total net assets</b>	<b>\$ 3,811,184</b>	<b>\$ 4,032,128</b>

The largest portion of the District’s net assets reflects investment in capital assets (e.g., land, buildings and improvements, fiber optics, furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

The changes affecting the Condensed Statement of Net Assets include the decrease in current assets due to the use of fund balance, a decrease in capital assets due to depreciation, less borrowing for state aid and payment on long-term borrowings.



**Management’s Discussion and Analysis 2010-2011**

The results of this year’s operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2011.

	<b>Governmental Activities <u>June 30, 2011</u></b>	<b>Governmental Activities <u>June 30, 2010</u></b>
<b>Revenues</b>		
Program Revenues		
Charges for services	\$ 219,014	\$ 289,862
Operating grants and contributions	2,325,599	2,599,780
General revenues		
Property taxes	1,762,318	1,838,272
Unrestricted grants and contributions	5,918,939	6,171,659
Other	36,047	22,975
<b>Total revenues</b>	<b>10,261,917</b>	<b>10,992,548</b>
<b>Expenses</b>		
Instruction	5,578,306	5,828,699
Support services	3,461,915	3,264,086
Community services	0	0
Food services	484,867	538,864
Athletics	398,691	405,886
Interest on long-term debt	546,610	670,814
Unallocated depreciation and amortization	12,472	12,094
<b>Total Expenses</b>	<b>10,482,861</b>	<b>10,720,443</b>
<b>Increase (decrease) in net assets</b>	<b>(220,944)</b>	<b>202,105</b>
Net assets at beginning of year	<b>4,032,128</b>	<b>3,830,023</b>
<b>Net assets at end of year</b>	<b>\$ 3,811,184</b>	<b>\$ 4,032,128</b>

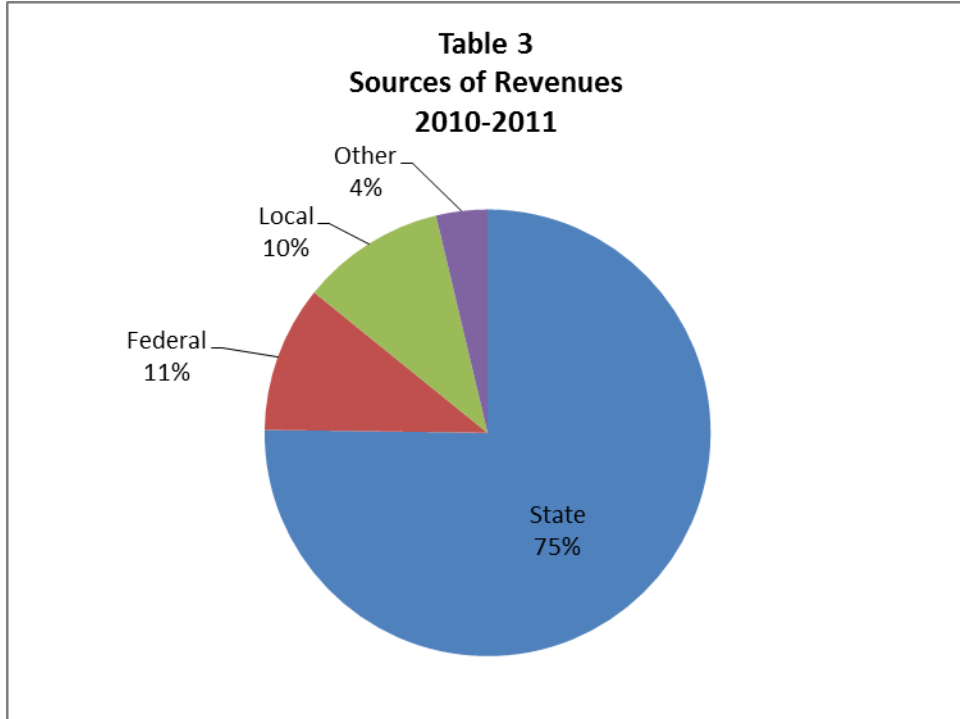
The net assets of the District decreased by \$220,944 during the 2010-2011 fiscal year. The cost of the District’s governmental activities for the year was \$10.48 million. Those who benefited from food service, athletic programs, and support services, mostly made up of centralized transportation and paid service charges of \$219 thousand. Operating grants and contributions of \$2.3 million were for programs paid for by other governments and organizations. The other resources were provided with property tax, state pupil foundation allowance (state aid), investment earnings and other miscellaneous revenues.

The overall change in the Statement of Activities was due to a decrease in ARRA IDEA revenue, ARRA Stabilization, and Universal Breakfast funding; along with a decrease in expenditures.



**Management’s Discussion and Analysis 2010-2011**

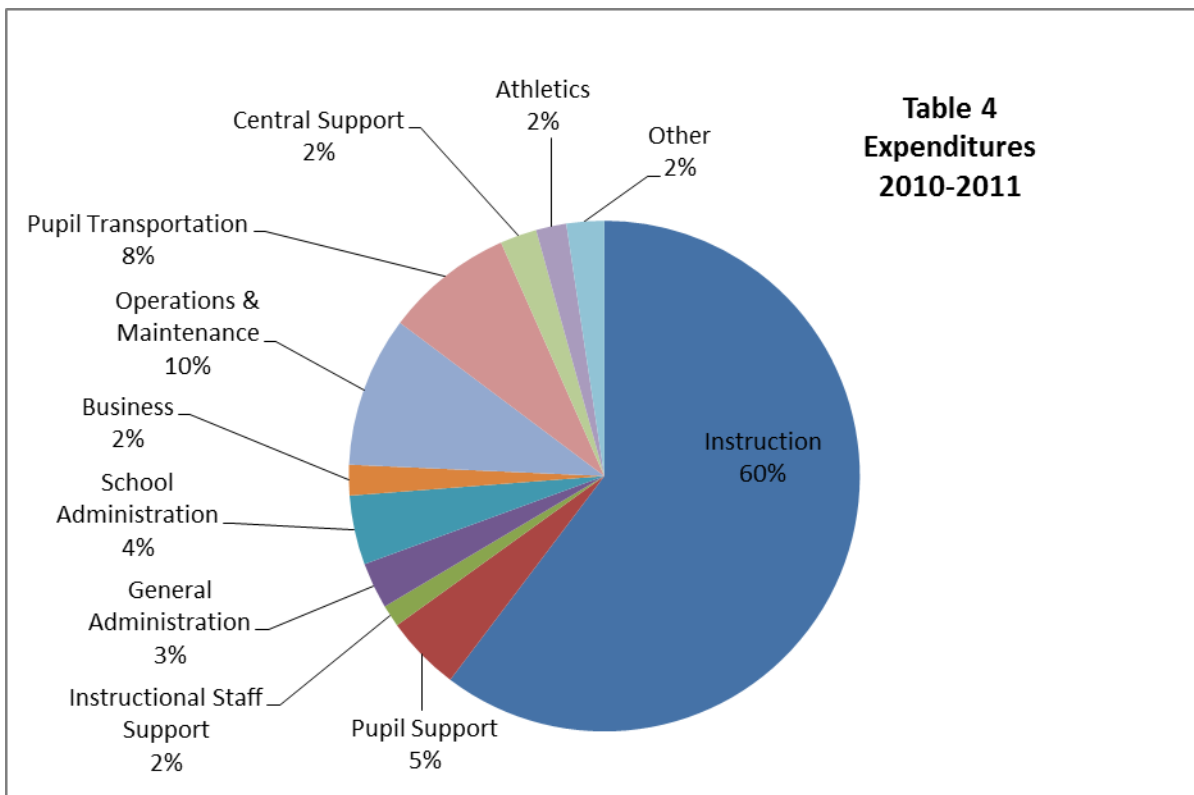
A substantial portion (75%) of the District’s revenues is received from State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. Table 3 depicts the breakdown of the sources of General Fund Revenue for the District.



As discussed above, the net cost shows the financial burden that was placed on the State and the School District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of district operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

**Management’s Discussion and Analysis 2010-2011**

Table 4 depicts the breakdown of the sources of General Fund Expenditures for the District. 65% of the District’s resources are spent on instruction and pupil support services. Another 11% is spent on administrative and business services necessary to efficiently operate the District, while 18% is spent for transportation and maintenance, including utilities and custodial services. The final 6% is spent on other support services including athletics, debt payments and transfers to other funds.





## Management's Discussion and Analysis 2010-2011

### **Financial Analysis of the District's Funds**

The financial performance of the District as a whole is reflected in its governmental funds as well. The general fund equity decreased by \$178,137 during the 2010-2011 fiscal year, resulting in fund equity of \$1,595,637 at year end. The primary reasons for the change in fund balance are as follows:

#### **Factors Impacting Operations**

*Student Enrollment* – The student population decreased from a blended count in 09/10 of 1,039 to a blended count of 963 for 10/11 for a decrease of 76.

*State Aid* – Throughout the school year district administrators across Michigan, including this administration shouldered the burden of a pro-ration in per pupil funding of \$170 per pupil. The foundation allowance was reduced by \$165 per pupil in late October with \$11 per pupil restored in July 2010 for a final per pupil funding of \$7,162, a decrease of \$154 per pupil from the prior year.

*ARRA Federal Funding* – 2010/2011 was the final year of the ARRA Federal funding grants. The District received \$644,798 in ARRA grants in 2009/2010 compared to \$241,876 in 2010/2011.

*Food Service* - The food service program for the 2010/2011 school year did not require additional funding from the general fund for the seventh straight year. Revenues generated from the food service department were greater than the expenditures for the program. For the seventh year in a row, the food service fund was charged an indirect cost rate of \$35,000 to supplement the general fund for operations and maintenance.

*Borrowing* – The financial condition of the district allowed the reduction in the amount needed to borrow for cash flow purposes. Each year the district participates in the Michigan Municipal Bond Authority State Aid Note. A reduction in borrowing each year continues to reduce the interest expense.

#### **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements).

Variations between the final budget amounts and actual amounts were largely due to the following:



## Management's Discussion and Analysis 2010-2011

- Local revenue was higher by \$24,000 due to an increase in transportation fees charged to another local school district for use of District buses for an after school program.
- Act 18 revenues were higher than anticipated by \$96,000.
- Special education billback from the ISD was lower than expected by \$52,000

### **Original vs. Amended Budget**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The district amends the budget various times during the year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Revenues – There was a \$188,808 net change (decrease) in the total General Fund revenue budget from the beginning to the end of the year. The significant changes in funding sources were as follows:

- The *local source* revenue budget decreased by \$74,356. This decrease was attributed to changes in taxable values and transportation fees.
- The *state source* revenue budget decreased by \$460,709. The decrease was due carrying over restricted At-Risk dollars to the 2011-2012 year and less state aid due to lower than expected student enrollment.
- The *federal source* revenue budget increased by \$352,547. The main reason for the increase was the receipt of additional EduJobs and ARRA Stabilization Funds.



**Management’s Discussion and Analysis 2010-2011**

Expenditures – The significant changes by functional category are as follows:

- The *instructional services* budget decreased by \$345,434 throughout the year due to a reduction in supply purchases along with the reduction in At-Risk expenditures to match the revenue carryover to 2011-2012.
- The *pupil support* budget had a net increase of \$151,603. This was the result of adding a new position for a behavioral specialist.
- The *general administration* budget had a net decrease of \$29,491. This was the result of a reduction in legal fees and election expenses.
- The *business services* budget had a net decrease of \$41,675 due to the decrease in MAISD fees, interest expense and tax charge backs.
- The *operations and maintenance* budget had a net decrease of \$52,513 due to the energy project, reduction in maintenance costs, and lower fuel costs.
- The *transportation* budget had a net increase of \$83,260 mainly due to an increase in fuel costs and adding transportation services for an after school program.
- The *central services* budget increased by \$62,981. This increase is the result of the purchasing of a new phone system.

**Capital Assets**

At June 30, 2011, the School District had \$18,050,952 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$465,543 from last year.

	<u>2011</u>	<u>2010</u>
Land	\$ 209,670	\$ 209,670
Construction in progress	0	1,509,221
Building and building improvements	17,300,699	16,266,832
Buses and other vehicles, furniture and equipment	<u>540,583</u>	<u>530,772</u>
 Total capital assets	 <b><u>\$18,050,952</u></b>	 <b><u>\$18,516,495</u></b>



## Management's Discussion and Analysis 2010-2011

### **Debt**

At the end of this year, the School District had \$16,401,072 in bonds and other long-term obligations outstanding versus \$16,936,321 in the previous year – a net decrease of \$535,249 due scheduled payments for the debt service. The district continues to participate in an education interconnection and consortium financing agreement. The district participated again this year in the School Bond Loan Fund. We present more detailed information about our long-term liabilities in the notes to the financial statement

### **Economic Factors and Next Year's Budget**

Our elected officials and administration considered many factors when setting the School District's 2012 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2012 fiscal year is 10 percent and 90 percent of the February 2011 and September 2011 student counts, respectively. The 2012 budget was adopted in June 2011, based on an estimated number of students that will be enrolled in September 2011. Approximately 75 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations. State per pupil funding for 2011-2012 will be \$6,846, down \$300 per pupil from \$7,016 (\$7,316 less \$170 2010-2011 reduction).

### **Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Business Department at the Holton Public Schools Administrative Office, Holton, Michigan 49425.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

September 12, 2011

Board of Education  
Holton Public Schools  
Holton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holton Public Schools (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Holton Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Holton Public Schools, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated September 12, 2011, on our consideration of Holton Public 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 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.

BRICKLEY DELONG

Board of Education  
Holton Public Schools  
September 12, 2011  
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i - x and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Brickley De Long, P.C.*

Holton Public Schools  
**STATEMENT OF NET ASSETS**  
June 30, 2011

	<u>Governmental activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 1,852,058
Investments	350,195
Receivables	105,459
Due from other governmental units	1,653,138
Inventories	7,764
Prepaid items	81,265
	<hr/>
Total current assets	4,049,879
<b>NONCURRENT ASSETS</b>	
Capital assets, net	
Nondepreciable	209,670
Depreciable	17,841,282
Bond issuance costs, net	206,192
Note and interest receivable	26,668
	<hr/>
Total noncurrent assets	18,283,812
	<hr/>
Total assets	22,333,691
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
State aid loan	650,000
Accounts payable and accrued liabilities	987,015
Due to other governmental units	254,292
Deferred revenue	230,128
Bonds and other obligations, due within one year	610,410
	<hr/>
Total current liabilities	2,731,845
<b>NONCURRENT LIABILITIES</b>	
Bonds and other obligations, less amounts due within one year	15,790,662
	<hr/>
Total liabilities	18,522,507
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	2,140,744
Restricted for debt service	230,036
Unrestricted	1,440,404
	<hr/>
Total net assets	<b><u>\$ 3,811,184</u></b>

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2011

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Governmental activities</u>
Governmental activities				
Instruction	\$ 5,578,306	\$ -	\$ 1,562,524	\$ (4,015,782)
Support services	3,461,915	130,481	294,588	(3,036,846)
Food services	484,867	66,537	466,709	48,379
Athletics	398,691	21,996	-	(376,695)
Interest on long-term debt	546,610	-	1,778	(544,832)
Unallocated amortization	12,472	-	-	(12,472)
Total governmental activities	<b><u>\$ 10,482,861</u></b>	<b><u>\$ 219,014</u></b>	<b><u>\$ 2,325,599</u></b>	(7,938,248)
General revenues				
Property taxes				1,762,318
Grants and contributions not restricted to specific programs				5,918,939
Investment earnings				853
Miscellaneous				35,194
Total general revenues				<u>7,717,304</u>
Change in net assets				(220,944)
Net assets at beginning of year				<u>4,032,128</u>
Net assets at end of year				<b><u>\$ 3,811,184</u></b>

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2011

	<u>General Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,447,242	\$ 404,816	\$ 1,852,058
Investments	350,195	-	350,195
Receivables	105,459	-	105,459
Due from other governmental units	1,648,551	4,587	1,653,138
Due from other funds	-	6,685	6,685
Inventories	-	7,764	7,764
Prepaid items	41,265	40,000	81,265
	<b>\$ 3,592,712</b>	<b>\$ 463,852</b>	<b>\$ 4,056,564</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
State aid loan	\$ 650,000	\$ -	\$ 650,000
Accounts payable	56,886	29,693	86,579
Accrued liabilities	799,084	-	799,084
Due to other governmental units	254,292	-	254,292
Due to other funds	6,685	-	6,685
Deferred revenue	230,128	-	230,128
	1,997,075	29,693	2,026,768
Fund balances			
Nonspendable			
Inventories	-	7,764	7,764
Prepaid items	41,265	40,000	81,265
Restricted for			
Debt service	-	331,388	331,388
Food service	-	55,007	55,007
Unassigned	1,554,372	-	1,554,372
	1,595,637	434,159	2,029,796
	<b>\$ 3,592,712</b>	<b>\$ 463,852</b>	<b>\$ 4,056,564</b>

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2011

Total fund balance—governmental funds		\$ 2,029,796
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 26,923,005	
Accumulated depreciation	<u>(8,872,053)</u>	18,050,952
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	268,716	
Accumulated amortization	<u>(62,524)</u>	206,192
Other long-term note and interest receivable in governmental activities is not reported in the governmental funds.		
		26,668
Accrued interest in governmental activities is not reported in the governmental funds.		
		(101,352)
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
		<u>(16,401,072)</u>
Net assets of governmental activities in the Statement of Net Assets		<u><u>\$ 3,811,184</u></u>

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Governmental Funds  
 For the year ended June 30, 2011

	<u>General Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>REVENUES</b>			
Local sources			
Property taxes	\$ 726,895	\$ 1,041,710	\$ 1,768,605
Investment earnings	681	221	902
Fees and charges	475,128	63,886	539,014
Other	17,222	2,651	19,873
Total local sources	1,219,926	1,108,468	2,328,394
State sources	6,532,006	53,431	6,585,437
Federal sources	921,153	427,488	1,348,641
Total revenues	8,673,085	1,589,387	10,262,472
<b>EXPENDITURES</b>			
Current			
Instruction	5,324,917	-	5,324,917
Supporting services	3,358,954	-	3,358,954
Food services	-	485,144	485,144
Debt service			
Principal repayment	-	522,359	522,359
Interest and other charges	-	628,721	628,721
Capital projects	-	157,726	157,726
Total expenditures	8,683,871	1,793,950	10,477,821
Excess (deficiency) of revenues over (under) expenditures	(10,786)	(204,563)	(215,349)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other governmental units and other transactions	11,926	-	11,926
Transfers in	35,000	113,333	148,333
Transfers out	(113,333)	(35,000)	(148,333)
Loan proceeds	-	35,337	35,337
Other transactions	(100,944)	-	(100,944)
Total other financing sources (uses)	(167,351)	113,670	(53,681)
Net change in fund balances	(178,137)	(90,893)	(269,030)
Fund balances at beginning of year	1,773,774	525,052	2,298,826
Fund balances at end of year	<u>\$ 1,595,637</u>	<u>\$ 434,159</u>	<u>\$ 2,029,796</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2011

Net change in fund balances—total governmental funds		\$ (269,030)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.		
Depreciation and amortization expense	\$ (770,566)	
Capital outlay and bond issuance costs	<u>305,240</u>	(465,326)
Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.		(12,689)
Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.		(43,288)
Receipts of principal on notes receivable is revenue in the governmental funds, but the receipt reduces notes receivable in the Statement of Net Assets.		(12,359)
Interest income on notes receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.		(73)
Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets.		609,088
Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		3,284
Early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		<u>(30,551)</u>
Change in net assets of governmental activities		<u><b>\$ (220,944)</b></u>

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2011

	<u>Agency funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 66,022</u>
<b>LIABILITIES</b>	
Deposits held for others	<u>\$ 66,022</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Holton Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental 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 School District's accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School 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 School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***District-wide and Fund Financial Statements***

**District-wide Financial Statements**

The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-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 School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) 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 School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *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. Property taxes, unrestricted state aid, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). 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 School District does not allocate indirect costs.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*District-wide and Fund Financial Statements—Continued*

**Fund financial statements**

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

In the fund financial statements, when expenditures are incurred in governmental fund types for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the School District's policy to consider that restricted amounts have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

**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 School District reports the following major governmental funds:

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

The other nonmajor governmental funds are reported within the following types:

- 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 School District accounts for its food service activities in the school service special revenue fund.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the financial resources to be used for the acquisition of fixed assets or construction of major capital projects.

**Fiduciary funds**

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-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 modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus, Basis of Accounting and Basis of Presentation***

**Accrual Method**

The district-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, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. 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 School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and 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 School District.

**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 school districts. For the year ended June 30, 2011, the foundation allowance was based on pupil membership counts taken in February and September of 2010.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2010 to August 2011. Thus, the unpaid portion at June 30, 2011 is reported as due from other governmental units.

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

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies*

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Pooled investment income is generally allocated to each fund using a weighted average of balances for the principal.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, 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 standard also provides 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 School District intends to hold the investment until maturity.

State statutes authorize the School 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 School 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. The School District's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or 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 non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of 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 date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

**Inventories**

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**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. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. 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 fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	20-50 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Compensated Absences**

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

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

**Deferred Revenue**

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized 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.

**Net Assets in District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund and School Loan Revolving Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

In the fund financial statements, governmental fund balance is presented in five possible categories:

- a. *Nonspendable*—resources which cannot be spent because they are either 1) not in spendable form; or 2) legally or contractually required to be maintained intact.
- b. *Restricted*—resources with constraints placed on the use of resources which are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation.
- c. *Committed*—resources which are subject to limitations the School District imposes upon its self at its highest level of decision making, and that remain binding unless the limitations are removed in the same manner.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Fund Equity In Fund Financial Statements—Continued**

- d. *Assigned*—resources neither restricted nor committed for which a School District has a stated intended use as established by the Board of Education or a body or official to which the Board of Education has delegated the authority to assign amounts for specific purposes.
- e. *Unassigned*—resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

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 Fund and special revenue funds. All annual appropriations lapse at year end.

The School 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.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). 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, are noted in the required supplementary information section.
4. The Business Manager is authorized to transfer budgeted amounts within 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 Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2011.

**Excess of Expenditures Over Appropriations**

The School District did not have significant budget variances.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2011, the School District had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (Days)</b>	<b>Standard &amp; Poor's rating</b>	<b>Percent</b>
U.S. Treasury Obligations - State and Local Government Series	\$ 350,195	90	AAAm	100%

**Interest rate risk**

In accordance with its investment policy, the School 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 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 School District's cash requirements.

**Credit risk**

State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk**

In accordance with its investment policy, the School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District 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 School District's deposits may not be returned to it. As of June 30, 2011, \$1,626,671 of the School District's bank balance of \$1,990,534 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments**

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

The School District will minimize custodial credit risk 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 School District will do business

**Foreign currency risk**

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

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 was as follows:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2011</b>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 209,670	\$ -	\$ -	\$ 209,670
Construction in progress	1,509,221	-	1,509,221	-
Total capital assets, not being depreciated	1,718,891	-	1,509,221	209,670
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	23,275,361	1,666,947	-	24,942,308
Furniture and equipment	956,140	69,442	67,042	958,540
Vehicles and equipment	817,120	78,072	82,705	812,487
Total capital assets, being depreciated	25,048,621	1,814,461	149,747	26,713,335
<b>Less accumulated depreciation:</b>				
Buildings and improvements	7,008,529	633,080	-	7,641,609
Furniture and equipment	659,589	68,043	54,353	673,279
Vehicles and equipment	582,899	56,971	82,705	557,165
Total accumulated depreciation	8,251,017	758,094	137,058	8,872,053
Total capital assets, being depreciated, net	16,797,604	1,056,367	12,689	17,841,282
Capital assets, net	<b>\$ 18,516,495</b>	<b>\$ 1,056,367</b>	<b>\$ 1,521,910</b>	<b>\$ 18,050,952</b>

**Depreciation**

Depreciation expense has been charged to functions as follows:

Instruction	\$ 360,719
Support services	162,663
Athletics	9,356
Food services	225,356
	<b>\$ 758,094</b>

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE E—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended June 30, 2011 was as follows:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2011</b>
Bond issuance costs	\$ 268,716	\$ -	\$ -	\$ 268,716
Less accumulated amortization	50,052	12,472		62,524
Bond issuance costs, net	<b><u>\$ 218,664</u></b>	<b><u>\$ (12,472)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 206,192</u></b>

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2011 is as follows:

**Due to/from other funds:**

<b>Receivable fund</b>	<b>Payable fund</b>	<b>Amount</b>
Other governmental funds	General Fund	<b><u>\$ 6,685</u></b>

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 the accounting system, and (3) payments between funds are made.

**Interfund Transfers**

The General Fund transferred \$113,333 to the School Improvement Sinking Fund and the Food Service Fund transferred \$35,000 to the General Fund to finance operations.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE G—SHORT-TERM DEBT**

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2011 follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>
State aid anticipation notes				
2009/2010 .85% to 1.4% due August 2010	\$ 749,000	\$ -	\$ 749,000	\$ -
2010/2011 .40% to .80% due August 2011	-	650,000	-	650,000
	<b>\$ 749,000</b>	<b>\$ 650,000</b>	<b>\$ 749,000</b>	<b>\$ 650,000</b>

**NOTE H—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include the School Loan Revolving Fund, equipment installment loans, and Education Interconnection and Consortium Financing Agreement.

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due within</u> <u>one year</u>
<b>Governmental activities</b>					
Bonds	\$ 16,553,493	\$ -	\$ 514,051	\$ 16,039,442	\$ 542,947
Other obligations	382,828	43,288	95,037	331,079	67,463
Compensated absences	-	30,551	-	30,551	-
	<b>\$ 16,936,321</b>	<b>\$ 73,839</b>	<b>\$ 609,088</b>	<b>\$ 16,401,072</b>	<b>\$ 610,410</b>

In the previous schedule, the additions for other obligations represent \$35,377 of new draws and \$7,951 of accrued interest on the School Loan Revolving Fund.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

General obligation bonds consist of the following:

2005 Refunding General Obligation Bond payable in annual installments ranging from \$385,000 to \$450,000 due May 2012 to 2028; plus interest ranging from 3.75% to 5% payable semi-annually	\$ 7,465,000
Plus issuance premium	97,363
Less deferred amount on refunding	(231,346)
2006 Building and Site Bond payable in annual installments ranging from \$145,000 to \$655,000 due May 2012 to 2030; plus interest ranging from 3.5% to 4.4% payable semi-annually	6,990,000
Less issuance discount	(8,085)
Durant obligations payable in annual installments of \$14,209 including interest at 4.76% due May 2012 to 2013. The School District is only obligated to make the annual installments to the extent of annual State of Michigan state school aid appropriations.	26,510
0% 2009 School Improvement Bond requiring annual set aside principal installments of \$113,333 through August 2024	<u>1,700,000</u>
Total bonded debt	16,039,442
School bus loans payable in aggregate quarterly installments of \$8,241 through September 2012; plus interest ranging from 4.23% to 4.44%	\$ 41,203
School bus loans payable in aggregate quarterly installments of \$3,428 through December 2011; including interest at 4.54%	6,740
School Loan Revolving Fund payable no later than May 2036; interest payable of \$13,967 is included at interest rates between 3.0% and 4.8%	227,611
Education Interconnection and Consortium Financing Agreement payable in annual installments of \$12,654 due March 2012 to 2013	25,308
Security camera loan payable in annual installments of \$15,108 through October 2012; plus interest at 4.18%	<u>30,217</u>
Total other obligations	331,079
Compensated absences	<u>30,551</u>
	<b><u><u>\$ 16,401,072</u></u></b>

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize the bonded debt, equipment installment loans and Education Interconnection and Consortium Financing Agreement outstanding as of June 30, 2011 follow:

<b>Year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 610,410	\$ 612,129	\$ 1,222,539
2013	604,568	590,097	1,194,665
2014	585,000	563,228	1,148,228
2015	615,000	536,179	1,151,179
2016	645,000	508,041	1,153,041
2017-2021	3,675,000	2,112,645	5,787,645
2022-2026	6,190,000	1,300,110	7,490,110
2027-2030	3,360,000	332,634	3,692,634
	<b>\$ 16,284,978</b>	<b>\$ 6,555,063</b>	<b>\$ 22,840,041</b>

**NOTE I—EMPLOYEE BENEFITS**

***Employee Retirement System – Defined Benefit Plan***  
**Plan description**

The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the twelve member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
 Michigan Public School Employees Retirement System  
 P.O. Box 30171  
 Lansing Michigan 48909-7671  
 1-800-381-5111

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE I—EMPLOYEE BENEFITS—Continued**

**Funding policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired between January 1, 1990 and June 30, 2008 and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 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 percent of gross wages begin at enrollment. Actuarial rate of 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 contributions plus interest, if any, are refundable.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school fiscal year and members who were hired on or after July 1, 2010, with a starting salary less than \$18,000 are required to contribute 1.5% of the member's compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2011 ranged from 16.94 percent to 20.66 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2011, 2010 and 2009 were approximately \$837,000, \$809,000, and \$803,000 respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits**

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE I—EMPLOYEE BENEFITS—CONTINUED**

***Employee Retirement System – Defined Contribution Plan***

Public Act 75 of 2010 established the Pension Plus Plan which provides all individuals hired on or after July 1, 2010, with a combined Defined Benefit and Defined Contribution benefit structure. Any member of MPSERS who became a member of MPSERS on or after July 1, 2010 is a Pension Plus member. The plan is administered by the MPSERS Board of Trustees and the contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees.

Employees under the Pension Plus Plan are automatically enrolled in the defined contribution component of the plan with a default employee contribution rate of 2 percent of the employee's pay. Employees may increase their personal contribution up to the annual IRS limit or can elect out of contributing. The School District is required to match 50 percent of the employee contribution up to 1 percent of the employee's pay. For the year ended June 30, 2011, School District and employee contributions were approximately \$400 and \$1,000, respectively.

**NOTE J—CONTINGENCIES AND OTHER MATTERS**

***Contingencies***

**Grant Programs**

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

***Other Matters***

**Related Party Transactions**

The School District contracted with a Company owned by a board member to provide construction and maintenance services totaling approximately \$38,000.

**NOTE K—OTHER INFORMATION**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a 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 workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2011 or any of the prior three years.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE L—SUBSEQUENT EVENT**

In August 2011, the School District received the proceeds of two State of Michigan (State) school aid anticipation notes payable. The proceeds from the notes are \$250,000 and \$600,000. The notes payable are not subject to redemption prior to their maturity in August 2012 and bear interest at the rate of 0.6 percent and 0.311 percent per annum, respectively. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

**REQUIRED SUPPLEMENTARY INFORMATION**

Holton Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
 General Fund  
 For the year ended June 30, 2011

	<u>Budgeted amounts</u>		<u>Actual</u>	<b>Variance with final budget- positive (negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local sources	\$ 1,187,173	\$ 1,112,817	\$ 1,219,926	\$ 107,109
State sources	7,007,693	6,546,984	6,532,006	(14,978)
Federal sources	574,296	926,843	921,153	(5,690)
Incoming transfers and other transactions	53,290	47,000	46,926	(74)
Total revenues	8,822,452	8,633,644	8,720,011	86,367
<b>EXPENDITURES</b>				
Instruction				
Basic programs	3,872,191	3,734,670	3,692,508	42,162
Added needs	1,926,358	1,718,446	1,632,409	86,037
Support services				
Pupil	277,930	429,533	429,044	489
Instructional staff	147,503	134,276	125,820	8,456
General administration	299,586	270,095	263,594	6,501
School administration	390,674	393,307	394,662	(1,355)
Business	225,180	183,505	174,302	9,203
Operations and maintenance	914,110	861,597	858,221	3,376
Pupil transportation services	656,308	739,568	731,214	8,354
Central	148,817	211,798	208,762	3,036
Athletics	188,059	173,354	173,335	19
Outgoing transfers and other transactions	222,635	214,300	214,277	23
Total expenditures	9,269,351	9,064,449	8,898,148	166,301
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (446,899)</u>	<u>\$ (430,805)</u>	(178,137)	<u>\$ 252,668</u>
Fund balance at beginning of year			<u>1,773,774</u>	
Fund balance at end of year			<u>\$ 1,595,637</u>	

**RECEIVED**

*By John Brooks at 1:23 pm, Oct 06, 2011*

Holton Public Schools  
**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**  
Financial Report and  
Independent Auditors' Reports  
June 30, 2011

**C O N T E N T S**

FINANCIAL REPORT AND INDEPENDENT AUDITORS' REPORTS

INTERNAL CONTROL AND COMPLIANCE REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....7

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SCHEDULE OF FINDINGS AND RESPONSES .....11

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS .....14

CORRECTIVE ACTION PLAN .....15

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' 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*

September 12, 2011

Board of Education  
Holton Public Schools  
Holton, Michigan

We have audited the financial statements of Holton Public Schools as of and for the year ended June 30, 2011 and have issued our report thereon dated September 12, 2011. 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 Holton Public 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 Holton Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Holton Public 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency in internal control over financial reporting, as Finding 2011-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Holton Public 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*.

Holton Public Schools' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Holton Public Schools' response and, accordingly, we express no opinion on it.

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

*Brickley De Long, P.C.*

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' 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

September 12, 2011

Board of Education  
Holton Public Schools  
Holton, Michigan

### *Compliance*

We have audited Holton Public 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 Holton Public Schools' major federal programs for the year ended June 30, 2011. Holton Public Schools' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Holton Public Schools' management. Our responsibility is to express an opinion on Holton Public 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Holton Public 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 Holton Public Schools' compliance with those requirements.

In our opinion, Holton Public 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, 2011.

***Internal Control Over Compliance***

Management of Holton Public 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 Holton Public 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 Holton Public 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 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 Holton Public Schools as of and for the year ended June 30, 2011, and have issued our report thereon dated September 12, 2011, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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.

*Brickley De Long, P.C.*

Holton Public Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2011

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2010	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2011
					Prior year(s)	Current year	Total	
<i>U.S. Department of Education</i>								
Passed through Michigan Department of Education								
Title I, Part A Cluster								
Title I								
101530 0910	84.010	\$ 320,098	\$ 40,908	\$ 40,908	\$ 251,667	\$ -	\$ 251,667	\$ -
111530 1011		365,761	-	212,553	-	257,385	257,385	44,832
		685,859	40,908	253,461	251,667	257,385	509,052	44,832
ARRA - Title I								
101535 0910	84.389	143,569	23,384	23,384	62,853	-	62,853	-
111535 1011		80,716	-	45,727	-	80,716	80,716	34,989
		224,285	23,384	69,111	62,853	80,716	143,569	34,989
Total Title I, Part A Cluster		910,144	64,292	322,572	314,520	338,101	652,621	79,821
Improving Teacher Quality								
100520 0910	84.367	109,265	8,510	43,948	45,722	35,438	81,160	-
110520 1011		88,588	-	36,380	-	43,384	43,384	7,004
		197,853	8,510	80,328	45,722	78,822	124,544	7,004
ARRA - Title II D								
104295 0910	84.386	5,582	189	189	4,680	-	4,680	-
114295 1011		902	-	902	-	902	902	-
		6,484	189	1,091	4,680	902	5,582	-
ARRA-Education Stabilization Fund								
102525 0910	84.394	298,550	64,611	64,611	298,550	-	298,550	-
112525 1011		120,691	-	99,878	-	120,691	120,691	20,813
		419,241	64,611	164,489	298,550	120,691	419,241	20,813
Education Jobs Fund								
112545 10-11	84.410A	231,551	-	201,819	-	231,551	231,551	29,732
Total passed through Michigan Department of Education		1,765,273	137,602	770,299	663,472	770,067	1,433,539	137,370

Holton Public Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2011

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2010	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2011
					Prior year(s)	Current year	Total	
<i>U.S. Department of Education-continued</i>								
Passed through Muskegon Area Intermediate School District								
Special Education Cluster								
ARRA - IDEA Flowthrough	84.391							
100455 0910		\$ 323,394	\$ 74,203	\$ 74,203	\$ 278,715	\$ -	\$ 278,715	\$ -
110455 1011		44,679	-	32,715	-	44,679	44,679	11,964
		<u>368,073</u>	<u>74,203</u>	<u>106,918</u>	<u>278,715</u>	<u>44,679</u>	<u>323,394</u>	<u>11,964</u>
PL 101-476 Flowthrough	84.027							
100450 0910		75,986	19,337	19,337	75,986	-	75,986	-
110450 1011		98,801	-	75,990	-	98,801	98,801	22,811
		<u>174,787</u>	<u>19,337</u>	<u>95,327</u>	<u>75,986</u>	<u>98,801</u>	<u>174,787</u>	<u>22,811</u>
Total Special Education Cluster		<u>542,860</u>	<u>93,540</u>	<u>202,245</u>	<u>354,701</u>	<u>143,480</u>	<u>498,181</u>	<u>34,775</u>
Total passed through Muskegon Area Intermediate School District		<u>542,860</u>	<u>93,540</u>	<u>202,245</u>	<u>354,701</u>	<u>143,480</u>	<u>498,181</u>	<u>34,775</u>
Total U.S. Department of Education		<u>2,308,133</u>	<u>231,142</u>	<u>972,544</u>	<u>1,018,173</u>	<u>913,547</u>	<u>1,931,720</u>	<u>172,145</u>
<i>U.S. Department of Agriculture</i>								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
101970 Lunch—Breakfast	10.553	131,420	22,683	34,944	119,159	12,261	131,420	-
111970 Lunch—Breakfast		112,729	-	112,729	-	112,729	112,729	-
		<u>244,149</u>	<u>22,683</u>	<u>147,673</u>	<u>119,159</u>	<u>124,990</u>	<u>244,149</u>	<u>-</u>
101950 All Lunches	10.555	32,863	4,765	8,218	29,410	3,453	32,863	-
111950 All Lunches		28,362	-	28,362	-	28,362	28,362	-
101960 Free and Reduced		217,278	31,873	54,320	194,831	22,447	217,278	-
101980 Snack Program		3,282	303	506	3,079	203	3,282	-
111960 Free and Reduced		182,669	-	182,669	-	182,669	182,669	-
111980 Snack Program		2,522	-	2,522	-	2,522	2,522	-
Entitlement Commodities		26,371	-	26,371	-	26,371	26,371	-
Bonus Commodities		1,344	-	1,344	-	1,344	1,344	-
		<u>494,691</u>	<u>36,941</u>	<u>304,312</u>	<u>227,320</u>	<u>267,371</u>	<u>494,691</u>	<u>-</u>
100900 Summer Food Meals	10.559	4,289	2,291	4,289	2,291	1,998	4,289	-
110900 Summer Food Meals		1,607	-	-	-	1,607	1,607	1,607
101900 Summer Food Sponsor Admin		359	193	359	193	166	359	-
111900 Summer Food Sponsor Admin		135	-	-	-	135	135	135
		<u>6,390</u>	<u>2,484</u>	<u>4,648</u>	<u>2,484</u>	<u>3,906</u>	<u>6,390</u>	<u>1,742</u>
Total Child Nutrition Cluster		<u>745,230</u>	<u>62,108</u>	<u>456,633</u>	<u>348,963</u>	<u>396,267</u>	<u>745,230</u>	<u>1,742</u>

Holton Public Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2011

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2010	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2011
					Prior year(s)	Current year	Total	
<i>U.S. Department of Agriculture-continued</i>								
Passed through Michigan Department of Education-continued								
Child Care Food Program								
101920 CCFP Meals	10.558	\$ 11,180	\$ 1,093	\$ 1,093	\$ 11,180	\$ -	\$ 11,180	\$ -
102010 Child Care Cash in Lieu		728	80	80	728	-	728	-
101920 CCFP Meals		7,064	-	7,064	-	7,064	7,064	-
102010 Child Care Cash in Lieu		526	-	526	-	526	526	-
		<u>19,498</u>	<u>1,173</u>	<u>8,763</u>	<u>11,908</u>	<u>7,590</u>	<u>19,498</u>	<u>-</u>
NSLP Equipment Grant								
101990	10.579	24,071	-	23,631	-	23,631	23,631	-
Total passed through Michigan Department of Education								
		788,799	63,281	489,027	360,871	427,488	788,359	1,742
Passed through County of Muskegon Schools & Roads								
	10.665	5,229	-	5,229	-	5,229	5,229	-
Total U.S. Department of Agriculture								
		794,028	63,281	494,256	360,871	432,717	793,588	1,742
<i>U.S. Department of Health and Human Services</i>								
Passed through Muskegon Area Intermediate School District								
Medical Assistance Program Title XIX	93.778							
393		6,918	650	3,027	4,541	2,377	6,918	-
		<u>6,918</u>	<u>650</u>	<u>3,027</u>	<u>4,541</u>	<u>2,377</u>	<u>6,918</u>	<u>-</u>
<b>TOTAL FEDERAL ASSISTANCE</b>		<b>\$ 3,109,079</b>	<b>\$ 295,073</b>	<b>\$ 1,469,827</b>	<b>\$ 1,383,585</b>	<b>\$ 1,348,641</b>	<b>\$ 2,732,226</b>	<b>\$ 173,887</b>

Holton Public Schools  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For the year ended June 30, 2011

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the CMS Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2011

Governmental Funds financial statements

General Fund	\$ 921,153	
Other governmental funds (includes Food Service Fund)	<u>427,488</u>	<b><u>\$ 1,348,641</u></b>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards		<b><u>\$ 1,348,641</u></b>
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Holton Public Schools  
**SCHEDULE OF FINDINGS AND RESPONSES**  
 Year ended June 30, 2011

**SECTION I—SUMMARY OF AUDITORS’ RESULTS**

*A. Financial Statements*

1. Type of auditors' report issued: **Unqualified**
2. Internal control over financial reporting:
  - Material weakness(es) identified? \_\_\_\_\_ yes      X   no
  - Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_   X   yes    \_\_\_\_\_ none reported
3. Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

*B. Federal Awards*

1. Internal control over major programs:
  - Material weakness(es) identified? \_\_\_\_\_ yes      X   no
  - Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes      X   none reported
2. Type of auditors' report issued on compliance for major programs: **Unqualified**
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? \_\_\_\_\_ yes      X   no
4. Identification of major programs:

CFDA Number(s)

Name of Federal Program/Cluster

**U.S. Department of Education**

**84.010 and 84.389**

• **Title I, Part A Cluster**

**84.394**

• **ARRA Education Stabilization Cluster**

5. Dollar threshold used to distinguish between type A and type B programs: **\$300,000**
6. Auditee qualified as low-risk auditee? \_\_\_\_\_   X   yes    \_\_\_\_\_ no

Holton Public Schools  
**SCHEDULE OF FINDINGS AND RESPONSES**  
Year ended June 30, 2011

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2011-1: Segregation of Duties Within Accounting Department**

*Criteria:* The School District should have adequate segregation of duties and/or mitigating controls in the Business Office. The basic premise is that no one employee should have access to both physical assets and the related accounting records or access to all phases of a transaction.

*Condition:* During our review of internal controls in the Business Office, we noted the Business Manager has access to nearly all aspects of transactions that occur within the financial system. While the School District has taken certain steps to mitigate this situation, there may not be enough resources, both in personnel and funding, to overcome the condition.

*Context:* The School District has this condition primarily due to the size of the School District's staff and the lack of financial resources to fund additional staff to further segregate duties.

*Cause:* Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting control.

*Effect:* The lack of sufficient segregation of duties and internal controls could allow errors or misappropriation of funds to go undetected.

*Recommendation:* The School District should continue adding affective mitigating controls to those implemented in the past and look for additional steps that could be taken to separate incompatible duties. Often, one of the most effective approaches is the expansion of documented approval of transactions and reconciliations by someone outside the Business Office staff.

*Views of Responsible Officials and Planned Corrective Actions:* The following mitigating controls are in place. The School District continues to enhance the control procedures as they successfully operate with this risk.

The School District completed and implemented control procedures for the following expanding the transaction approval and reconciliation process:

- Accounts Payable
- Accounts Receivable
- Cash Receipts
- Payroll
- Bank Reconciliations

The School District adopted and assigned a purchasing card to the Administrative Assistant to the Superintendent to further segregate the accounts payable function. The use of the purchasing card allows an additional step in the process of internal controls by segregating payment of purchases. The building level supervisor places the order and the Administrative Assistant submits payment with the purchasing card. The Business Manager receives monthly statements for the purchasing card to review purchases and make payment. All purchase card transactions are signed by the Superintendent.

The School District has established quarterly meetings with the Board of Education Finance Committee to review budgeting and procedures.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

NONE

**CLIENT DOCUMENTS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

September 12, 2011

Michigan Department of Education  
Lansing, Michigan

Holton Public Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2010 dated September 13, 2010.

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Fiscal 2010 Finding No. 1: Segregation of Duties Within Accounting Department**

*Condition:* During our review of internal controls in the Business Office, we noted the Business Manager has access to nearly all aspects of transactions that occur within the financial system. While the School District has taken certain steps to mitigate this situation, there are not enough resources, both in personnel and funding, to overcome the condition.

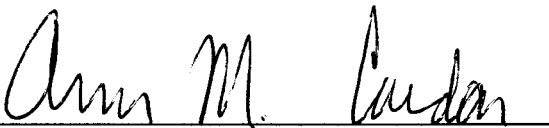
*Recommendation:* The School District should continue adding effective mitigating controls to those implemented in the past and look for additional steps that could be taken to separate incompatible duties. Often, one of the most effective approaches is the expansion of documented approval of transactions and reconciliations by someone outside the Business Office staff.

*Current Status:* See Fiscal 2011-1 for similar finding reported during the Fiscal 2011 audit.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were *no* findings reported in relation to major federal award programs.

Sincerely,



Ann M. Cardon  
Superintendent

**CORRECTIVE ACTION PLAN**

September 12, 2011

Michigan Department of Education  
Lansing, Michigan

Holton Public Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2011.

Name and address of independent public accounting firm:

Brickley DeLong, P.C.  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: June 30, 2011

The findings from the Schedule of Findings and Responses for the year ended June 30, 2011 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2011-1: Segregation of Duties Within Accounting Department**

*Condition:* During our review of internal controls in the Business Office, we noted the Business Manager has access to nearly all aspects of transactions that occur within the financial system. While the School District has taken certain steps to mitigate this situation, there may not be enough resources, both in personnel and funding, to overcome the condition.

*Recommendation:* The School District should continue adding effective mitigating controls to those implemented in the past and look for additional steps that could be taken to separate incompatible duties. Often, one of the most effective approaches is the expansion of documented approval of transactions and reconciliations by someone outside the Business Office staff.

*Views of Responsible Officials and Planned Corrective Actions:* The following mitigating controls are in place. The School District continues to enhance the control procedures as they successfully operate with this risk.

The District completed and implemented control procedures for the following expanding the transaction approval and reconciliation process:

- Accounts Payable
- Accounts Receivable
- Cash Receipts
- Payroll
- Bank Reconciliations

Michigan Department of Education  
September 12, 2011  
Page 2

**SECTION II – FINANCIAL STATEMENT FINDINGS— Continued**

**Finding 2011-1: Segregation of Duties Within Accounting Department— Continued**

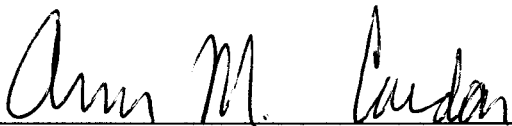
The District assigned a purchasing card to the Administrative Assistant to the Superintendent to further segregate the accounts payable function. The use of the purchasing card allows an additional step in the process of internal controls by segregating payment of purchases. The building level supervisor places the order and the Administrative Assistant submits payment with the purchasing card. The business manager receives monthly statements for the purchasing card to review purchases and make payment. All purchase card transactions are signed by the Superintendent. The District has established quarterly meetings with the Board of Education Finance Committee to review budgeting and procedures.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There are *no* findings reported in relation to major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Ann M. Cardon at (231) 821-1700.

Sincerely,



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Ann M. Cardon  
Superintendent

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 12, 2011

To the Board of Education  
Holton Public Schools

We have audited the financial statements of Holton Public Schools for the year ended June 30, 2011, and have issued our report thereon dated September 12, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you during our conference on May 31, 2011. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Holton Public Schools are described in Note A to the financial statements. As described in Note A, the School District adopted its accounting policies related to fund balance by adopting the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* during the fiscal year ended June 30, 2011. We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the liability for compensated absences is based on accumulated sick days at current contract rates. We evaluated the key factors and assumptions used to develop the accrual for compensated absences in determining that it is reasonable in relation to the financial statements as a whole.

Management's estimate of the depreciation expense is based on the cost of the asset depreciated utilizing the straight-line method over the estimated useful life of the asset. We evaluated the key factors and assumptions used to develop the expense provision for depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate for Act 18 revenue, Special Education Billback expense and Special Education Transportation revenue and expense were determined by the Muskegon Area Intermediate School District (MAISD) based on member school district estimated expenditures and the number of students receiving services from each district. Adjustments are made by the MAISD in the subsequent fiscal year for final audited expenditures and pupil counts. Management evaluated the key factors and assumptions used by the MAISD to develop those estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Board of Education  
Holton Public Schools  
September 12, 2011  
Page 2

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 12, 2011.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations by the management of Holton Public Schools with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Holton Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Brickley De Long, P.C.*