

Holton Public Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2010

Holton Public Schools

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Management's Discussion and Analysis 2009-2010

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, 2010. 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 funds, the General Fund, Food Service Fund and 2009 School Improvement Fund, with 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 2009-2010

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 and Athletics Funds are examples) 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 2009-2010

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, 2010 amounted to approximately \$4.03 million. Table 1 shows a condensed breakdown of the net assets.

	Governmental Activities June 30, 2009	Governmental Activities June 30, 2010
Current assets	\$ 4,342,023	\$ 4,316,936
Capital assets, net	17,548,786	18,516,495
Other non-current assets	328,988	257,764
Total assets	22,219,797	23,091,195
Current liabilities	3,221,627	2,853,474
Non-current liabilities	15,168,146	16,205,592
Total liabilities	18,389,773	19,059,066
Net assets		
Invested in capital assets, net of related debt	2,172,772	2,022,030
Restricted for Debt Service	139,160	173,172
Unrestricted	1,518,092	1,836,927
Total net assets	\$ 3,830,024	\$ 4,032,129

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 increase of capital assets due to 2009 School Improvement Project.



Management’s Discussion and Analysis 2009-2010

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 2010.

Table 2

Statement of Activities

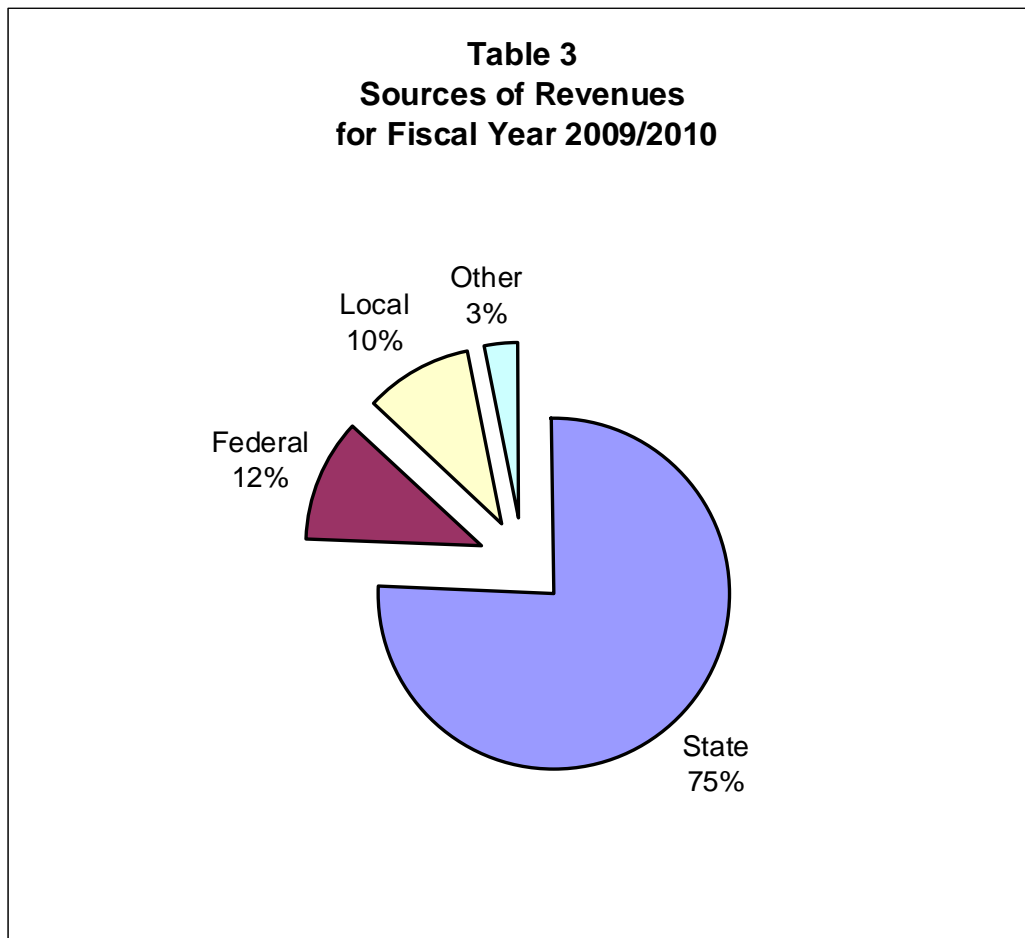
	Governmental Activities <u>June 30, 2009</u>	Governmental Activities <u>June 30, 2010</u>
Revenues		
Program Revenues		
Charges for services	\$ 260,444	\$ 289,862
Operating grants and contributions	2,490,766	2,599,780
General revenues		
Property taxes	1,811,551	1,838,272
Unrestricted grants and contributions	6,363,581	6,171,659
Other	64,787	22,975
Total revenues	10,991,129	10,992,548
Expenses		
Instruction	5,962,471	5,828,699
Support services	3,364,764	3,264,086
Community services	0	0
Food services	489,212	538,864
Athletics	403,620	405,886
Interest on long-term debt	683,331	670,814
Unallocated depreciation and amortization	10,205	12,094
Total Expenses	10,913,603	10,720,443
Increase (decrease) in net assets	77,526	202,105
Net assets at beginning of year	3,752,498	3,830,024
Net assets at end of year	\$ 3,830,024	\$ 4,032,129

The net assets of the District increased by \$202,105 during the 2009-2010 fiscal year. The cost of the District’s governmental activities for the year was \$10.72 million. Those who benefited from food service, athletic programs, and support services, mostly made up of centralized transportation and paid service charges of \$290 thousand. Operating grants and contributions of \$2.6 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 an increase in IDEA, ARRA Stabilization, and Universal Breakfast funding; along with a decrease in expenditures.

Management's Discussion and Analysis 2009-2010

A substantial portion (75%) of the District's revenues is received from State sources. Even though this is down from 76% in 2008-2009, the American Recovery and Reinvestment Act was a federal source of revenue "back filling" 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.

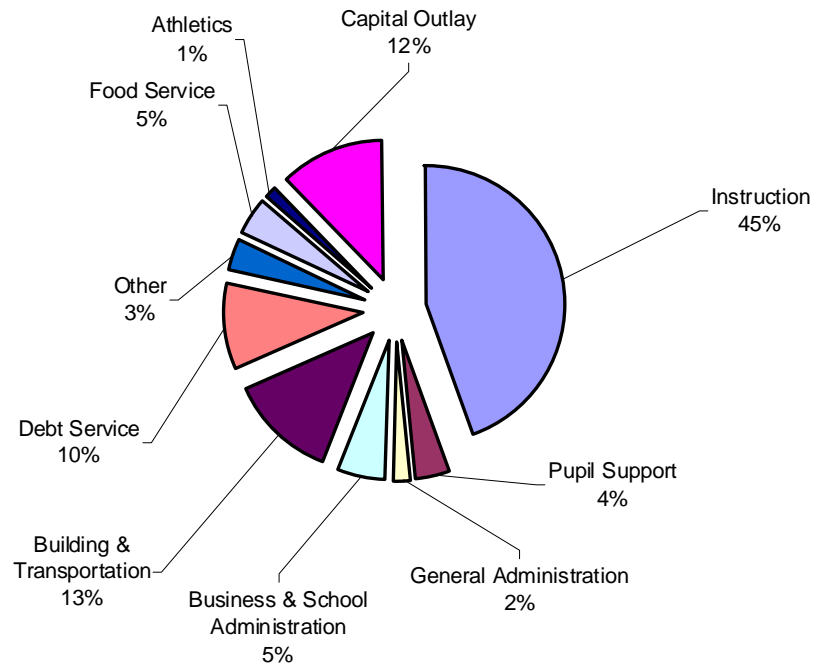


As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of district operating revenue sources, the Board of Education 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 2009-2010

As Table 4 depicts, 49% of the District's total resources in all funds are spent on instruction and pupil support services. Another 5% is spent on administrative and business services necessary to efficiently operate the District, while 13% is spent for transportation and maintenance, including utilities and custodial services. Debt service contributes to 10% of the total budget, which includes principal and interest. The final 23% is spent on other interest and additional support services including athletics, food service, capital outlay and general administration.

Table 4
Expenditures for Fiscal year 2009/2010





Management's Discussion and Analysis 2009-2010 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 increased by \$219,049 during the 2009/10 fiscal year, resulting in fund equity of \$1,773,775 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 September 2008 to September 2009 by 19 students. Enrollment numbers were higher than the prediction by 23 students with a blended count of 1,039 students. Throughout the school year district administrators across Michigan, including this administration shouldered the continued threat of a pro-ration in per pupil funding ranging from \$165 - \$292 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.

Food Service - The food service program for the 2009/2010 school year did not require additional funding from the general fund for the sixth straight year. Revenues generated from the food service department were greater than the expenditures for the program. For the sixth year in a row, the food service fund was charged an indirect cost rate to supplement the general fund for operations and maintenance. For 2006-2007 the food service fund was charged \$25,000 while \$32,965 was charged for services in 2007-2008. In 2008-2009 the indirect costs was \$39,371 compared to \$32,120.

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 as noted below.

MMBA - Cash Flow Borrowing Summary

Year	Borrowed	Interest Paid
2006	\$1,500,000	\$57,356
2007	\$1,400,000	\$51,520
2008	\$1,200,000	\$31,518
2009	\$754,000	\$16,922
2010	\$650,000	\$8,844

Medicaid – During the 2008-2009 school year, Holton Public Schools received an additional \$34,786 more than projected for Medicaid billing. This function is coordinated with the Muskegon Area Intermediate School District and is a reflection of concerted effort by staff to complete timely billing.

Capital Purchases – The District participated in the Qualified Zone Academy Bond (QZAB) program for the 2009-2010 year. This allowed the district to receive \$1.7 million interest free to



Management's Discussion and Analysis 2009-2010

fund the 2009 School Improvement Energy Project. The project resulted in savings of over \$34,000 on boiler repairs, maintenance, and energy costs.

Fuel Costs - With the uncertainty of rising fuel costs, the district allocated additional funds for transportation fuel and utilities. To ensure enough resources to meet the needs of the volatile market, the district allocations for these areas exceeded actual expenditures by \$26,000.

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).

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

- Reduction in insurance costs due to the H.S.A. requests -requests - \$25,000.
- Restricted At-Risk program allocations carried forward to 2010-2011 – \$105,389.
- Reduction in salary allocations due to the district decision to use Third Party Contracting for summer custodial services - \$17,000
- Reduction in tax charge backs from local authorities - \$6,000
- Reduction in energy costs allocations due to energy project – \$34,000.
- Reduction in transportation fuel costs due to volatile market - \$26,000
- Reduction in charges for cooperative purchases with the MAISD - \$16,000

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. For the third time, the district completed an additional budget amendment in February 2010, along with the traditional budget amendments in November 2009 and June 2010. 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 \$106,733 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 \$18,864. This increase was attributed to changes in taxable values and interest earnings.



Management’s Discussion and Analysis 2009-2010

- The *state source* revenue budget decreased by \$431,816. The decrease was due to the shortage in state funding. The ARRA Stabilization funds were federal dollars used to “back fill” the shortage in state sources of revenue. Restricted At-Risk dollars were carried over for the 2010-2011 year.
- The *federal source* revenue budget increased by \$352,768. The main reason for the increase was the receipt of additional IDEA and ARRA Stabilization Funds.
- The *other revenue* budget decreased by \$8,821. This decrease is primarily due to a reduction in Medicaid dollars received.

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

- The *instructional services* budget decreased by \$96,595 throughout the year due to a reduction in supply and textbook purchases along with the reduction in At-Risk expenditures to match the revenue carryover to 2010-2011.
- The *general administration* budget had a net decrease of \$19,480. This was the result of a reduction in legal fees and election expenses.
- The *school administration* budget had a net decrease of \$14,403 due to the reduction of a .5 secretarial position.
- The *business services* budget had a net decrease of \$20,695 due to the decrease in MAISD fees, interest expense and tax charge backs.
- The *operations and maintenance* budget had a net decrease of \$80,710 due to the energy project, reduction in maintenance costs, and lower fuel costs.
- The *transportation* budget had a net decrease of \$54,321 mainly due to the insurance and fuel costs.
- The *central services* budget increased by \$26,660. This increase is the result of the purchasing of the clock system in the high school and participating the MAISD consortium for a new Student Management System.

Capital Assets

At June 30, 2010, the School District had \$18,516,495 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$967,709 from last year.

	<u>2009</u>	<u>2010</u>
Land	\$ 209,670	\$ 209,670
Construction in progress		1,509,221
Building and building improvements	16,781,843	16,266,832
Buses and other vehicles, furniture and equipment	<u>557,273</u>	<u>530,772</u>
Total capital assets	<u>\$17,548,786</u>	<u>\$18,516,495</u>



Management's Discussion and Analysis 2009-2010

Debt

At the end of this year, the School District had \$16,553,493 in bonds outstanding versus \$15,404,535 in the previous year – an net increase of \$1,148,958 due to the \$1.7 million school improvement project and continued 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 2011 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 2011 fiscal year is 25 percent and 75 percent of the February 2010 and September 2010 student counts, respectively. The 2011 budget was adopted in June 2010, based on an estimated number of students that will be enrolled in September 2010. 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. Based on early enrollment data at the start of the 2010-2011 school year, we anticipate that the fall student count could be slightly lower than the estimate used in creating the 2010/2011 budget. 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.

The State periodically holds a revenue-estimating conference to estimate revenues. At this time, the State is not in agreement on per pupil funding for 2010-2011 with an estimated decrease in last year's funding of \$7,162 which was a \$154 decrease from 2008-2009. The original budget was adopted with a \$200 decrease in per pupil funding and a reduction of 50 students from the September 2009 pupil count.

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 13, 2010

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, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, 2010, 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 13, 2010, on our consideration of Holton Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Education
Holton Public Schools
September 13, 2010
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The management's discussion and analysis and budgetary comparison information on pages i - x and 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Brickley De Long, P.C.

Holton Public Schools
STATEMENT OF NET ASSETS
June 30, 2010

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,003,174
Investments	450,000
Receivables	129,009
Due from other governmental units	1,732,527
Inventories	<u>2,226</u>
Total current assets	4,316,936
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	1,718,891
Depreciable	16,797,604
Bond issuance costs, net	218,664
Note and interest receivable	<u>39,100</u>
Total noncurrent assets	<u>18,774,259</u>
Total assets	23,091,195
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	749,000
Accounts payable and accrued liabilities	979,305
Due to other governmental units	277,101
Deferred revenue	117,339
Bonds and other obligations, due within one year	<u>730,729</u>
Total current liabilities	2,853,474
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	<u>16,205,592</u>
Total liabilities	<u>19,059,066</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,022,030
Restricted for debt service	173,172
Unrestricted	<u>1,836,927</u>
Total net assets	<u><u>\$ 4,032,129</u></u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2010

<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	\$ 5,828,699	\$ -	\$ 1,807,791	\$ (4,020,908)
Support services	3,264,086	170,901	294,215	(2,798,970)
Food services	538,864	93,567	495,431	50,134
Athletics	405,886	25,394	-	(380,492)
Interest on long-term debt	670,814	-	2,343	(668,471)
Unallocated amortization	12,094	-	-	(12,094)
Total governmental activities	<u>\$ 10,720,443</u>	<u>\$ 289,862</u>	<u>\$ 2,599,780</u>	<u>(7,830,801)</u>
General revenues				
Property taxes				1,838,272
Grants and contributions not restricted to specific programs				6,171,659
Investment earnings				3,405
Miscellaneous				19,570
Total general revenues				<u>8,032,906</u>
Change in net assets				202,105
Net assets at beginning of year				<u>3,830,024</u>
Net assets at end of year				<u>\$ 4,032,129</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
BALANCE SHEET
 Governmental Funds
 June 30, 2010

	General Fund	2009 Capital Projects Fund	2006 Building Capital Projects Fund	Other governmental funds	Total governmental funds
ASSETS					
Cash and cash equivalents	\$ 1,425,449	\$ 238,780	\$ -	\$ 338,946	\$ 2,003,175
Investments	450,000	-	-	-	450,000
Receivables	126,825	-	-	2,184	129,009
Due from other governmental units	1,731,165	-	-	1,362	1,732,527
Due from other funds	2,225	-	-	45,898	48,123
Inventories	-	-	-	2,226	2,226
Total assets	\$ 3,735,664	\$ 238,780	\$ -	\$ 390,616	\$ 4,365,060
LIABILITIES AND FUND BALANCES					
Liabilities					
State aid loan	\$ 749,000	\$ -	\$ -	\$ -	\$ 749,000
Accounts payable	57,915	81,103	-	18,772	157,790
Accrued liabilities	714,876	-	-	2,003	716,879
Due to other governmental units	277,101	-	-	-	277,101
Due to other funds	45,658	-	-	2,465	48,123
Deferred revenue	117,339	-	-	-	117,339
Total liabilities	1,961,889	81,103	-	23,240	2,066,232
Fund balances					
Reserved					
Inventories	-	-	-	2,226	2,226
Debt service	-	-	-	277,809	277,809
Capital projects	-	157,677	-	-	157,677
Unreserved					
Undesignated					
General Fund	1,773,775	-	-	-	1,773,775
Special revenue funds	-	-	-	87,341	87,341
Total fund balances	1,773,775	157,677	-	367,376	2,298,828
Total liabilities and fund balances	\$ 3,735,664	\$ 238,780	\$ -	\$ 390,616	\$ 4,365,060

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, 2010

Total fund balance—governmental funds		\$ 2,298,828
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	\$ 26,767,512	
Accumulated depreciation	<u>(8,251,017)</u>	18,516,495
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	268,716	
Accumulated amortization	<u>(50,053)</u>	218,663
Other long-term note and interest receivable in governmental activities is not reported in the governmental funds.		
		39,100
Accrued interest in governmental activities is not reported in the governmental funds.		
		(104,636)
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
		<u>(16,936,321)</u>
Net assets of governmental activities in the Statement of Net Assets		<u><u>\$ 4,032,129</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, 2010

	General Fund	2009 Capital Projects Fund	2006 Building Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES					
Local sources					
Property taxes	\$ 749,116	\$ -	\$ -	\$ 1,089,156	\$ 1,838,272
Investment earnings	2,078	899	9	420	3,406
Fees and charges	157,616	-	-	113,664	271,280
Other	18,521	-	-	5,336	23,857
Total local sources	927,331	899	9	1,208,576	2,136,815
State sources	6,982,060	-	-	157,610	7,139,670
Federal sources	1,067,455	-	-	433,295	1,500,750
Total revenues	8,976,846	899	9	1,799,481	10,777,235
EXPENDITURES					
Current					
Instruction	5,605,166	-	-	-	5,605,166
Supporting services	3,157,065	-	-	-	3,157,065
Food services	-	-	-	576,196	576,196
Athletics	-	-	-	180,530	180,530
Debt service					
Principal repayment	-	-	-	559,351	559,351
Interest and other charges	-	-	-	670,015	670,015
Bond issuance costs	-	34,000	-	-	34,000
Capital projects	-	1,509,222	22,065	-	1,531,287
Total expenditures	8,762,231	1,543,222	22,065	1,986,092	12,313,610
Excess (deficiency) of revenues over (under) expenditures	214,615	(1,542,323)	(22,056)	(186,611)	(1,536,375)
OTHER FINANCING SOURCES (USES)					
Transfers from other governmental units and other transactions	238,446	-	-	-	238,446
Transfers in	32,120	-	-	155,090	187,210
Transfers out	(155,090)	-	-	(32,120)	(187,210)
Proceeds from issuance of bonds	-	1,700,000	-	-	1,700,000
Loan proceeds	-	-	-	51,773	51,773
Other transactions	(111,042)	-	-	-	(111,042)
Total other financing sources (uses)	4,434	1,700,000	-	174,743	1,879,177
Net change in fund balances	219,049	157,677	(22,056)	(11,868)	342,802
Fund balances at beginning of year	1,554,726	-	22,056	379,244	1,956,026
Fund balances at end of year	<u>\$ 1,773,775</u>	<u>\$ 157,677</u>	<u>\$ -</u>	<u>\$ 367,376</u>	<u>\$ 2,298,828</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, 2010

Net change in fund balances—total governmental funds \$ 342,802

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	\$ (649,752)	
Capital outlay and bond issuance costs	<u>1,639,367</u>	989,615

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.	(1,759,868)
---	-------------

Receipts of principal on notes receivable is revenue in the governmental funds, but the receipt reduces notes receivable in the Statement of Net Assets.	(69,350)
--	----------

Interest income on notes receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.	(23,780)
---	----------

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.	651,049
--	---------

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	26,637
---	--------

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>45,000</u>
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Change in net assets of governmental activities	<u><u>\$ 202,105</u></u>
---	--------------------------

The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2010

	<u>Agency funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 72,646</u>
LIABILITIES	
Deposits held for others	<u>\$ 72,646</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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, 2010

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.

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 *2009 Capital Projects Fund* accounts for the use of the proceeds from the 2009 School Improvement Bonds. The bonds were approved for issuance on August 10, 2009 and may be used to acquire and install energy conservation, safety and building improvements to the school facilities.
- The *2006 Building Capital Projects Fund* accounts for the use of the proceeds from the 2006 School Building and Site bonds. The bonds were approved for issuance on November 8, 2005 and may be used for school building and site purposes.

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 and athletic activities in the school service special revenue funds.
- 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.

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, 2010

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, 2010, the foundation allowance was based on pupil membership counts taken in February and September of 2009.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills 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 2009 to August 2010. Thus, the unpaid portion at June 30, 2010 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, 2010

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, 2010

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 \$3,000 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.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

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, 2010

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

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

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.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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, 2010.

Excess of Expenditures Over Appropriations

The School District did not have significant budget variances.

School Bond Construction Compliance

The 2006 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 2006 Capital Projects Fund from the inception of the fund through June 30, 2010.

	<u>2006 Capital Projects Fund</u>
Revenue and bond proceeds	\$ 7,876,324
Expenditures	7,876,324

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2010, the School District had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Standard & Poor's rating</u>	<u>Percent</u>
U.S. Treasury Obligations - State and Local Government Series	\$ 450,000	51	not rated	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, 2010, \$479 of the School District's bank balance of \$1,872,800 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, 2010

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 209,670	\$ -	\$ -	\$ 209,670
Construction in progress	<u>-</u>	<u>1,509,221</u>	<u>-</u>	<u>1,509,221</u>
Total capital assets, not being depreciated	209,670	1,509,221	-	1,718,891
Capital assets, being depreciated:				
Buildings and improvements	23,256,630	18,731	-	23,275,361
Furniture and equipment	898,391	57,749	-	956,140
Vehicles and equipment	<u>829,174</u>	<u>19,666</u>	<u>31,720</u>	<u>817,120</u>
Total capital assets, being depreciated	24,984,195	96,146	31,720	25,048,621
Less accumulated depreciation:				
Buildings and improvements	6,474,787	533,742	-	7,008,529
Furniture and equipment	603,724	55,865	-	659,589
Vehicles and equipment	<u>566,568</u>	<u>48,051</u>	<u>31,720</u>	<u>582,899</u>
Total accumulated depreciation	<u>7,645,079</u>	<u>637,658</u>	<u>31,720</u>	<u>8,251,017</u>
Total capital assets, being depreciated, net	<u>17,339,116</u>	<u>(541,512)</u>	<u>-</u>	<u>16,797,604</u>
Capital assets, net	<u>\$ 17,548,786</u>	<u>\$ 967,709</u>	<u>\$ -</u>	<u>\$ 18,516,495</u>

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 268,534
Support services	136,340
Athletics	7,428
Food services	225,356
	<u>\$ 637,658</u>

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Bond issuance costs	\$ 234,716	\$ 34,000	\$ -	\$ 268,716
Less accumulated amortization	37,958	12,094		50,052
Bond issuance costs, net	\$ 196,758	\$ 21,906	\$ -	\$ 218,664

Amortization

Amortization expense has been charged as unallocated amortization.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2010 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 2,225
Other governmental funds	General Fund	45,658
Other governmental funds	Other governmental funds	240
		\$ 48,123

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 \$155,090 to the Athletics Fund and the Food Service Fund transferred \$32,120 to the General Fund to finance operations.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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, 2010 follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2010</u>
State aid anticipation notes				
2008/2009 1.7% due August 2009	\$ 1,200,000	\$ -	\$ 1,200,000	\$ -
2009/2010 .85% to 1.4% due August 2010	<u>-</u>	<u>749,000</u>	<u>-</u>	<u>749,000</u>
	<u>\$ 1,200,000</u>	<u>\$ 749,000</u>	<u>\$ 1,200,000</u>	<u>\$ 749,000</u>

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, 2010:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due within</u> <u>one year</u>
Governmental activities					
Bonds	\$ 15,404,535	\$ 1,700,000	\$ 551,042	\$ 16,553,493	\$ 635,692
Other obligations	422,967	59,868	100,007	382,828	95,037
Early retirement obligations	<u>45,000</u>	<u>-</u>	<u>45,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 15,872,502</u>	<u>\$ 1,759,868</u>	<u>\$ 696,049</u>	<u>\$ 16,936,321</u>	<u>\$ 730,729</u>

In the previous schedule, the additions for other obligations represent \$51,773 of new draws and \$8,095 of accrued interest on the School Loan Revolving Fund.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE H—LONG-TERM OBLIGATIONS—Continued

General obligation bonds consist of the following:

2005 Refunding General Obligation Bond payable in annual installments ranging from \$375,000 to \$450,000 due May 2011 to 2028; plus interest ranging from 3.5% to 5% payable semi-annually	\$ 7,840,000
Plus issuance premium	103,090
Less deferred amount on refunding	(244,955)
2006 Building and Site Bond payable in annual installments ranging from \$135,000 to \$655,000 due May 2011 to 2030; plus interest ranging from 3.5% to 4.4% payable semi-annually	7,125,000
Less issuance discount	(8,511)
Durant obligations payable in annual installments of \$14,209 including interest at 4.76% due May 2011 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.	38,869
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	16,553,493

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE H—LONG-TERM OBLIGATIONS—Continued

School bus loans payable in aggregate quarterly installments of \$8,241 through September 2012; plus interest ranging from 4.23% to 4.44%	\$ 74,164
School bus loans payable in aggregate quarterly installments of \$6,809 through December 2011; including interest ranging from 4.19% to 4.54%	32,953
School Loan Revolving Fund payable no later than May 2036; interest payable of \$13,967 is included at interest rates between 3.36% and 6.35%	184,323
Education Interconnection and Consortium Financing Agreement payable in annual installments of \$12,654 due March 2011 to 2013	37,962
Computer equipment loan payable in annual installments of \$8,101 through December 2010; plus interest at 4.18%	8,101
Security camera loan payable in annual installments of \$15,108 through October 2012; plus interest at 4.18%	<u>45,325</u>
Total other obligations	<u>382,828</u>
	<u><u>\$ 16,936,321</u></u>

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

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, 2010 follows:

Year ending June 30,	Principal	Interest	Total
2011	\$ 730,729	\$ 634,211	\$ 1,364,940
2012	723,744	612,129	1,335,873
2013	717,901	590,097	1,307,998
2014	698,333	563,228	1,261,561
2015	728,332	536,179	1,264,511
2016-2020	4,091,665	2,259,207	6,350,872
2021-2025	4,876,670	1,475,020	6,351,690
2026-2030	4,335,000	519,203	4,854,203
	<u>\$ 16,902,374</u>	<u>\$ 7,189,274</u>	<u>\$ 24,091,648</u>

Prior-year Defeasance of Debt

In prior years, the School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2010, \$7.775 million of bonds outstanding are considered defeased.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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

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

Funding policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 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 January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent 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. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The 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 rate for the year ended June 30, 2010 was 16.94 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, 2010, 2009 and 2008 were approximately \$809,000, \$803,000, and \$828,000 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, 2010

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 \$154,000.

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, 2010 or any of the prior three years.

NOTE L—SUBSEQUENT EVENT

In August 2010, the School District received the proceeds of two State of Michigan (State) school aid anticipation notes payable. The proceeds from the notes are \$400,000 and \$250,000. The notes payable are not subject to redemption prior to their maturity in August 2011 and bear interest at the rate of 0.8 percent and 0.4 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, 2010

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 962,520	\$ 943,656	\$ 927,331	\$ (16,325)
State sources	7,375,714	6,943,898	6,982,060	38,162
Federal sources	828,285	1,181,053	1,067,455	(113,598)
Incoming transfers and other transactions	287,705	278,884	270,566	(8,318)
Total revenues	9,454,224	9,347,491	9,247,412	(100,079)
EXPENDITURES				
Instruction				
Basic programs	3,799,663	3,783,443	3,763,379	20,064
Added needs	2,067,805	1,987,430	1,841,787	145,643
Support services				
Pupil	366,996	355,827	351,045	4,782
Instructional staff	129,190	122,142	120,743	1,399
General administration	286,366	266,886	262,379	4,507
School administration	503,107	488,704	491,903	(3,199)
Business	238,289	217,594	175,717	41,877
Operations and maintenance	1,108,032	1,027,311	941,413	85,898
Pupil transportation services	780,668	726,049	650,878	75,171
Central	145,371	172,031	162,987	9,044
Outgoing transfers and other transactions	292,273	267,222	266,132	1,090
Total expenditures	9,717,760	9,414,639	9,028,363	386,276
Excess (deficiency) of revenues over (under) expenditures	\$ (263,536)	\$ (67,148)	219,049	\$ 286,197
Fund balance at beginning of year			1,554,726	
Fund balance at end of year			\$ 1,773,775	