

HOUGHTON LAKE COMMUNITY SCHOOLS

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

YEAR ENDED JUNE 30, 2012

CONTENTS

	<u>Page</u>
Independent auditors' report	5 - 6
Management's Discussion and Analysis	7 - 13
Basic financial statements	14
Government-wide financial statements	
Statement of net assets	15 - 16
Statement of activities	17
Fund financial statements	
Balance sheet - governmental funds	18 - 19
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	20 - 21
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	22
Agency funds	
Statement of fiduciary assets and liabilities	23
Notes to financial statements	24 - 43
Required supplementary information	44
Budgetary comparison schedule - general fund	45

CONTENTS

	<u>Page</u>
Additional supplementary information	46
Nonmajor governmental fund types	
Combining balance sheet	47
Combining statement of revenues, expenditures, and changes in fund balances	48
Debt service funds	
Combining balance sheet	49
Combining statement of revenues, expenditures and changes in fund balances	50
Fiduciary funds	
Schedule of cash receipts and disbursements.....	51
Long-term debt	
Bonded debt - Qualified Zone Academy Bond	52
Bonded debt	53
Schedule of expenditures of federal awards	54 - 56
Notes to schedule of expenditures of federal awards	57

CONTENTS

	<u>Page</u>
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	58 - 59
Report on compliance with requirements that could have a direct and material effect on each major program and internal control over compliance in accordance with OMB Circular A-133	60 - 61
Schedule of findings and questioned costs	62
Schedule of prior year audit findings	63

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Houghton Lake Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houghton Lake Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools as of June 30, 2012 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2012, on our consideration of Houghton Lake Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 13 and 45, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Houghton Lake Community Schools' basic financial statements. The supplementary information on pages 47 through 53 is presented for purposes of additional analysis and is not a required part of the basic 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 also not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 basic 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 basic financial statements as a whole.

Manes Costeiran PC

October 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Houghton Lake Community Schools (HLCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL OVERVIEW

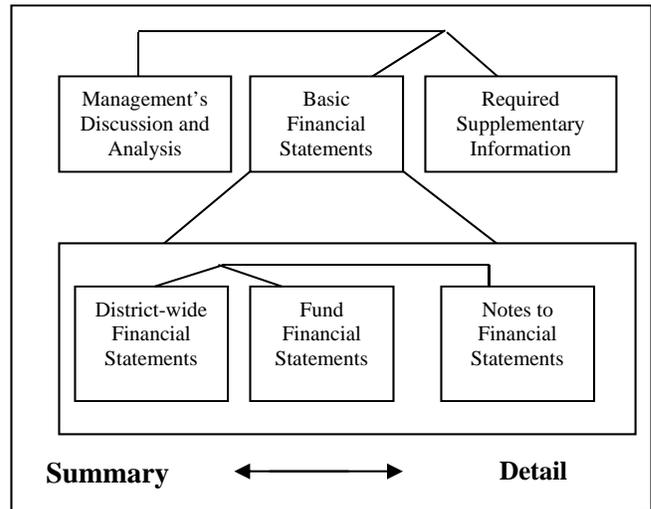
- The District's general fund financial situation improved from the 2011 fiscal year to 2012. This is the fifth consecutive year in which the general fund showed improvement, despite declining enrollment.
- For the 2011-12 school year, general fund equity was increased by \$365,998.
- During the 2011-12 school year compared to 2010-11, general fund revenues decreased by \$270,086 (1.80 percent), while expenditures decreased by \$122,460 (0.85 percent).
- Student enrollment decreased by 45 students from fall of 2010 to fall of 2011. This represents an decrease of approximately 2.72 percent from the fall 2010 figure.
-

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



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

**Figure A-2
Major Features of District-Wide and Fund Financial Statements**

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

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

DISTRICT-WIDE STATEMENTS

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

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

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

District-wide financial statements:

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

FUND FINANCIAL STATEMENTS

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

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

The District has two kinds of funds.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets were more on June 30, 2012 than the year before, increasing by \$66,657 to \$4,736,744.

Table A-3 Houghton Lake Community Schools Net Assets		
	2012	2011
Current assets	\$ 4,142,319	\$ 5,389,779
Capital assets and other	9,976,371	9,182,253
Total assets	<u>14,118,690</u>	<u>14,572,032</u>
Long-term debt outstanding	7,770,455	8,070,638
Other liabilities	1,611,491	1,831,307
Total liabilities	<u>9,381,946</u>	<u>9,901,945</u>
Net assets:		
Invested in capital assets, net of related debt	1,505,994	1,867,864
Restricted for debt service	433,652	382,580
Restricted for food service	60,940	128,713
Unrestricted	2,736,158	2,290,930
Total net assets	<u>\$ 4,736,744</u>	<u>\$ 4,670,087</u>

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

	2012	2011
Revenues:		
Program revenues:		
Charges for services	\$ 416,457	\$ 308,314
Federal and state categorical grants	3,538,356	3,235,078
General revenues:		
Property taxes	8,201,556	8,535,563
Investment	13,605	20,600
State aid - unrestricted	3,055,073	3,619,900
Federal sources - unrestricted	390,632	189,642
Other	477,815	251,846
Total revenues	<u>16,093,494</u>	<u>16,160,943</u>
Expenses:		
Instruction	9,326,791	9,404,052
Support services	5,426,472	4,901,187
Community services	83,301	98,992
Food services	725,237	787,174
Interest on long-term debt	289,936	296,014
Unallocated depreciations	175,100	142,158
Total expenses	<u>16,026,837</u>	<u>15,629,577</u>
Change in net assets	<u>\$ 66,657</u>	<u>\$ 531,366</u>

District Governmental Activities

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

- Proposal A which established the student foundation grant concept, and has increased that amount from \$5,024 per student in 1995 to \$7092 per student in 2012.
- The District continues to work earnestly toward aligning expenditures with declining revenue each year. The District looks to manage staffing levels in accordance with student count, and seeks to save money in non-instructional areas whenever possible.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the District as a whole its *combined* fund balance, is \$4,143,535 compared to \$4,258,821 in 2011. The total fund balance decreased by \$115,286 for the year primarily due to decrease in other nonmajor governmental funds of \$481,284 offset by an increase of \$365,998 in the general fund.

General Fund and Budget Highlights

During the 2011-12 fiscal year the original district budget was amended three times to reflect changes which affected the District. The final budget was amended to show a current year balance of \$2,873,274 while the actual fund balance for the year was \$3,122,477. The better-than-anticipated final result was due largely to budgeted funds going unspent at the building and departmental levels.

The District has adopted a minimum fund balance for the general fund of 12 percent of total expenditures. The 12 percent minimum level of fund balance will allow the District to operate without the need for cash flow borrowing, and will also allow the District to absorb possible cuts to funding from the State of Michigan without adversely affecting programs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5 Houghton Lake Community Schools' Capital Assets				
	2012			2011
	Cost	Accumulated depreciation	Net book value	Net book value
Buildings and improvements	\$ 15,771,167	\$ 8,769,433	\$ 7,001,734	\$ 2,134,707
Machinery and equipment	1,741,063	712,086	1,028,977	158,207
Construction in progress	247,638	-	247,638	5,956,064
Transportation equipment	1,263,623	878,756	384,867	469,172
Total	<u>\$ 19,023,491</u>	<u>\$ 10,360,275</u>	<u>\$ 8,663,216</u>	<u>\$ 8,718,150</u>

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

LONG-TERM DEBT

At year end the District had \$8,124,455 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

	2012	2011
QZAB bonds	\$ 1,000,000	\$ 1,000,000
2008 General Obligation Bonds	6,583,264	6,825,968
Compensated absences and severance benefits	541,191	541,670
	<u>\$ 8,124,455</u>	<u>\$ 8,367,638</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The State of Michigan per pupil foundation allowance was increased during the 2011-2012 fiscal year to raise the minimum from \$6,846 to \$7,092. This equates to approximately a 3.59 percent increase to general fund revenues from state sources.
- The District passed a roughly \$7 million bond issue during 2008-09 for the purposes of renovating and upgrading existing facilities. During 2011-2012, \$511,390 was spent on upgrades. Management believes that these upgrades will enhance opportunities for students and will enable the District to remain a desirable and effective place for student learning.
- The District's financial results for the 2011-2012 year were highly dependent upon federal funding, which was a one-time revenue used basically for wages and benefits for instructional staff. The District received \$390,632 of EduJobs funding during the year and will not receive EduJob funding in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash	\$ 1,445,526
Investments	869,869
Receivables:	
Accounts receivable	25,954
Due from other governmental units	1,583,203
Inventories	122,757
Prepaid expenditures	<u>95,010</u>
TOTAL CURRENT ASSETS	<u>4,142,319</u>
NONCURRENT ASSETS:	
Restricted cash - capital projects	791,546
Investments - restricted for debt service set-aside	421,517
Deferred charges, net of amortization	100,092
Capital assets	19,023,491
Less accumulated depreciation	<u>(10,360,275)</u>
TOTAL NONCURRENT ASSETS	<u>9,976,371</u>
TOTAL ASSETS	<u><u>\$ 14,118,690</u></u>

	Governmental activities
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 212,948
Accrued salaries and related items	738,635
Accrued interest	45,644
Unearned revenue	153,539
Due to other governmental units	62,619
Due to fiduciary funds	44,106
Current portion of long-term obligations	265,000
Current portion of severance benefits	8,000
Current portion of compensated absences	81,000
	<hr/>
TOTAL CURRENT LIABILITIES	1,611,491
	<hr/>
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	7,318,264
Noncurrent severance benefits	73,828
Noncurrent compensated absences	378,363
	<hr/>
TOTAL NONCURRENT LIABILITIES	7,770,455
	<hr/>
TOTAL LIABILITIES	9,381,946
	<hr/>
NET ASSETS:	
Invested in capital assets, net of related debt	1,505,994
Restricted for debt service	433,652
Restricted for food service	60,940
Unrestricted	2,736,158
	<hr/>
TOTAL NET ASSETS	4,736,744
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,118,690</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 9,326,791	\$ -	\$ 2,229,026	\$ (7,097,765)
Support services	5,426,472	246,125	557,256	(4,623,091)
Community services	83,301	-	50,669	(32,632)
Food services	725,237	170,332	701,405	146,500
Interest on long-term debt	289,936	-	-	(289,936)
Unallocated depreciation	175,100	-	-	(175,100)
Total governmental activities	<u>\$ 16,026,837</u>	<u>\$ 416,457</u>	<u>\$ 3,538,356</u>	<u>(12,072,024)</u>
General revenues:				
Property taxes, levied for general purposes				7,695,485
Property taxes, levied for debt service				506,071
Investment earnings				13,605
State sources				3,055,073
Federal sources - unrestricted				390,632
Intermediate sources				397,607
Other				80,208
Total general revenues				<u>12,138,681</u>
CHANGE IN NET ASSETS				66,657
NET ASSETS , beginning of year				<u>4,670,087</u>
NET ASSETS , end of year				<u>\$ 4,736,744</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>2008 Capital projects fund</u>	<u>Other nonmajor governmental</u>	<u>Total governmental funds</u>
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 1,173,047	\$ -	\$ 272,479	\$ 1,445,526
Investments	869,869	-	-	869,869
Receivables:				
Accounts receivable	25,954	-	-	25,954
Due from other governmental units	1,566,943	-	16,260	1,583,203
Due from fiduciary funds	150,996	-	-	150,996
Due from other funds	492,035	-	70,914	562,949
Inventories	115,156	-	7,601	122,757
Prepaid expenditures	23,010	-	72,000	95,010
Restricted cash - capital projects	-	706,866	84,680	791,546
Investments - restricted for debt service set-aside	-	-	421,517	421,517
TOTAL ASSETS	<u>\$ 4,417,010</u>	<u>\$ 706,866</u>	<u>\$ 945,451</u>	<u>\$ 6,069,327</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 94,140	\$ -	\$ 118,808	\$ 212,948
Accrued salaries and related items	738,635	-	-	738,635
Due to other funds	70,914	465,596	26,439	562,949
Due to other governmental units	62,619	-	-	62,619
Due to fiduciary funds	195,102	-	-	195,102
Unearned revenue	133,123	-	20,416	153,539
TOTAL LIABILITIES	<u>1,294,533</u>	<u>465,596</u>	<u>165,663</u>	<u>1,925,792</u>
FUND BALANCES:				
Nonspendable:				
Inventories	115,156	-	72,000	187,156
Prepaid expenditures	23,010	-	7,601	30,611

See notes to financial statements.

	<u>General Fund</u>	<u>2008 Capital projects fund</u>	<u>nonmajor governmental funds</u>	<u>Total governmental funds</u>
FUND BALANCES (Concluded):				
Restricted for:				
Debt service	\$ -	\$ -	\$ 479,296	\$ 479,296
Food service			60,940	60,940
Capital projects	-	241,270	84,680	325,950
Assigned:				
Subsequent years expenditures - General fund	471,855	-	-	471,855
Subsequent years expenditures - Food service fund	-		75,271	75,271
Unassigned reported in:				
General fund	2,512,456	-	-	2,512,456
TOTAL FUND BALANCES	<u>3,122,477</u>	<u>241,270</u>	<u>779,788</u>	<u>4,143,535</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,417,010</u>	<u>\$ 706,866</u>	<u>\$ 945,451</u>	<u>\$ 6,069,327</u>
Total governmental fund balances				\$ 4,143,535
Amounts reported for governmental activities in the statement of net assets are different because:				
Value of amortized bond issuance costs			\$ 137,616	
Accumulated amortization			<u>(37,524)</u>	100,092
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			19,023,491	
Accumulated depreciation is			<u>(10,360,275)</u>	8,663,216
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Accrued severance benefits				(81,828)
Bonds payable and unamortized premium				(7,583,264)
Accrued compensated absences				(459,363)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				<u>(45,644)</u>
Net assets of governmental activities				<u>\$ 4,736,744</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>2008 Capital projects fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ 7,695,485	\$ -	\$ 506,071	\$ 8,201,556
Investment earnings	2,055	911	10,639	13,605
Food sales	-	-	170,332	170,332
Athletics	92,843	-	-	92,843
Other	284,159	-	-	284,159
Total local sources	<u>8,074,542</u>	<u>911</u>	<u>687,042</u>	<u>8,762,495</u>
State sources	4,566,263	-	32,467	4,598,730
Federal sources	1,665,724	-	668,938	2,334,662
Incoming transfers and other	397,607	-	-	397,607
Total revenues	<u>14,704,136</u>	<u>911</u>	<u>1,388,447</u>	<u>16,093,494</u>
EXPENDITURES:				
Current:				
Instruction	8,761,028	-	-	8,761,028
Supporting services	5,348,975	-	-	5,348,975
Food service activities	-	-	725,237	725,237
Community service activities	83,301	-	-	83,301
Capital outlay	-	511,390	247,638	759,028

See notes to financial statements.

	<u>General Fund</u>	<u>2008 Capital projects fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	\$ -	\$ -	\$ 240,000	\$ 240,000
Interest	-	-	291,211	291,211
Total expenditures	<u>14,193,304</u>	<u>511,390</u>	<u>1,504,086</u>	<u>16,208,780</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>510,832</u>	<u>(510,479)</u>	<u>(115,639)</u>	<u>(115,286)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	4,857	-	149,691	154,548
Transfers out	<u>(149,691)</u>	<u>-</u>	<u>(4,857)</u>	<u>(154,548)</u>
Total other financing sources (uses)	<u>(144,834)</u>	<u>-</u>	<u>144,834</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	365,998	(510,479)	29,195	(115,286)
FUND BALANCES:				
Beginning of year	<u>2,756,479</u>	<u>751,749</u>	<u>750,593</u>	<u>4,258,821</u>
End of year	<u>\$ 3,122,477</u>	<u>\$ 241,270</u>	<u>\$ 779,788</u>	<u>\$ 4,143,535</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Net change in fund balances total governmental funds \$ (115,286)

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

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

Depreciation expense	(599,430)
Capital outlay	779,008
Loss on disposal of capital assets	(234,512)

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

Accrued interest payable, beginning of the year	46,844
Accrued interest payable, end of the year	(45,644)

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

Payments on debt	240,000
Amortization of bond issuance costs	(7,506)
Amortization of bond premium	2,704

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

Accrued compensated absences, beginning of the year	443,341
Accrued compensated absences, end of the year	(459,363)
Accrued severance benefits, beginning of the year	98,329
Accrued severance benefits, end of the year	(81,828)

Change in net assets of governmental activities \$ 66,657

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2012**

	<u>Agency fund</u>
ASSETS:	
Cash	\$ 170,902
Due from other funds	<u>195,102</u>
TOTAL ASSETS	<u><u>\$ 366,004</u></u>
LIABILITIES:	
Due to other funds	\$ 150,996
Due to student and other groups	<u>215,008</u>
TOTAL LIABILITIES	<u><u>\$ 366,004</u></u>

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The District first utilizes restricted resources to finance qualifying activities.

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

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

The District does not allocate indirect costs.

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

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

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

The District reports the following major governmental funds:

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

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

Other Non-major Funds

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other Non-major Funds (Concluded)

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2008 capital projects fund. The projects for which the 2008 bond was issued were considered complete on June 15, 2011.

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

	2008 Bond
Revenues	\$ 107,034
Expenditures	\$ 7,015,764

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Accrual Method

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

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

Modified Accrual Method

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2012, the foundation allowance was based on pupil membership counts taken in February and October of 2011.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October 2011 to August 2012. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

D. Other Accounting Policies

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

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

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

2. Property taxes

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

For the year ended June 30, 2012, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund - Non-Principal Residence Exemption (PRE)	18.0000
Commercial Personal Property	6.0000
Debt Service	0.6750

3. Inventories and prepaid expenditures

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and payables

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

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

5. Capital assets

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

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

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

Buildings and improvements	50 years
Machinery and equipment	5 - 20 years
Site improvement	20 years
Transportation equipment	8 years

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

6. Compensated absences

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Concluded)

7. Long-term obligations

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

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

8. Use of estimates

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

9. Fund Balance

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Capital Projects, Food Service, and Debt Service fund balances are considered restricted.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

9. Fund Balance (Concluded)

Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

In the general fund, the District strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 12% of the actual GAAP basis expenditures and other financing sources and uses.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

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

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue, debt service and capital projects funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2012. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2012, the District had the following investments.

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
U.S. Treasury Notes	\$ 421,517	0.4671	AA+	32.64%
MILAF External Investment pool - MIMAX	<u>869,869</u>	0.0027	AAAm	<u>67.36%</u>
Total fair value	<u>\$ 1,291,386</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.1543</u>		

1 day maturity equals 0.0027, one year equals 1.00

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

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

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2012, the fair value of the District’s investments is the same as the value of the pool shares.

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

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

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2012, \$798,214 of the District’s bank balance of \$2,865,714 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$2,407,974.

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

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

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

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

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

The above amounts are previously reported in Note 3:

Deposits - including fiduciary funds of \$170,902	\$ 2,407,974
Investments	1,291,386
	<u>3,699,360</u>
	<u>\$ 3,699,360</u>

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

Cash - agency fund	\$ 170,902
Government wide:	
Cash	1,445,526
Investments	869,869
Restricted cash - capital projects	791,546
Restricted investments - debt service	421,517
	<u>3,699,360</u>
	<u>\$ 3,699,360</u>

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Receivables from governmental units at June 30, 2012 consist of the following:

Other governmental units:	
State aid	\$ 804,593
Federal revenue	681,519
Other	97,091
	<u>1,583,203</u>
	<u>\$ 1,583,203</u>

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

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2011	Additions	Reclassifications /deletions	Balance June 30, 2012
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 5,956,064	\$ 759,028	\$ 6,467,454	\$ 247,638
Capital assets, being depreciated				
Site improvements	256,195	1,543,500	-	1,799,695
Buildings and improvements	11,165,650	3,983,014	1,177,192	13,971,472
Machinery and equipment	1,289,069	960,920	508,926	1,741,063
Transportation equipment	1,380,604	-	116,981	1,263,623
Total capital assets, being depreciated	14,091,518	6,487,434	1,803,099	18,775,853
Accumulated depreciation:				
Site improvements	201,759	82,375	-	284,134
Buildings and additions	9,085,379	342,600	942,680	8,485,299
Machinery and equipment	1,130,862	90,150	508,926	712,086
Transportation equipment	911,432	84,305	116,981	878,756
Total accumulated depreciation	11,329,432	599,430	1,568,587	10,360,275
Net capital assets being depreciated	2,762,086	5,888,004	234,512	8,415,578
Net governmental capital assets	\$ 8,718,150	\$ 6,647,032	\$ 6,701,966	\$ 8,663,216

Depreciation for the fiscal year ended June 30, 2012 amounted to \$599,430. The District allocated depreciation expense to the various activities as follows:

Instruction	\$ 358,698
Support services	65,632
Unallocated	175,100
	<u>\$ 599,430</u>

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

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

NOTE 6 - LONG-TERM DEBT

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

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2012:

	QZAB bonds	General obligation bonds	Sub-total bonds and notes	Compensated absences	Severance benefits	Total
Balance, July 1, 2011	\$ 1,000,000	\$ 6,825,968	\$ 7,825,968	\$ 443,341	\$ 98,329	\$ 8,367,638
Additions	-	-	-	16,022	-	16,022
Deletions	-	242,704	242,704	-	16,501	259,205
Balance, June 30, 2012	1,000,000	6,583,264	7,583,264	459,363	81,828	8,124,455
Less current portion	-	265,000	265,000	81,000	8,000	354,000
Total due after one year	<u>\$ 1,000,000</u>	<u>\$ 6,318,264</u>	<u>\$ 7,318,264</u>	<u>\$ 378,363</u>	<u>\$ 73,828</u>	<u>\$ 7,770,455</u>

Long-term obligation debt at June 30, 2012 is comprised of the following:

2005 School Building Bond is due in one installment on June 21, 2021. The bond was issued under the Qualified Zone Academy Bond program. Interest is reduced to 1.00% through a tax credit. A set-aside amount of \$64,684 is required each year. Interest of 2.75% will be earned on the set-aside account.	\$ 1,000,000
2008 general obligation bonds due in annual installments of \$265,000 to \$540,000 through May 1, 2028 with interest from 3.00% to 5.00%.	6,540,000
Plus: premium on bonds	<u>43,264</u>
Total bonded debt	7,583,264
Obligation under contract from compensated absences	459,363
Obligation under contract from severance incentives	<u>81,828</u>
Total long-term debt	<u>\$ 8,124,455</u>

Interest expense (all funds) for the year ended June 30, 2012 was \$291,211.

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

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2012, including interest of \$2,741,637 are as follows:

Year ending June 30,	Principal	Interest	Total
2013	\$ 265,000	\$ 283,861	\$ 548,861
2014	290,000	275,249	565,249
2015	315,000	265,824	580,824
2016	335,000	254,799	589,799
2017	345,000	243,074	588,074
2018 - 2022	2,995,000	940,800	3,935,800
2023 - 2027	2,455,000	453,730	2,908,730
2028	540,000	24,300	564,300
Total	7,540,000	2,741,637	10,281,637
Premium on bonds	43,264	-	43,264
Accumulated compensated absences	459,363	-	459,363
Accumulated severance benefits	81,828	-	81,828
	<u>\$ 8,124,455</u>	<u>\$ 2,741,637</u>	<u>\$ 10,866,092</u>

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

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2012 are as follows:

Receivable fund		Payable fund	
General	\$ 492,035	General	\$ 70,914
School lunch	70,914	2008 Capital projects	465,596
		2008 Debt service	21,582
		School lunch	4,857
	\$ 562,949		\$ 562,949

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

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

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

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

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

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(Continued)**

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

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the period October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPSERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. In addition, the District is required to match 50% up to 1% of the employees contribution in the Pension Plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS were equal to the required contribution for those years.

The School District's contributions to MPSERS are as follows:

<u>Contribution Period</u>	<u>Contribution Rate</u>	
	<u>Member</u>	<u>Pension Plus Member</u>
October 1, 2011 - September 30, 2012	24.46%	23.23%
November 1, 2010 - September 30, 2011	20.66%	19.16%
October 1, 2010 - October 31, 2010	19.41%	17.91%
October 1, 2009 - September 30, 2010	16.94%	-
July 1, 2010 - September 30, 2010	-	15.44%

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

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(Continued)**

Fiscal Year Ending June 30,	Contributions to MPSERS
2012	\$ 1,706,000
2011	1,440,000
2010	1,330,000

Other Post-employment Benefits - Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. 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 year and members who were hired on or after July 1, 2010, with a starting salary of less than \$18,000 are required to contribute 1.5% of the members' 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.

On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retiree health care trust at MPSERS. As a result, the State has adjusted the contribution rate due on employees' wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus members. In March 2011, the Court of Claims granted the plaintiffs' motions for summary disposition finding that the mandatory 3% contribution violated both the U.S. and Michigan constitutions. The State appealed the ruling to the Michigan Court of Appeals. The Court of Appeals accepted the appeal and ordered an expedited review. The Court of Appeals also granted the State's motion for a stay of proceedings and ordered that the 3% deduction continue to be collected and placed into an escrow account until further order of the Court.

On August 16, 2012 the State of Michigan Court of Appeals affirmed the trial court's orders granting summary dispositions in favor of the plaintiffs in each of the cases before it, terminating the stay ordered by this Court on March 18, 2011. The State of Michigan has appealed the decision to the Michigan Supreme Court. The Office of Retirement Services is instructing Michigan public school employers to continue withholding the 3% contribution. Should the plaintiffs prevail, the escrowed funds will be returned to the employees.

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

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(Concluded)**

Pension recipients are generally eligible for Health Plan coverage, Dental Plan, Vision Plan and Hearing coverage.

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

NOTE 9 - RISK MANAGEMENT

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

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

NOTE 10 - TRANSFERS

The general fund transferred \$64,684 to the QZAB debt service fund to fund the required set aside funding requirement. The school lunch fund transferred \$4,857 to the general fund for current year indirect costs. The general fund returned \$85,007 to the school lunch fund as required by the Michigan Department of Education.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The District has approximately \$241,000 committed to complete its capital projects building program.

The District has various open grievances. Although the outcome of these grievances is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

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

NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENTS

The District is currently evaluating the impact the following standards will have on the financial statements when adopted in future fiscal years 2013 through 2015.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued in December 2010. This statement incorporates into the GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure.

GASB statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, was issued by the GASB in June 2011 and will be effective for the District's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

GASB statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued by the GASB in March 2012 and will be effective for the District's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement provides supplemental guidance when implementing GASB statement 63.

GASB statement No. 68, *Accounting and Financial Reporting for Pensions Items Previously Reports as Assets and Liabilities*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

REQUIRED SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2012**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 8,166,585	\$ 7,877,438	\$ 8,074,542	\$ 197,104
State sources	4,249,896	4,686,743	4,566,263	(120,480)
Federal sources	1,812,771	1,745,241	1,665,724	(79,517)
Incoming transfers and other	219,772	346,579	397,607	51,028
Total revenues	<u>14,449,024</u>	<u>14,656,001</u>	<u>14,704,136</u>	<u>48,135</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	6,506,042	6,745,999	6,606,200	139,799
Added needs	2,212,600	2,094,197	2,098,459	(4,262)
Adult education	53,306	62,896	56,369	6,527
Total instruction	<u>8,771,948</u>	<u>8,903,092</u>	<u>8,761,028</u>	<u>142,064</u>
Supporting services:				
Pupil	765,036	714,115	699,368	14,747
Instructional staff	269,248	325,347	316,985	8,362
General administration	328,117	328,348	329,217	(869)
School administration	934,455	932,932	928,048	4,884
Business	406,474	353,431	334,387	19,044
Operation/maintenance	1,399,768	1,206,544	1,209,774	(3,230)
Pupil transportation	838,216	922,873	913,184	9,689
Central	424,431	352,498	348,852	3,646
Athletics	74,600	286,680	269,160	17,520
Total supporting services	<u>5,440,345</u>	<u>5,422,768</u>	<u>5,348,975</u>	<u>73,793</u>
Community services	92,622	95,539	83,301	12,238
Total expenditures	<u>14,304,915</u>	<u>14,421,399</u>	<u>14,193,304</u>	<u>228,095</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>144,109</u>	<u>234,602</u>	<u>510,832</u>	<u>276,230</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	4,857	4,857
Transfers out	(117,805)	(117,807)	(149,691)	(31,884)
Total other financing uses	<u>(117,805)</u>	<u>(117,807)</u>	<u>(144,834)</u>	<u>(27,027)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 26,304</u>	<u>\$ 116,795</u>	<u>365,998</u>	<u>\$ 249,203</u>
FUND BALANCE:				
Beginning of year			<u>2,756,479</u>	
End of year			<u>\$ 3,122,477</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2012**

	<u>Special revenue</u>		<u>QZAB Capital projects</u>	<u>Total nonmajor governmental funds</u>
	<u>Food service</u>	<u>Debt service</u>		
ASSETS				
ASSETS:				
Cash and cash equivalents	172,702	\$ 99,777	\$ -	\$ 272,479
Due from other governmental units	16,260	-	-	16,260
Due from other funds	70,914	-	-	70,914
Inventories	7,601	-	-	7,601
Prepaid expenditures	72,000	-	-	72,000
Restricted cash - capital projects	-	-	84,680	84,680
Investments - restricted for debt service set aside	-	421,517	-	421,517
TOTAL ASSETS	<u>\$ 339,477</u>	<u>\$ 521,294</u>	<u>\$ 84,680</u>	<u>\$ 945,451</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	118,808	\$ -	\$ -	\$ 118,808
Unearned revenue	-	20,416	-	20,416
Due to other funds	4,857	21,582	-	26,439
TOTAL LIABILITIES	<u>123,665</u>	<u>41,998</u>	<u>-</u>	<u>165,663</u>
FUND BALANCES:				
Nonspendable:				
Inventories	72,000	-	-	72,000
Prepaid expenditures	7,601	-	-	7,601
Restricted for:				
Debt service	-	479,296	-	479,296
Capital projects	-	-	84,680	84,680
Food service	60,940	-	-	60,940
Assigned for subsequent year expenditures	75,271	-	-	75,271
TOTAL FUND BALANCES	<u>215,812</u>	<u>479,296</u>	<u>84,680</u>	<u>779,788</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 339,477</u>	<u>\$ 521,294</u>	<u>\$ 84,680</u>	<u>\$ 945,451</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUND TYPES
 YEAR ENDED JUNE 30, 2012**

	<u>Special revenue</u>		QZAB Capital projects	Total nonmajor governmental funds
	<u>Food service</u>	<u>Debt service</u>		
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 506,071	\$ -	\$ 506,071
Investment earnings	-	10,328	311	10,639
Food sales	170,332	-	-	170,332
Total local sources	170,332	516,399	311	687,042
State sources	32,467	-	-	32,467
Federal sources	668,938	-	-	668,938
Total revenues	871,737	516,399	311	1,388,447
EXPENDITURES:				
Current:				
Food service activities	725,237	-	-	725,237
Capital outlay	215,672	-	31,966	247,638
Debt service:				
Principal repayment	-	240,000	-	240,000
Interest expense	-	291,211	-	291,211
Total expenditures	940,909	531,211	31,966	1,504,086
EXCESS OF EXPENDITURES OVER REVENUES	(69,172)	(14,812)	(31,655)	(115,639)
OTHER FINANCING SOURCES (USES):				
Transfers in	85,007	64,684	-	149,691
Transfers out	(4,857)	-	-	(4,857)
Total other financing sources (uses)	80,150	64,684	-	144,834
NET CHANGE IN FUND BALANCES	10,978	49,872	(31,655)	29,195
FUND BALANCES:				
Beginning of year	204,834	429,424	116,335	750,593
End of year	\$ 215,812	\$ 479,296	\$ 84,680	\$ 779,788

**HOUGHTON LAKE COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	2008 Debt Service	QZAB	Total nonmajor
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 99,777	\$ -	\$ 99,777
Due from other funds	-	-	-
Investments - restricted for debt service set-aside	-	421,517	421,517
TOTAL ASSETS	\$ 99,777	\$ 421,517	\$ 521,294
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Unearned revenue	\$ 20,416	\$ -	\$ 20,416
Due to other funds	21,582	-	21,582
TOTAL LIABILITIES	41,998	-	41,998
FUND BALANCES:			
Restricted for debt service	57,779	421,517	479,296
TOTAL LIABILITIES AND FUND BALANCES	\$ 99,777	\$ 421,517	\$ 521,294

**HOUGHTON LAKE COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2012**

	<u>2008 Debt Service</u>	<u>QZAB</u>	<u>Total Nonmajor</u>
REVENUES:			
Local sources:			
Property taxes	\$ 506,071	\$ -	\$ 506,071
Interest	-	10,328	10,328
	<u>506,071</u>	<u>10,328</u>	<u>516,399</u>
Total revenues			
EXPENDITURES:			
Redemption of bonds	240,000	-	240,000
Interest on bonded debt	281,211	10,000	291,211
	<u>521,211</u>	<u>10,000</u>	<u>531,211</u>
Total expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(15,140)	328	(14,812)
OTHER FINANCING SOURCES:			
Transfer in	-	64,684	64,684
	<u>-</u>	<u>64,684</u>	<u>64,684</u>
NET CHANGE IN FUND BALANCES	(15,140)	65,012	49,872
FUND BALANCES:			
Beginning of year	72,919	356,505	429,424
	<u>72,919</u>	<u>356,505</u>	<u>429,424</u>
End of year	<u>\$ 57,779</u>	<u>\$ 421,517</u>	<u>\$ 479,296</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
 AGENCY FUNDS
 SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
 YEAR ENDED JUNE 30, 2012**

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Agency funds - due to student groups	\$ 212,331	\$ 305,337	\$ 302,660	\$ 215,008

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2012**

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

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

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2012**

2008 General Obligation Bonds

Fiscal year year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2013	\$ 265,000	\$ 136,931	\$ 136,931	\$ 538,862
2014	290,000	132,624	132,624	555,248
2015	315,000	127,912	127,912	570,824
2016	335,000	122,399	122,399	579,798
2017	345,000	116,537	116,537	578,074
2018	365,000	107,912	107,912	580,824
2019	385,000	98,787	98,787	582,574
2020	400,000	91,087	91,087	582,174
2021	415,000	83,087	83,087	581,174
2022	430,000	74,528	74,528	579,056
2023	450,000	65,498	65,498	580,996
2024	470,000	56,048	56,048	582,096
2025	500,000	46,060	46,060	592,120
2026	505,000	35,185	35,185	575,370
2027	530,000	24,075	24,075	578,150
2028	540,000	12,150	12,150	564,300
Total	\$ 6,540,000	\$ 1,330,820	\$ 1,330,820	\$ 9,201,640

The above bonds dated September 30, 2008 were issued for the purpose of building and site purposes. The amount of the original bond issue was \$7,150,00 The above bonds carry interest ranging from 3.00% to 5.00%.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2011	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2012
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
Non-cash assistance (donated food):								
10.555								
National School Lunch Program - donated food								
Entitlement								
			\$ 40,982	\$ -	\$ -	\$ 40,982	\$ 40,982	\$ -
Bonus								
			5,111	-	-	5,111	5,111	-
Total non-cash assistance			46,093	-	-	46,093	46,093	-
Cash assistance:								
School Breakfast Program								
10.553		111970	10,586	-	-	10,586	10,586	-
School Breakfast Program								
		121970	131,344	-	-	127,840	131,344	3,504
			141,930	-	-	138,426	141,930	3,504
National School Lunch Program - Section 11								
10.555		111960	36,239	-	-	36,239	36,239	-
National School Lunch Program - Section 11								
		121960	435,896	-	-	423,139	435,895	12,756
National School Lunch Program - Section 11								
		121980	4,509	-	-	4,509	4,509	-
			476,644	-	-	463,887	476,643	12,756
National School Lunch Program - Summer Food Service								
10.559		110900	3,869	-	-	3,869	3,869	-
National School Lunch Program - Summer Food Service								
		111900	403	-	-	403	403	-
			4,272	-	-	4,272	4,272	-
Total cash assistance			622,846	-	-	606,585	622,845	16,260
Total U.S. Department of Agriculture (Cluster total)			668,939	-	-	652,678	668,938	16,260

The accompanying notes are an integral part of this schedule.

HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2011	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2012
U.S. Department of Education:								
Passed through C.O.O.R.I.S.D.:								
Special Education Cluster:								
Special Education Flow Through Grant	84.027	100450-0708	\$ 391,580	\$ 340,031	\$ 391,580	\$ 340,031	\$ -	\$ -
		100450-1112	391,500	-	-	-	391,500	391,500
			783,080	340,031	391,580	340,031	391,500	391,500
ARRA - IDEA Flowthrough	84.391	110455/1011	216,698	216,698	216,698	216,698	-	-
		110455/1112	7,903	-	-	7,903	7,903	-
			224,601	216,698	216,698	224,601	7,903	-
Total Special Education Cluster			1,007,681	556,729	608,278	564,632	399,403	391,500
Passed through Michigan Department of Education:								
Adult Basic Education								
	84.002	111130-111777	45,000	-	-	1,090	1,090	-
		111190-111777	26,354	408	15,499	8,839	8,431	-
		121190-121777	18,016	-	-	-	13,919	13,919
		121130-121777	74,360	-	-	32,247	65,464	33,217
Total Adult Basic Education			163,730	408	15,499	42,176	88,904	47,136
Title I Cluster:								
Title I								
	84.010	111530-1011	745,605	135,087	135,087	135,087	-	-
		121530-1112	648,751	-	-	424,453	583,241	158,788
			1,394,356	135,087	135,087	559,540	583,241	158,788
ARRA Title I, Part A	84.389	111535-1011	259,164	53,362	259,164	53,362	-	-
Total Title I Cluster			1,653,520	188,449	394,251	612,902	583,241	158,788

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2011	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2012
<u>U.S. Department of Education (Concluded):</u>								
Passed through Michigan Department of Education (Concluded):								
Title II - Improving Teacher Quality	84.367	110520-1011	\$ 201,695	\$ 19,478	\$ 148,262	\$ 19,478	\$ -	\$ -
		110520-1112	153,205	-	-	71,858	117,027	45,169
Total Title II - Improving Teacher Quality			<u>354,900</u>	<u>19,478</u>	<u>148,262</u>	<u>91,336</u>	<u>117,027</u>	<u>45,169</u>
Title VIB	84.358B	110660-1011	51,863	-	-	1	1	-
		100660-1112	63,079	-	-	32,977	55,643	22,666
Total Title VIB			<u>114,942</u>	<u>-</u>	<u>-</u>	<u>32,978</u>	<u>55,644</u>	<u>22,666</u>
Education Jobs Fund	84.410	112545-1011	363,195	-	-	363,195	363,195	-
		112545-1012	27,437	-	-	27,437	27,437	-
			<u>390,632</u>	<u>-</u>	<u>-</u>	<u>390,632</u>	<u>390,632</u>	<u>-</u>
ARRA - Economic Stabilization Fund	84.394		189,642	34,480	189,642	34,480	-	-
Total Michigan Department of Education			<u>2,867,366</u>	<u>242,815</u>	<u>747,654</u>	<u>1,204,504</u>	<u>1,235,448</u>	<u>273,759</u>
Total U.S. Department of Education			<u>3,875,047</u>	<u>799,544</u>	<u>1,355,932</u>	<u>1,769,136</u>	<u>1,634,851</u>	<u>665,259</u>
<u>U.S. Department of Health and Human Services:</u>								
Passed through C.O.O.R.I.S.D.:								
Medicaid Outreach	93.778		25,502	-	-	25,502	25,502	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,569,488</u>	<u>\$ 799,544</u>	<u>\$ 1,355,932</u>	<u>\$ 2,447,316</u>	<u>\$ 2,329,291</u>	<u>\$ 681,519</u>

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Houghton Lake Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. The Title I (CFDA #84.010) and Education Jobs (CFDA #84.410) were audited as the major programs, representing 42% of expenditures. The District qualifies for low risk auditee status.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors Report in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund revenue	\$ 1,665,724
Other non-major governmental funds revenue	668,938
	2,334,662
Less payment in lieu of taxes	(5,371)
	\$ 2,329,291

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

To the Board of Education
Houghton Lake Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools as of and for the year ended June 30, 2012, which collectively comprise Houghton Lake Community Schools' basic financial statements and have issued our report thereon dated October 17, 2012. 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

Management of Houghton Lake Community Schools is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Houghton Lake Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's 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 previously.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Houghton Lake Community Schools in a separate letter dated October 17, 2012.

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

Maney Costerian PC

October 17, 2012

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

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Houghton Lake Community Schools

Compliance

We have audited Houghton Lake Community Schools' compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Houghton Lake Community Schools' major federal programs for the year ended June 30, 2012. Houghton Lake Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Houghton Lake Community Schools' management. Our responsibility is to express an opinion on Houghton Lake Community Schools' compliance based on our audit.

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

In our opinion, Houghton Lake Community Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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.

Manes Costeiran PC

October 17, 2012

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

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

Any audit findings disclosed that are required to be _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.410	Education Jobs
84.010	Title I

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

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

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no audit findings in either of the prior two years.

October 17, 2012

To the Board of Education
Houghton Lake Community Schools

In planning and performing our audit of the financial statements of Houghton Lake Community Schools as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Houghton Lake Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 17, 2012 on the financial statements of Houghton Lake Community Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

PRIOR COMMENTS

Disaster Recovery Plan

The District now hosts its primary student and financial applications. The District also has a number of applications and corresponding data that are also maintained by the District. While the District performs daily backups of these systems, we recommend a formal disaster recovery plan be developed and documented for in-house applications. Additionally the District may want to consider using a third party for off-site storage of critical back-up data.

Status: During the current year a power outage occurred while the Director of Technology was out of town and unavailable to assist with rebooting systems. An error occurred during the reboot that could have been avoided if the District had a formal disaster recovery plan.

It was noted that the District has many of the elements of a disaster recovery plan in place but a formal plan has not been put together. We recommend the District formalize these elements into a disaster recovery plan.

Accounting Manual Needed

During our audit, we noted the District does not have an up-to-date manual of accounting policies and procedures. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and assist management in delegating and segregating duties. The manual should include:

- An organizational chart,
- Job descriptions outlining duties and responsibilities,
- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of principle transactions,
- A chart of accounts with detailed explanation of the items to be included therein, and;

- Any other documents or forms for which uniformity of use is desired.

Status: We repeat this comment; the District has not had time to address this issue as business office positions continue to evolve.

CURRENT YEAR COMMENTS

Cash Reconciliation

During the year the District changed the process for accounts payable checks which caused some difficulties in reconciling due to and due from balances between various funds. This caused delay in finalizing the review for the general fund checking account for a few months. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. During the audit it was noted that the District has taken the appropriate steps to get reconciliations back up to date and this issue is not anticipated to occur in the future.

This letter does not affect our report dated October 17, 2012 on the financial statements of Houghton Lake Community Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

This report is intended solely for the information and use of management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Manes Costeiran PC

October 17, 2012

To the Board of Education
Houghton Lake Community Schools

We have audited the financial statements of Houghton Lake Community Schools for the year ended June 30, 2012, and have issued our report thereon dated October 17, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Houghton Lake Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Houghton Lake Community Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Houghton Lake Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Houghton Lake Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Houghton Lake Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our conversation about planning matters on June 18, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Houghton Lake Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain amounts included in capital assets have been estimated based on an outside appraisal company. Certain allocations on the statement of activities allocating revenues between instruction and support services have been used in preparing the statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any significant disclosures.

Difficulties Encountered in Performing the Audit

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

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 auditors' 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 October 17, 2012.

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 District's financial statements or a determination of the type of auditors' 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 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 District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves

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

Very truly yours,

Manes Costeiran PC