

Honey Creek Community School

Ann Arbor, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2008

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Honey Creek Community School
Members of the Board of Trustees and Administration
June 30, 2008

Members of the Board of Trustees

John Stahly	President
Orlando Simon	Vice-President
Will Hathaway	Secretary
Carol Borgeson	Treasurer
Jeff Prenevost	Trustee
Douglas Stewart	Trustee
Wayne Millette	Trustee

Administration

Al Waters	Executive Director
Shellee Almquist	Assistant Director



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Independent Auditors' Report

To the Board of Trustees
Honey Creek Community School
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, major fund and the aggregate remaining fund information of Honey Creek Community School as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Honey Creek Community School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, major fund, and the aggregate remaining fund information of Honey Creek Community School as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 2008, on our consideration of the Honey Creek Community School's 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Honey Creek Community School's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

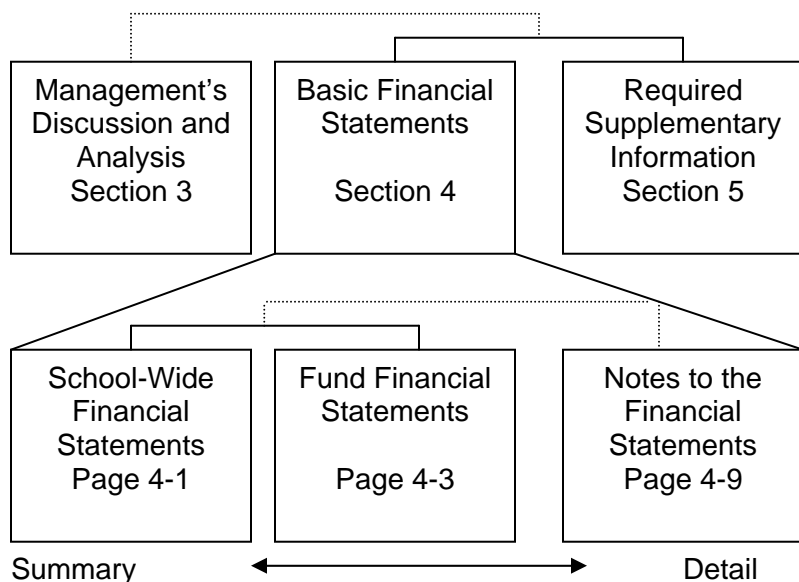
Saginaw, Michigan
September 26, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Honey Creek Community School
Management's Discussion and Analysis
Year Ended June 30, 2008**

This financial report is presented in the format required by the Governmental Accounting Standards Board (GASB). The overall organization of this report is shown in Figure A-1.

**Figure A-1
Honey Creek Community School
Organization of Annual Financial Report**



School –Wide Financial Statements

The School-wide statements provide a perspective of the School as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two School-wide statements: The Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets (page 4-1) combines and consolidates the governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting, the Statement of Activities (page 4-2) accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various School services.

When analyzed together, the two statements help the reader determine whether the School is financially stronger or weaker as a result of the year's activities.

Fund Financial Statements

The fund financial statements focus on individual parts of the School, reporting the School's operation in more detail than the School-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

**Honey Creek Community School
Management's Discussion and Analysis
Year Ended June 30, 2008**

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Public School Accounting Manual*. In the State of Michigan, the School's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds.

Honey Creek Community School is the fiduciary for the Child Care Connection School Age Care Endowment Fund. This fiduciary activity is reported in separate statements of fiduciary net assets and changes in fiduciary net assets. They are excluded from the other financial statements because the School may not use the net assets to finance its operations. The School is responsible for ensuring that the net assets reported in this fund are used for their intended purpose.

Financial Analysis of the School as a Whole

Summary of Net Assets

	Governmental Activities	
	June 30, 2007	June 30, 2008
Assets		
Current Assets	\$ 416,398	\$ 431,805
Capital Assets	63,441	63,441
Less accumulated depreciation	(63,441)	(63,441)
Capital Assets, net book value	-	-
Total Assets	416,398	431,805
Liabilities		
Current Liabilities	137,065	153,250
Long-term Liabilities	-	-
Total Liabilities	137,065	153,250
Net Assets		
Total Capital Assets	-	-
Restricted	5,608	7,383
Unrestricted	273,725	271,172
Total Net Assets	\$ 279,333	\$ 278,555

Unrestricted net assets are similar but not identical to fund balance. The restricted assets currently include an anonymous donation specifically identified for use by staff and students for special field trips such as Camp Storer and Camp Tamarack as well as donations for library and class trips. A reconciliation of the difference between increased net assets and an increase in fund balance is on page 4-6.

**Honey Creek Community School
Management's Discussion and Analysis
Year Ended June 30, 2008**

The net assets for the School decreased \$778 during the 2007/08 school year. The *Statement of Net Assets from Operating Results* (below) shows the details of this change.

Statement of Net Assets from Operating Results

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2008</u>
Revenues		
Program revenues		
Charges for services	\$ 160,652	\$ 135,270
Operating grants and contributions	198,011	215,166
Capital grants and contributions		
General revenues		
State foundation allowance	1,144,675	1,302,498
Interest and investment earnings	6,047	7,200
Other	4,081	2,365
Total revenues	<u>1,513,466</u>	<u>1,662,499</u>
Expenses		
Instruction	757,809	929,769
Support services	475,778	551,691
Community Services	157,527	181,817
Interest on long-term debt	566	-
Total expenses	<u>1,391,680</u>	<u>1,663,277</u>
Increase (decrease) in net assets	<u>\$ 121,786</u>	<u>\$ (778)</u>

The School's Fund

The School decreased the fund balance by \$778.

The School's actual general fund revenues were less than the revised budget by \$9,053, a variance of less than 1 percent.

The School's actual general fund expenditures were less than the revised budget by \$32,786, a variance of less than 2 percent.

Foundation Allowance

Eighty percent of the School's revenues are received from State sources. The Net State Foundation Grant is based on two variables:

1. The State of Michigan State Aid Act per student foundation allowance
2. Student enrollment calculated by blending 75 percent of the current year's fall count and 25 percent of the prior year's winter count

Annually, the State of Michigan establishes the per student foundation allowance. The Honey Creek Community School foundation allowance for 2007-08 was \$7,475 per student, a 1.2% increase from 2006-07 prorated amount of \$7,385.

The School's student enrollment for the fall count of 2007-08 was 181 students. We added a k-1 classroom in September 2007. Our plan is to continue to add a classroom each year for 08-09, 09-10, and 10-11 to reach a peak of 250 students. The following summarizes fall student enrollments in the past five years:

**Honey Creek Community School
Management's Discussion and Analysis
Year Ended June 30, 2008**

Enrollment History

	Student FTE	FTE Change from Prior Year
2007/08	181	22
2006/07	159	17
2005/06	142	1
2004/05	141	1
2003/04	140	140

Preliminary student enrollment projections for 2008-09 indicate that enrollment is likely to increase from the school year 2007-08 by 18 students.

Capital Assets

At June 30, 2008, the School had \$63,441 invested in capital assets including furniture, and equipment.

Assets	2007	2008
Furniture and equipment	\$ 63,441	\$ 63,441
Less accumulated depreciation	63,441	63,441
	<u>\$ -</u>	<u>\$ -</u>

Long-Term Debt

The School did not have any long-term obligations during the 2007-08 school year.

Original versus Revised Budget

The Uniform Budget Act of the State of Michigan requires that a local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The budget for 2007/08 was approved on June 13, 2007 and amended on November 14, 2007.

General Fund Revenues

	2007
Total Revenues Revised Budget	\$ 1,671,552
Total Revenues Original Budget	1,668,394
	<u>\$ 3,158</u>

The change reflects an adjustment to the appropriation from a zero increase (stay at \$7,385) in state aid to \$7,475 based on the student count.

General Fund Expenditures

	2007
Total Expenditures Revised Budget	\$ 1,663,063
Total Expenditures Original Budget	1,593,394
	<u>\$ 69,669</u>

The change in expenditures reflects more money available with the state aid adjustment and the strong need for an overhaul of our technology hardware. Special education needs changed also, as students with IEPs required more personal attention.

**Honey Creek Community School
Management's Discussion and Analysis
Year Ended June 30, 2008**

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

Most of the School's revenue is derived from the per pupil foundation allowance, so student enrollment as reported in the *blended count* is one of the key factors in forecasting revenue. Once the final student count is known in late September, State law requires the School to amend the budget if actual revenues will vary significantly from those originally appropriated.

Actual revenue received depends on the State's ability to collect revenues to fund its appropriation to schools. Honey Creek Community School received \$7,475 per pupil in 2007/08 based on the blended count formula. The State legislature continues to work very hard to fund schools while working with the complexities of our state budget during this economically challenging time.

Requests for Information

This financial report is designed to give our citizens, taxpayers, parents, students, investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Questions concerning this report or requests for additional information should be addressed to Shellee Almquist, Assistant Director at 734-994-2636 ext 2220.

BASIC FINANCIAL STATEMENTS

Honey Creek Community School
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash	\$ 178,078
Accounts receivable	9,918
Due from other governmental units	<u>243,809</u>
Total assets	<u>431,805</u>
Liabilities and net assets	
Liabilities	
Accounts payable	234
Payroll deductions and withholdings	1,902
Accrued expenditures	22,146
Accrued salaries payable	72,260
Deferred revenue	<u>56,708</u>
Total liabilities	<u>153,250</u>
Net assets	
Restricted for:	
8th grade class trip	3,340
Library	978
5th grade class trip	689
Middle school camp	2,376
Unrestricted	<u>271,172</u>
Total net assets	<u>\$ 278,555</u>

See Accompanying Notes to Financial Statements

Honey Creek Community School
Statement of Activities
For the Year Ended June 30, 2008

	Program Revenues			Net (Expense)
Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets	
Functions/Programs				
Governmental activities				
Instruction	\$ 929,769	\$ -	\$ 205,876	\$ (723,893)
Supporting services	551,691	-	9,290	(542,401)
Community services	181,817	135,270	-	(46,547)
Total governmental activities	\$ 1,663,277	\$ 135,270	\$ 215,166	(1,312,841)
General revenues				
State aid - unrestricted				1,302,498
Interest and investment earnings				7,200
Other				2,365
Total general revenues				1,312,063
Change in net assets				(778)
Net assets - beginning				279,333
Net assets - ending				\$ 278,555

See Accompanying Notes to Financial Statements

**Honey Creek Community School
Governmental Funds
Balance Sheet
June 30, 2008**

	General Fund
Assets	
Cash	\$ 178,078
Accounts receivable	9,918
Due from other governmental units	243,809
Total assets	\$ 431,805
Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 234
Payroll deductions and withholdings	1,902
Accrued expenditures	22,146
Accrued salaries payable	72,260
Deferred revenue	56,708
Total liabilities	153,250
Fund balance	
Reserved for 8th grade class trip	3,340
Reserved for library	978
Reserved for 5th grade class trip	689
Reserved for middle school camp	2,376
Other undesignated	271,172
Total fund balance	278,555
Total liabilities and fund balance	\$ 431,805

See Accompanying Notes to Financial Statements

Honey Creek Community School
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2008

Total fund balances for governmental funds	<u>\$ 278,555</u>
Net assets of governmental activities	<u>\$ 278,555</u>

See Accompanying Notes to Financial Statements

Honey Creek Community School
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	General Fund
Revenues	
Local sources	\$ 167,844
State sources	1,349,535
Federal sources	71,684
Interdistrict sources	73,436
Total revenues	1,662,499
Expenditures	
Current	
Education	
Instruction	925,094
Supporting services	548,975
Community services	181,817
Capital outlay	7,391
Total expenditures	1,663,277
Deficiency of revenues over expenditures	(778)
Fund balance - beginning	279,333
Fund balance - ending	\$ 278,555

See Accompanying Notes to Financial Statements

Honey Creek Community School
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - Total governmental funds	\$ <u>(778)</u>
Change in net assets of governmental activities	\$ <u>(778)</u>

See Accompanying Notes to Financial Statements

Honey Creek Community School
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2008

	<u>Private Purpose Trust Funds</u>
Assets	
Cash	\$ 15,242
Ann Arbor Area Community Foundation endowment	<u>54,815</u>
Total assets	<u>\$ 70,057</u>
Net assets	
Reserved for endowment	<u>\$ 70,057</u>

See Accompanying Notes to Financial Statements

Honey Creek Community School
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2008

	<u>Private Purpose Trust Funds</u>
Additions	
Local sources	\$ 4,516
Interest and investment earnings	<u>581</u>
Total additions	5,097
Net assets - beginning	<u>64,960</u>
Net assets - ending	<u>\$ 70,057</u>

See Accompanying Notes to Financial Statements

Honey Creek Community School
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Honey Creek Community School (School) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School's significant accounting policies:

Reporting Entity

Honey Creek Community School is governed by a seven-member Board of Trustees. The School was granted a contract to operate a public school academy under the authority of Washtenaw Intermediate School District, as granted by the State of Michigan. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School's reporting entity, and which organizations are legally separate component units of the School. The School has no component units.

School-wide Financial Statements

The School's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School's major funds). The school-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

The statement of net assets presents governmental activities using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The School first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general government revenues (contributions, intergovernmental revenues and fees). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital 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 (state sources and federal sources, interest income, etc.). The School does not allocate indirect costs.

The school-wide focus is on the sustainability of the School as an entity and the change in the School's net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School 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.

Unrestricted state aid, intergovernmental grants, and interest

Honey Creek Community School
Notes to Financial Statements
June 30, 2008

associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the school.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School reports the following fund types:

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School in a trustee capacity or as an agent.

The Child Care Connection School Age Care Endowment Fund is used to support the continued provision and development of parent-guided school age child care at the School. The funds are to be used to fund scholarships and curriculum development of the School's school age programs.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Receivables are shown net of an allowance for uncollectible amounts.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School does not have infrastructure assets. Equipment is depreciated using the straight-line method over 3 – 5 years.

Long-term Obligations – In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the School's financial statements.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for schools in recognizing the cost of retiree health care. The new rules will cause school-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation*

Honey Creek Community School
Notes to Financial Statements
June 30, 2008

Obligations. This statement addresses how to account for pollution remediation activities of the effects of existing pollution; it does not include prevention or control activities or remediation required upon the retirement of an asset. In general, the new rules will cause school-wide financial statements to recognize a liability on the current value of expected costs as estimated using the expected cash flows method. This statement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period. In general, the new rules will cause school-wide financial statements to include intangible assets as capital assets. This statement is effective for the year ending June 30, 2010.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School to have its budget in place by July 1. A school is not considered in violation of the Act if reasonable procedures are in use by the School to detect violations.

The Executive Director is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.

Budgeted amounts are as originally adopted or as amended by the Board of Trustees throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Excess of Expenditures over Appropriations

During the year, the school incurred expenditures in certain functions, which were in excess of the amount budgeted, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Added needs	\$ 164,917	\$ 182,330	\$ 17,413
Operations and maintenance	76,000	91,301	15,301
Pupil transportation services	2,400	2,687	287
Central	-	383	383
Community services	159,476	181,817	22,341

Note 3 - Deposits and Investments

The School's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 178,078	\$ 15,242	\$ 193,320

Honey Creek Community School
Notes to Financial Statements
June 30, 2008

Credit risk – State statutes and the School’s investment policy authorize the School to make deposits in the accounts of federally insured banks and credit unions, and savings and loan associations that have an office in Michigan; the School is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers’ acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School’s deposits may not be returned to it. In accordance with the School’s policy, a local bank is used for deposits. As of June 30, 2008, \$ 119,281 of the School’s bank balance of \$ 219,281 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Ann Arbor Community Foundation Endowment

As of June 30, 2008, the School has an endowment of \$ 54,815 held by Ann Arbor Area Community Foundation. The original \$50,000 provided by the school will remain as principal. Investment income will be available as permitted by the Ann Arbor Community Foundation spending plan. The assets are recognized in a private purpose trust fund.

Note 5 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Furniture and equipment	\$ 63,441	\$ -	\$ -	\$ 63,441
Less accumulated depreciation for furniture and equipment	<u>63,441</u>	<u>-</u>	<u>-</u>	<u>63,441</u>
Net capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

All capital assets have been depreciated; therefore there is no depreciation expense in the current year.

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
School Age Camp	<u>\$ 56,708</u>

Note 7 - Leases

Operating Leases

The School leases 1 Sharp copier under a noncancelable operating lease. Total costs for the lease were \$ 3,528 for the year. The future minimum lease payments for the lease are as follows:

Honey Creek Community School
Notes to Financial Statements
June 30, 2008

Year ending June 30,	
2009	\$ 3,528
2010	3,528
2010	<u>882</u>
 Total	 <u><u>\$ 7,938</u></u>

Note 8 - Long-Term Debt

The School is able to issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation notes are direct obligations and pledge the full faith and credit of the School. Other long-term obligations may include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

There are no long term obligations in the current year.

Note 9 - Risk Management

The School is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as benefits provided to employees. The School has purchased commercial insurance for health, dental, life and disability benefits for employees, and participates in SET-SEG (risk pool) for claims related to workers' compensation, general liability, and property. The shared risk program in which the school participates operates as a common risk-sharing management program for schools in Michigan; member premiums are used to purchase commercial excess insurance and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan

Plan Description

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPSERS), which is a cost-sharing public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

MPSERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. The report provides information for the plan as a whole and information helpful for understanding the scale of the information presented relative to the School. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or calling 800-381-5111.

Funding Policy

The School is required by State statute to contribute to MPSERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPSERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPSERS funding for the three-year period beginning July 1, 2005 through June 30, 2008.

Honey Creek Community School
Notes to Financial Statements
June 30, 2008

	2008	2007	2006
Funding percentage range	16.72-17.74%	16.34%-17.74%	14.87-16.34%
Total payroll	\$970,790	\$842,956	\$799,212
Total covered payroll	970,790	842,956	799,212
School contributions	154,949	136,265	127,221
Employee MIP contributions	32,521	27,336	29,141
Tax deferred payment program	9,825	9,200	2,400
Portion of school contribution covering health, dental and vision benefits	39%	37%	40%

Trend Information

Ten-year historical trend information is presented in the September 30, 2007, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2006, the latest date for which information is available, approximates \$ 49.1 billion and \$ 43.0 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPSERS was less than 1% for the year ended September 30, 2007.

Post Employment Benefits

In addition to the pension benefits described above, the School District provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPSERS).

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2007, statewide expenditures of \$ 654 million were recognized for post-retirement health care, dental and vision. This represented approximately 18% of the total expenditures of the Michigan Public School Employees Retirement System.

Note 11 - Related Party Transactions

The School renewed its contract with Washtenaw Intermediate School District (WISD) on May 10, 2005 for an additional five years to operate a public school academy.

The School currently leases their premises on a three-year lease with WISD which ended on June 30, 2006. The lease currently operates on a monthly basis until a new lease agreement is reached. The amount paid during fiscal year 2007-08 was \$100,236. The lease amount during the next year will be calculated by WISD. It is anticipated that the annual amounts will remain consistent with the current year.

The School currently pays WISD 3% of its state aid as an administration fee. The amount paid during fiscal year 2007-08 was 32,296 .

REQUIRED SUPPLEMENTAL INFORMATION

Honey Creek Community School
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Over (Under) Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Local sources	\$ 210,090	\$ 195,424	\$ 167,844	\$ (27,580)
State sources	1,322,726	1,327,726	1,349,535	21,809
Federal sources	70,578	83,402	71,684	(11,718)
Interdistrict sources	65,000	65,000	73,436	8,436
Total revenues	<u>1,668,394</u>	<u>1,671,552</u>	<u>1,662,499</u>	<u>(9,053)</u>
Expenditures				
Instruction				
Basic programs	715,419	790,612	742,764	(47,848)
Added needs	159,989	164,917	182,330	17,413
Supporting services				
Pupil	77,003	80,676	73,590	(7,086)
Instructional staff	92,905	93,390	88,070	(5,320)
General administration	168,780	177,795	161,027	(16,768)
School administration	88,416	95,269	91,092	(4,177)
Business	44,224	41,278	40,825	(453)
Operations and maintenance	76,000	76,000	91,301	15,301
Pupil transportation services	2,300	2,400	2,687	287
Central	-	-	383	383
Community services	158,558	159,476	181,817	22,341
Capital outlay	9,800	14,250	7,391	(6,859)
Total expenditures	<u>1,593,394</u>	<u>1,696,063</u>	<u>1,663,277</u>	<u>(32,786)</u>
Net change in fund balance	75,000	(24,511)	(778)	23,733
Fund balance - beginning	<u>279,333</u>	<u>279,333</u>	<u>279,333</u>	<u>-</u>
Fund balance - ending	<u>\$ 354,333</u>	<u>\$ 254,822</u>	<u>\$ 278,555</u>	<u>\$ 23,733</u>

OTHER SUPPLEMENTAL INFORMATION

Honey Creek Community School
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2008

	2008	2007
Assets		
Cash	\$ 178,078	\$ 181,547
Accounts receivable	9,918	22,230
Due from other governmental units	243,809	201,922
Prepaid items	-	10,699
Total assets	\$ 431,805	\$ 416,398
Liabilities and fund balance		
Liabilities		
Accounts payable	\$ 234	\$ 3,515
Due to other governmental units	-	5,918
Payroll deductions and withholdings	1,902	2,310
Accrued expenditures	22,146	17,151
Accrued salaries payable	72,260	53,023
Deferred revenue	56,708	55,148
Total liabilities	153,250	137,065
Fund balance		
Reserved for prepaid items	-	10,699
Reserved for 8th grade class trip	3,340	1,947
Reserved for recycling costs	-	120
Reserved for school camp	-	959
Reserved for library	977	977
Reserved for 5th grade class trip	689	98
Reserved for middle school camp	2,376	1,507
Other undesignated	271,173	263,026
Total fund balance	278,555	279,333
Total liabilities and fund balance	\$ 431,805	\$ 416,398

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Tuition	\$ 173,422	\$ 173,422	\$ 140,359	\$ (33,063)
Earnings on investments	2,500	3,000	7,200	4,200
Other local revenues	<u>34,168</u>	<u>19,002</u>	<u>20,285</u>	<u>1,283</u>
Total revenues from local sources	<u>210,090</u>	<u>195,424</u>	<u>167,844</u>	<u>(27,580)</u>
Revenues from state sources				
Grants - unrestricted	1,286,836	1,286,836	1,302,498	15,662
Grants - restricted	<u>35,890</u>	<u>40,890</u>	<u>47,037</u>	<u>6,147</u>
Total revenues from state sources	<u>1,322,726</u>	<u>1,327,726</u>	<u>1,349,535</u>	<u>21,809</u>
Revenues from federal sources				
Grants	<u>70,578</u>	<u>83,402</u>	<u>71,684</u>	<u>(11,718)</u>
Interdistrict sources				
Other	<u>65,000</u>	<u>65,000</u>	<u>73,436</u>	<u>8,436</u>
Total revenue	<u><u>\$ 1,668,394</u></u>	<u><u>\$ 1,671,552</u></u>	<u><u>\$ 1,662,499</u></u>	<u><u>\$ (9,053)</u></u>

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 307,212	\$ 353,141	\$ 322,529	\$ (30,612)
Employee benefits	107,391	109,554	99,991	(9,563)
Purchased services	7,725	8,225	5,926	(2,299)
Supplies and materials	18,591	38,061	41,284	3,223
Other	650	550	324	(226)
	<u>441,569</u>	<u>509,531</u>	<u>470,054</u>	<u>(39,477)</u>
Total elementary				
Basic program - middle school				
Salaries	176,998	172,428	171,211	(1,217)
Employee benefits	61,221	54,656	54,115	(541)
Purchased services	15,900	16,400	15,066	(1,334)
Supplies and materials	13,441	31,595	27,740	(3,855)
Other	3,700	3,429	3,231	(198)
	<u>271,260</u>	<u>278,508</u>	<u>271,363</u>	<u>(7,145)</u>
Total middle school				
Basic program - summer school				
Salaries	2,000	2,000	1,000	(1,000)
Employee benefits	590	573	347	(226)
	<u>2,590</u>	<u>2,573</u>	<u>1,347</u>	<u>(1,226)</u>
Total summer school				

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - special education				
Salaries	\$ 111,213	\$ 122,464	\$ 126,869	\$ 4,405
Employee benefits	19,316	14,336	19,542	5,206
Purchased services	300	300	3,834	3,534
Supplies and materials	600	1,000	408	(592)
Other	3,000	3,000	11,123	8,123
Total special education	<u>134,429</u>	<u>141,100</u>	<u>161,776</u>	<u>20,676</u>
Added needs - compensatory education				
Salaries	19,285	18,585	16,888	(1,697)
Employee benefits	5,775	4,732	3,666	(1,066)
Supplies and materials	500	500	-	(500)
Total compensatory education	<u>25,560</u>	<u>23,817</u>	<u>20,554</u>	<u>(3,263)</u>
Pupil - speech services				
Salaries	<u>36,191</u>	<u>39,960</u>	<u>33,191</u>	<u>(6,769)</u>
Pupil - other support services				
Salaries	31,017	32,051	33,157	1,106
Employee benefits	9,795	8,665	7,242	(1,423)
Total other pupil support services	<u>40,812</u>	<u>40,716</u>	<u>40,399</u>	<u>(317)</u>

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - improvement of education				
Purchased services	\$ -	\$ -	\$ 1,073	\$ 1,073
Supplies and materials	<u>6,000</u>	<u>8,000</u>	<u>4,883</u>	<u>(3,117)</u>
Total improvement of education	<u>6,000</u>	<u>8,000</u>	<u>5,956</u>	<u>(2,044)</u>
Instructional staff - educational media services				
Salaries	16,614	13,000	10,023	(2,977)
Employee benefits	1,678	1,391	1,055	(336)
Supplies and materials	<u>1,750</u>	<u>8,627</u>	<u>11,574</u>	<u>2,947</u>
Total educational media services	<u>20,042</u>	<u>23,018</u>	<u>22,652</u>	<u>(366)</u>
Instructional staff - technology assisted instruction				
Salaries	39,393	36,300	36,360	60
Employee benefits	14,170	12,634	11,881	(753)
Purchased services	<u>75</u>	<u>75</u>	<u>269</u>	<u>194</u>
Total technology assisted instruction	<u>53,638</u>	<u>49,009</u>	<u>48,510</u>	<u>(499)</u>
Instructional staff - supervision and direction of instructional staff				
Salaries	10,300	10,660	10,329	(331)
Employee benefits	<u>2,925</u>	<u>2,703</u>	<u>623</u>	<u>(2,080)</u>
Total supervision and direction of instructional staff	<u>13,225</u>	<u>13,363</u>	<u>10,952</u>	<u>(2,411)</u>

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
General administration - board of education				
Purchased services	\$ 13,150	\$ 14,450	\$ 12,935	\$ (1,515)
Other	2,500	2,500	2,074	(426)
Total board of education	<u>15,650</u>	<u>16,950</u>	<u>15,009</u>	<u>(1,941)</u>
General administration - executive administration				
Salaries	80,000	71,750	82,685	10,935
Employee benefits	24,525	40,490	22,097	(18,393)
Purchased services	46,005	46,005	38,284	(7,721)
Supplies and materials	2,000	2,000	2,596	596
Other	600	600	356	(244)
Total executive administration	<u>153,130</u>	<u>160,845</u>	<u>146,018</u>	<u>(14,827)</u>
School administration - office of the principal				
Salaries	62,146	68,983	66,085	(2,898)
Employee benefits	25,270	25,086	23,863	(1,223)
Purchased services	1,000	1,200	1,144	(56)
Total office of the principal	<u>88,416</u>	<u>95,269</u>	<u>91,092</u>	<u>(4,177)</u>

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Business - fiscal services				
Salaries	\$ 22,260	\$ 23,039	\$ 24,238	\$ 1,199
Employee benefits	13,636	12,253	12,440	187
Purchased services	<u>2,200</u>	<u>2,200</u>	<u>-</u>	<u>(2,200)</u>
Total fiscal services	<u>38,096</u>	<u>37,492</u>	<u>36,678</u>	<u>(814)</u>
Business - other				
Purchased services	<u>6,128</u>	<u>3,786</u>	<u>4,147</u>	<u>361</u>
Operations and maintenance - operating building services				
Purchased services	<u>76,000</u>	<u>76,000</u>	<u>91,301</u>	<u>15,301</u>
Pupil transportation services				
Purchased services	<u>2,300</u>	<u>2,400</u>	<u>2,687</u>	<u>287</u>
Central - other				
Supplies and materials	<u>-</u>	<u>-</u>	<u>383</u>	<u>383</u>
Community services - custody and care of children				
Salaries	92,434	102,451	109,577	7,126
Employee benefits	30,069	28,625	33,415	4,790
Purchased services	28,855	20,700	28,904	8,204
Supplies and materials	5,900	6,300	8,720	2,420
Other	<u>1,300</u>	<u>1,400</u>	<u>1,201</u>	<u>(199)</u>
Total custody and care of children	<u>158,558</u>	<u>159,476</u>	<u>181,817</u>	<u>22,341</u>

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Capital outlay				
Basic program - elementary	\$ 3,500	\$ 5,000	\$ 4,176	\$ (824)
Basic program - middle school	2,000	3,000	499	(2,501)
Instructional staff - educational media services	500	500	866	366
General administration - executive administration	600	2,500	1,605	(895)
Central - other	-	-	245	245
Community services - custody and care of children	<u>3,200</u>	<u>3,250</u>	<u>-</u>	<u>(3,250)</u>
Total capital outlay	<u>9,800</u>	<u>14,250</u>	<u>7,391</u>	<u>(6,859)</u>
Total expenditures	<u>\$ 1,593,394</u>	<u>\$ 1,696,063</u>	<u>\$ 1,663,277</u>	<u>\$ (32,786)</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 *Government Auditing Standards***

Members of the Board of Trustees
Honey Creek Community School
Ann Arbor, Michigan

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Honey Creek Community School as of and for the year ended June 30, 2008, and have issued our report thereon dated September 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Honey Creek Community School 's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Honey Creek Community School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Honey Creek Community School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Honey Creek Community School's 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 Honey Creek Community School in a separate letter dated September 26, 2008.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization, Michigan Department of Education and the 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.

Yeo & Yeo, P.C.

Saginaw, Michigan
September 26, 2008