

Honey Creek Community School

Ann Arbor, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2010

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Honey Creek Community School
Members of the Board of Trustees and Administration
June 30, 2010

Members of the Board of Trustees

John Stahly	President
Simona Goldin	Vice-President
Libby Sheldon	Secretary
Jeff Prenevost	Treasurer
Carol Borgeson	Trustee
Scott Mahler	Trustee
Wayne Millette	Trustee

Administration

Al Waters	Executive Director
Shellee Almquist	Assistant Director



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Saginaw, MI 48602
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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, 2010, 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, 2010, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 1, 2010, 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.

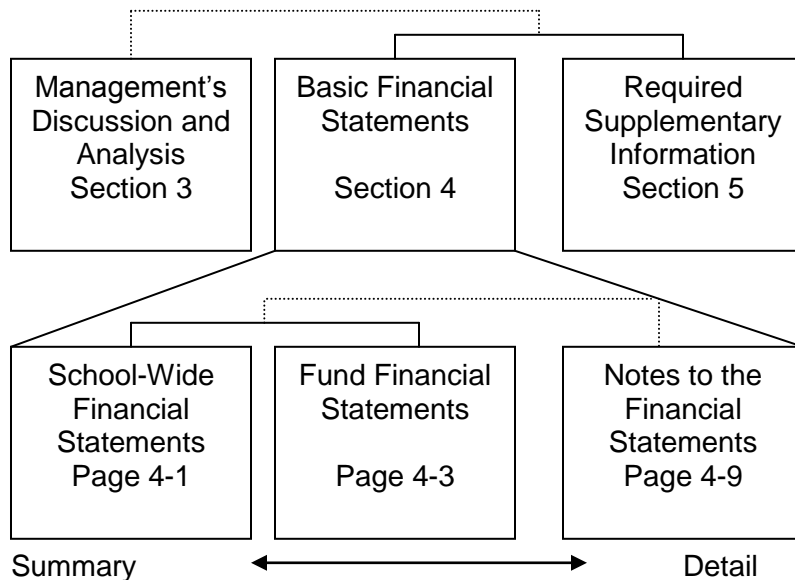
Saginaw, Michigan
September 1, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Honey Creek Community School
Management's Discussion and Analysis
Year Ended June 30, 2010**

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, 2010**

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, 2010	June 30, 2009
Assets		
Current Assets	\$ 629,491	\$ 458,235
Capital Assets	33,687	41,040
Less accumulated depreciation	(33,687)	(41,040)
Capital Assets, net book value	-	-
Total Assets	629,491	458,235
Liabilities		
Current Liabilities	202,876	177,335
Long-term Liabilities	-	-
Total Liabilities	202,876	177,335
Net Assets		
Total Capital Assets	-	-
Restricted	23,131	16,485
Unrestricted	403,484	264,415
Total Net Assets	\$ 426,615	\$ 280,900

Unrestricted net assets are similar but not identical to fund balance. The restricted net assets currently include donations specifically identified for use by staff and students for special trips such as Camp Tamarack as well as donations for the library and class trips. Nearly \$18,000 in fundraising monies is available to use for curriculum needs. 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, 2010**

The net assets for the School increased \$145,715 during the 2009-10 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 2010</u>	<u>Governmental Activities 2009</u>
Revenues		
Program revenues		
Charges for services	\$ 191,729	\$ 161,404
Operating grants and contributions	371,130	322,080
Capital grants and contributions		
General revenues		
State foundation allowance	1,520,652	1,331,705
Interest and investment earnings	100	1,772
Other	2,388	5,329
Total revenues	<u>2,085,999</u>	<u>1,822,290</u>
Expenses		
Instruction	1,126,110	1,028,835
Support services	649,628	601,899
Community Services	164,546	189,211
Interest on long-term debt	-	-
Total expenses	<u>1,940,284</u>	<u>1,819,945</u>
Increase (decrease) in net assets	<u>\$ 145,715</u>	<u>\$ 2,345</u>

The School's Fund

The School increased the fund balance by \$145,715

The School's actual general fund revenues were less than the revised budget by \$29,534, a variance of 1.4%.

The School's actual general fund expenditures were less than the revised budget by \$136,788, a variance of 6.6%.

Foundation Allowance

Seventy three 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 09-10 was \$7,580 per student, a 0% increase from 2008-09 amount of \$7,580. This amount was then modified by the legislature with an adjustment (decrease) in the discretionary fund amounts and then that amount was offset with ARRA stabilization funds from the federal government. The Michigan legislature also deducted \$154/student. This amount was not offset at all. The per pupil foundation allowance for 2010-2011 is predicted to be reduced by at least \$143 per pupil. It is not clear that there are any ARRA stabilization funds left to use, thus bringing the per pupil amount to \$7,183 for 2010-2011.

The School's student enrollment for the fall count of 2009-2010 was 219 students. We added a 4-5 classroom in September 2009. Our plan is to continue to add a classroom in

**Honey Creek Community School
Management's Discussion and Analysis
Year Ended June 30, 2010**

10-11 to approach a peak of 250 students. The following summarizes fall student enrollments in the past five years:

Enrollment History

	Student FTE	FTE Change from Prior Year
2009/10	219	30
2008/09	189	8
2007/08	181	22
2006/07	159	17
2005/06	142	1

Preliminary student enrollment projections for 2010-2011 indicate that enrollment is likely to increase from the school year 2009-2010 by 13 students.

Capital Assets

At June 30, 2010, the School had \$33,687 invested in capital assets including furniture, and equipment. More pieces of technology were removed from the inventory list this past year.

Assets	2010	2009
Furniture and equipment	\$ 33,687	\$ 41,040
Less accumulated depreciation	33,687	41,040
	<u>\$ -</u>	<u>\$ -</u>

Long-Term Debt

The School did not have any long-term obligations during the 2009-10 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 2010 was approved on June 23, 2009 and amended on February 17, 2010.

General Fund Revenues

	2009-10
Total Revenues Revised Budget	\$ 2,115,533
Total Revenues Original Budget	1,949,013
	<u>\$ 166,520</u>

The change reflects an adjustment to the budget from a budgeted student number of 212 to 219 and an adjustment in state aid of \$7,580 from \$7,415.

General Fund Expenditures

	2009-10
Total Expenditures Revised Budget	\$ 2,077,072
Total Expenditures Original Budget	1,969,911
	<u>\$ 107,161</u>

**Honey Creek Community School
Management's Discussion and Analysis
Year Ended June 30, 2010**

The change in expenditures reflects more money available with the increase in students. The original budget did not have any raises in salaries, while the revised budget included a 3% raise for continuing staff (along with increased retirement and other tax costs.) Special education needs continue to rise, as students with IEPs required more personal attention. The revised budget includes an increase in expenditures for camp staff and lease costs.

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 \$7,580 per pupil in 2009-10 based on the blended count formula. This amount was modified by an adjustment to 22b – Discretionary Payment (decrease) and another adjustment to 11d – LEA Pupil (decrease) for a total of \$84,415. ARRA stabilization funds were used to replace the \$51,806 amount. Honey Creek Community School was required to apply for these funds by July 31, 2010. We have done so and have received the funds. It is quite challenging to keep our school on an even keel when the state legislature cannot provide timely and accurate information.

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, 2010

	Governmental Activities
Assets	
Cash	\$ 272,812
Accounts receivable	14,026
Due from other governmental units	342,653
Total assets	629,491
Liabilities and net assets	
Liabilities	
Accounts payable	8,666
Payroll deductions and withholdings	8,069
Accrued expenditures	31,436
Accrued salaries payable	101,836
Deferred revenue	52,869
Total liabilities	202,876
Net assets	
Restricted for:	
Reserved for Phoenix Rising Projects	18,063
Reserved for 8th grade class trip	1,501
Reserved for library	1,582
Middle school camp	1,985
Unrestricted	403,484
Total net assets	\$ 426,615

See Accompanying Notes to Financial Statements

Honey Creek Community School
Statement of Activities
For the Year Ended June 30, 2010

	Program Revenues		Net (Expense)
Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
Functions/Programs			
Governmental activities			
Instruction	\$ 1,126,110	\$ -	\$ 355,551
Supporting services	649,628	-	15,579
Community services	164,546	191,729	-
Total governmental activities	\$ 1,940,284	\$ 191,729	\$ 371,130
			(1,377,425)
General revenues			
State aid - unrestricted			1,520,652
Interest and investment earnings			100
Other			2,388
Total general revenues			1,523,140
Change in net assets			145,715
Net assets - beginning			280,900
Net assets - ending			\$ 426,615

See Accompanying Notes to Financial Statements

Honey Creek Community School
Governmental Funds
Balance Sheet
June 30, 2010

	General Fund
Assets	
Cash	\$ 272,812
Accounts receivable	14,026
Due from other governmental units	342,653
Total assets	\$ 629,491
Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 8,666
Payroll deductions and withholdings	8,069
Accrued expenditures	31,436
Accrued salaries payable	101,836
Deferred revenue	52,869
Total liabilities	202,876
Fund balance	
Reserved for Phoenix Rising Projects	18,063
Reserved for 8th grade class trip	1,501
Reserved for library	1,582
Reserved for middle school camp	1,985
Other undesignated	403,484
Total fund balance	426,615
Total liabilities and fund balance	\$ 629,491

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, 2010

Total fund balances for governmental funds	<u>\$ 426,615</u>
Net assets of governmental activities	<u>\$ 426,615</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, 2010

	General Fund
Revenues	
Local sources	\$ 231,910
State sources	1,590,187
Federal sources	142,137
Interdistrict sources	121,765
Total revenues	2,085,999
Expenditures	
Current	
Education	
Instruction	1,120,681
Supporting services	648,945
Community services	164,546
Capital outlay	6,112
Total expenditures	1,940,284
Excess of revenues over expenditures	145,715
Fund balance - beginning	280,900
Fund balance - ending	\$ 426,615

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, 2010

Net change in fund balances - Total governmental funds	<u>\$ 145,715</u>
Change in net assets of governmental activities	<u>\$ 145,715</u>

See Accompanying Notes to Financial Statements

Honey Creek Community School
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2010

	<u>Private Purpose Trust Funds</u>
Assets	
Cash	\$ 15,471
Ann Arbor Area Community Foundation endowment	<u>45,967</u>
Total assets	<u>\$ 61,438</u>
Net assets	
Reserved for endowment	<u>\$ 61,438</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, 2010

	<u>Private Purpose Trust Funds</u>
Additions	
Local sources	\$ 400
Interest and investment earnings (loss)	<u>8,617</u>
Total additions	9,017
Deductions	
Other	<u>-</u>
Change in net assets	9,017
Net assets - beginning	<u>52,421</u>
Net assets - ending	<u><u>\$ 61,438</u></u>

See Accompanying Notes to Financial Statements

Honey Creek Community School
Notes to Financial Statements
June 30, 2010

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.

Honey Creek Community School
Notes to Financial Statements
June 30, 2010

Unrestricted state aid, intergovernmental grants, and interest 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.

All trade receivables are shown net of an allowance for uncollectible amounts. The School considers all accounts receivable to be fully

collectible; accordingly, no allowance for uncollectible amounts is recorded.

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. There are no long-term liabilities as of June 30, 2010.

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. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The new standard changes fund balance classifications to depict the relative strength of the spending constraints and clarifies the definitions of various governmental fund types. This statement is effective for the year ending June 30, 2011.

Honey Creek Community School
Notes to Financial Statements
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			
Instructional staff	\$ 92,014	\$ 98,428	\$ 6,414
Pupil transportation services	2,100	2,708	608
Community services	151,127	164,546	13,419

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	<u>\$ 272,812</u>	<u>\$ 15,471</u>	<u>\$ 288,283</u>

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, 2010, \$ 321,530 of the School's bank balance of \$ 352,411 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Honey Creek Community School
Notes to Financial Statements
June 30, 2010

Note 4 - Ann Arbor Community Foundation Endowment

As of June 30, 2010, the School has an endowment of \$ 45,967 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	\$ 41,040	\$ -	\$ 7,353	\$ 33,687
Less accumulated depreciation for furniture and equipment	<u>41,040</u>	<u>-</u>	<u>7,353</u>	<u>33,687</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>\$ 52,869</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:

Year ending June 30,	
2011	<u>\$ 882</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

Honey Creek Community School
Notes to Financial Statements
June 30, 2010

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 multiple-employer 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, calling 800-381-5111 or on the web at <http://www.michigan.gov/orsschools>.

Funding Policy

The School is required by the School Finance Reform Act to contribute to MPSERS an actuarially determined percentage of payroll for all participating employees. The School's actual contributions match the required contributions. Additionally, employees participating in the Member Investment Plan contributed 3% to 6.4% 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 pension funding for the three-year period beginning July 1, 2007 through June 30, 2010.

	2010	2009	2008
Funding percentage range	9.73 - 10.13%	9.73 - 10.17%	10.17 - 11.19%
Total payroll	1,204,868	1,119,841	970,790
Total covered payroll	1,083,066	1,032,359	970,790
School pension contributions	108,721	106,331	94,519
Employee MIP contributions	37,126	34,060	32,521
Tax deferred payment program	-	6,149	9,825

Trend Information

Ten-year historical trend information is presented in the September 30, 2009, 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, 2009, the latest date for which information is available, approximates \$ 41.8 billion and \$ 35.2 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, 2009.

Post Employment Benefits

In addition to the pension benefits described above, the School Finance Reform Act requires the School District to provide post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPSERS). Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health care, dental and vision coverage at the time of receiving the benefits. The School's actual contributions match the required contributions.

Honey Creek Community School
Notes to Financial Statements
June 30, 2010

The following table discloses pertinent information relative to MPERS post employment benefits funding for the three-year period beginning July 1, 2007 through June 30, 2010.

	2010	2009	2008
Funding percentage range	6.81%	6.55 - 6.81%	6.55%
School post employment benefits contributions	73,757	73,891	60,430

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 2009-10 was \$140,000. 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 2009-10 was 46,598 . There is a balance due of \$ 8,507 at year end.

REQUIRED SUPPLEMENTAL INFORMATION

Honey Creek Community School
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 171,106	\$ 190,646	\$ 231,910	\$ 41,264
State sources	1,431,634	1,584,532	1,590,187	5,655
Federal sources	212,435	206,517	142,137	(64,380)
Interdistrict sources	<u>133,838</u>	<u>133,838</u>	<u>121,765</u>	<u>(12,073)</u>
Total revenues	<u>1,949,013</u>	<u>2,115,533</u>	<u>2,085,999</u>	<u>(29,534)</u>
Expenditures				
Instruction				
Basic programs	920,243	974,051	894,960	(79,091)
Added needs	251,834	253,322	225,721	(27,601)
Supporting services				
Pupil	102,376	105,128	94,195	(10,933)
Instructional staff	80,283	92,014	98,428	6,414
General administration	169,055	193,572	169,347	(24,225)
School administration	112,653	118,121	107,122	(10,999)
Business	49,345	48,842	45,860	(2,982)
Operations and maintenance	131,250	131,250	130,734	(516)
Pupil transportation services	2,100	2,100	2,708	608
Central	720	595	551	(44)
Community services	141,502	151,127	164,546	13,419
Capital outlay	<u>8,550</u>	<u>6,950</u>	<u>6,112</u>	<u>(838)</u>
Total expenditures	<u>1,969,911</u>	<u>2,077,072</u>	<u>1,940,284</u>	<u>(136,788)</u>
Net change in fund balance	(20,898)	38,461	145,715	107,254
Fund balance - beginning	<u>280,900</u>	<u>280,900</u>	<u>280,900</u>	<u>-</u>
Fund balance - ending	<u>\$ 260,002</u>	<u>\$ 319,361</u>	<u>\$ 426,615</u>	<u>\$ 107,254</u>

OTHER SUPPLEMENTAL INFORMATION

Honey Creek Community School
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2010

	2010	2009
Assets		
Cash	\$ 272,812	\$ 155,764
Accounts receivable	14,026	9,465
Due from other governmental units	342,653	293,006
Total assets	\$ 629,491	\$ 458,235
Liabilities and fund balance		
Liabilities		
Accounts payable	\$ 8,666	\$ 16,404
Payroll deductions and withholdings	8,069	4,714
Accrued expenditures	31,436	24,053
Accrued salaries payable	101,836	84,804
Deferred revenue	52,869	47,360
Total liabilities	202,876	177,335
Fund balance		
Reserved for Phoenix Rising Projects	18,063	9,442
Reserved for 8th grade class trip	1,501	2,077
Reserved for library	1,582	1,582
Reserved for middle school camp	1,985	2,695
Other undesignated	403,484	265,104
Total fund balance	426,615	280,900
Total liabilities and fund balance	\$ 629,491	\$ 458,235

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue from local sources				
Tuition	\$ 153,855	\$ 158,855	\$ 180,750	\$ 21,895
Earnings on investments	3,000	500	100	(400)
Student activities	-	-	14,903	14,903
Other local revenues	<u>14,251</u>	<u>31,291</u>	<u>36,157</u>	<u>4,866</u>
Total revenues from local sources	<u>171,106</u>	<u>190,646</u>	<u>231,910</u>	<u>41,264</u>
Revenues from state sources				
Grants - unrestricted	1,359,188	1,510,201	1,520,652	10,451
Grants - restricted	<u>72,446</u>	<u>74,331</u>	<u>69,535</u>	<u>(4,796)</u>
Total revenues from state sources	<u>1,431,634</u>	<u>1,584,532</u>	<u>1,590,187</u>	<u>5,655</u>
Revenues from federal sources				
Grants	<u>212,435</u>	<u>206,517</u>	<u>142,137</u>	<u>(64,380)</u>
Interdistrict sources				
Other	<u>133,838</u>	<u>133,838</u>	<u>121,765</u>	<u>(12,073)</u>
Total revenue	<u><u>\$ 1,949,013</u></u>	<u><u>\$ 2,115,533</u></u>	<u><u>\$ 2,085,999</u></u>	<u><u>\$ (29,534)</u></u>

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Basic program - elementary				
Salaries	\$ 437,766	\$ 462,081	\$ 444,034	\$ (18,047)
Employee benefits	143,078	152,254	122,786	(29,468)
Purchased services	11,071	11,263	9,383	(1,880)
Supplies and materials	40,598	45,105	30,841	(14,264)
Other	300	300	-	(300)
	<u>632,813</u>	<u>671,003</u>	<u>607,044</u>	<u>(63,959)</u>
Total elementary				
Basic program - middle school				
Salaries	185,219	194,359	193,716	(643)
Employee benefits	59,581	63,429	56,691	(6,738)
Purchased services	19,219	16,801	19,222	2,421
Supplies and materials	20,703	23,251	15,838	(7,413)
Other	150	2,650	-	(2,650)
	<u>284,872</u>	<u>300,490</u>	<u>285,467</u>	<u>(15,023)</u>
Total middle school				
Basic program - summer school				
Salaries	2,000	2,000	2,000	-
Employee benefits	558	558	449	(109)
	<u>2,558</u>	<u>2,558</u>	<u>2,449</u>	<u>(109)</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, 2010

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - special education				
Salaries	\$ 185,632	\$ 180,582	\$ 153,927	\$ (26,655)
Employee benefits	44,356	45,191	43,362	(1,829)
Purchased services	4,000	500	6,338	5,838
Supplies and materials	1,000	2,000	2,561	561
Other	-	6,000	1,253	(4,747)
Total special education	<u>234,988</u>	<u>234,273</u>	<u>207,441</u>	<u>(26,832)</u>
Added needs - compensatory education				
Salaries	12,996	14,881	14,881	-
Employee benefits	3,400	3,718	3,399	(319)
Supplies and materials	450	450	-	(450)
Total compensatory education	<u>16,846</u>	<u>19,049</u>	<u>18,280</u>	<u>(769)</u>
Pupil - speech services				
Purchased services	<u>37,051</u>	<u>37,051</u>	<u>33,776</u>	<u>(3,275)</u>
Pupil - social work services				
Salaries	11,064	12,005	13,305	1,300
Employee benefits	964	1,198	2,307	1,109
Total social work services	<u>12,028</u>	<u>13,203</u>	<u>15,612</u>	<u>2,409</u>

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - other support services				
Salaries	\$ 42,203	\$ 43,469	\$ 35,686	\$ (7,783)
Employee benefits	11,094	11,405	9,121	(2,284)
Total other pupil support services	<u>53,297</u>	<u>54,874</u>	<u>44,807</u>	<u>(10,067)</u>
Instructional staff - improvement of education				
Purchased services	1,000	4,000	-	(4,000)
Supplies and materials	3,000	9,000	16,893	7,893
Total improvement of education	<u>4,000</u>	<u>13,000</u>	<u>16,893</u>	<u>3,893</u>
Instructional staff - educational media services				
Salaries	19,124	20,961	21,368	407
Employee benefits	1,808	1,954	5,050	3,096
Purchased services	400	400	124	(276)
Supplies and materials	2,215	2,215	2,745	530
Total educational media services	<u>23,547</u>	<u>25,530</u>	<u>29,287</u>	<u>3,757</u>
Instructional staff - technology assisted instruction				
Salaries	39,527	40,713	40,712	(1)
Employee benefits	12,939	12,471	11,506	(965)
Purchased services	270	300	30	(270)
Total technology assisted instruction	<u>52,736</u>	<u>53,484</u>	<u>52,248</u>	<u>(1,236)</u>

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
General administration - board of education				
Purchased services	\$ 11,925	\$ 18,800	\$ 12,174	\$ (6,626)
Other	<u>2,500</u>	<u>2,500</u>	<u>2,243</u>	<u>(257)</u>
Total board of education	<u>14,425</u>	<u>21,300</u>	<u>14,417</u>	<u>(6,883)</u>
 General administration - executive administration				
Salaries	73,903	76,120	76,120	-
Employee benefits	29,451	29,996	24,097	(5,899)
Purchased services	47,176	53,206	50,726	(2,480)
Supplies and materials	3,500	12,000	2,719	(9,281)
Other	<u>600</u>	<u>950</u>	<u>1,268</u>	<u>318</u>
Total executive administration	<u>154,630</u>	<u>172,272</u>	<u>154,930</u>	<u>(17,342)</u>

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
School administration - office of the principal				
Salaries	\$ 85,231	\$ 89,619	\$ 83,452	\$ (6,167)
Employee benefits	26,222	27,302	22,573	(4,729)
Purchased services	<u>1,200</u>	<u>1,200</u>	<u>1,097</u>	<u>(103)</u>
Total office of the principal	<u>112,653</u>	<u>118,121</u>	<u>107,122</u>	<u>(10,999)</u>
Business - fiscal services				
Salaries	31,231	31,601	31,602	1
Employee benefits	10,614	10,704	8,030	(2,674)
Purchased services	<u>2,450</u>	<u>2,450</u>	<u>2,141</u>	<u>(309)</u>
Total fiscal services	<u>44,295</u>	<u>44,755</u>	<u>41,773</u>	<u>(2,982)</u>
Business - other				
Purchased services	<u>5,050</u>	<u>4,087</u>	<u>4,087</u>	<u>-</u>
Operations and maintenance - operating building services				
Purchased services	<u>131,250</u>	<u>131,250</u>	<u>130,734</u>	<u>(516)</u>
Pupil transportation services				
Purchased services	<u>2,100</u>	<u>2,100</u>	<u>2,708</u>	<u>608</u>
Central - staff/personnel services				
Employee benefits	<u>720</u>	<u>595</u>	<u>551</u>	<u>(44)</u>

Honey Creek Community School
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Community services - custody and care of children				
Salaries	\$ 90,250	\$ 90,050	\$ 106,089	\$ 16,039
Employee benefits	29,338	28,777	29,696	919
Purchased services	10,014	20,400	17,961	(2,439)
Supplies and materials	7,900	7,400	7,202	(198)
Other	<u>4,000</u>	<u>4,500</u>	<u>3,598</u>	<u>(902)</u>
Total custody and care of children	<u>141,502</u>	<u>151,127</u>	<u>164,546</u>	<u>13,419</u>
Capital outlay				
Basic program - elementary	4,500	4,000	3,929	(71)
Basic program - middle school	1,500	750	1,500	750
Instructional staff - educational media services	450	450	255	(195)
General administration - executive administration	1,350	1,000	100	(900)
Other support services	-	-	178	178
Community services - custody and care of children	<u>750</u>	<u>750</u>	<u>150</u>	<u>(600)</u>
Total capital outlay	<u>8,550</u>	<u>6,950</u>	<u>6,112</u>	<u>(838)</u>
Total expenditures	<u>\$ 1,969,911</u>	<u>\$ 2,077,072</u>	<u>\$ 1,940,284</u>	<u>\$ (136,788)</u>



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September 9, 2010

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

We have completed our audit of the financial statements of Honey Creek Community School as of and for the year ended June 30, 2010 and have issued our report dated September 9, 2010. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

- I Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- II Auditors' Communication of Significant Matters with Those Charged with Governance
- III Management Comments
- IV Other Information

We discussed these matters with various personnel in the organization during the audit and have already met with management on September 9, 2010. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Trustees, and others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
September 9, 2010



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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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, 2010, and have issued our report thereon dated September 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered 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 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 1, 2010.

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 1, 2010

Appendix II

Auditor's Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies are described in Note 1 of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

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

Disclosures in the financial statements are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

There were no difficulties encountered during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments. The following is a list of adjustments made during the audit. The majority related to accrual adjustments that are made at year-end.

	General Fund	Endowment Fund
1 District-wide	\$ -	\$ -
2 Recognize state receivables	290,234	-
3 Recognize accrued payroll and related liabilities	(133,272)	-
4 Reallocate retirement	-	-
5 Intentionally omitted	-	-
6 Recognize endowment activity	-	9,017
7 Recognize accounts payable	(8,507)	-
8 Recognize deferred revenue (camp fees)	(52,869)	-
9 Recognize federal grant receivables	31,795	-
10 District-wide	-	-
11 Intentionally omitted	-	-
12 Adjust accounts payable	(9,243)	-
13 Reclassify At-Risk expense	-	-
14 Reclassify state aid adjustments	-	-
15 Reclassify fundraising expenses offset against revenue	-	-
16 Reclassify revenue	-	-
17 Reclassify ARRA expenses	-	-
18 Recognize additional IDEA receivable	20,621	-
19 Reclassify grant expenses	-	-
20 Recognize fundraising cash account	410	-
21 Reclassify withholdings	4,242	-
22 Rounding adjustment	11	-
Total adjustments	<u>\$ 143,422</u>	<u>\$ 9,017</u>

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 had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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 Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations 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 Organization'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 Reports

Other information that is required to be reported to you is included in the 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. Please read all information included in that report to ensure you are aware of relevant information.

Appendix III Management Comments

In planning and performing our audit of the financial statements of Honey Creek Community School as of and for the year ended June 30, 2010, we considered Honey Creek Community School's internal control over financial reporting (internal control) as a basis for designing our audit 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of the following matter that is an opportunity for strengthening internal controls and improving operating efficiency and reducing expenses. This letter does not affect our report dated September 9, 2010, on the financial statements of Honey Creek Community School. Our comments and recommendations regarding this matter are:

ACCOUNTING SOFTWARE

Last year we recommended that the school consider alternative general ledger software to accommodate additional reporting requirements for both state and federal grants. We understand that you have acquired Schools - OPEN software and are in the process of training and implementation. We encourage the school to continue the process. We recommend that the school use the full state chart of accounts – function and object codes - to record grant revenues and expenditures. In addition, we recommend that the school explore reporting options, such as budget to actual comparisons, grant reports and transaction details.

Appendix IV - Other Information

GASB 54 Changes Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) is at it again. *Fund Balance Reporting and Governmental Fund Type Definitions* includes new fund balance classifications and additional note disclosures. GASB 54 will mean a new look for your governmental funds balance sheet. However, it will not change the total amount of the fund balance.

Why was GASB 54 Created?

There has been inconsistency reporting fund balances. There is widespread confusion about terminology. Restrictions are being placed on the use of some resources, but it is unclear at what level the restrictions have been imposed, and by what authority. Users of the financial statements misunderstand the fund balance components. It is often unclear if any of the reserved or designated fund balances are available or not to help balance a school district's budget.

The purpose of GASB 54 is to improve transparency and eliminate inconsistency. It is intended to eliminate the mismatch between what governments are reporting about fund balance and what the users of the financial statements really need.

Definitions

GASB 54 requires fund balance classifications in a hierarchy that shows the extent to which the school is bound to honor constraints on the specific purposes for which each amount can be spent. **Fund balances are required to be presented based on the most restricted (non-spendable) to the least restricted (unassigned) classification.**

Non-spendable – assets that are not available in a spendable form such as inventory, pre-paid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted – amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or legislation. Examples include bonded capital projects, debt service funds established for voter approved debt millage, school food service revenues associated with national school lunch programs and special education millage.

Committed – amounts constrained on use imposed by the school district itself using its highest level of decision making authority. Resources should be constrained before the school's fiscal year-end, although the exact amount may be determined at a later time. A committed amount can be reversed only by the same manner as it was initiated, and it should be done before the end of the fiscal year. Two examples of this are a school board resolution to move a certain

percentage of general fund balance into a capital project fund or a board resolution to maintain a general fund balance of 10% of current expenditures.

Assigned – amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or an authorized school official. Residual amounts in governmental funds other than the general fund are assigned. An appropriation of the existing fund balance to cover current year expenditures is considered an assignment of fund balance.

Unassigned – all other resources; the remaining fund balance after non-spendable, restrictions, commitments and assignments. This class only occurs in the general fund, except for cases of negative fund balances. Those are always reported as Unassigned, no matter which fund.

Note Disclosures

Schools will be required to disclose more information about amounts reported in fund balance, including the following:

1. Description of authority and actions that lead to committed and assigned fund balance.
2. The district's policy regarding order of spending of:
 - a. Restricted vs. unrestricted
 - b. Committed, assigned and unassigned
 - c. Multiple policies
 - d. The "default" policy
 - e. Negative balances – general fund and others
3. Restricted and unrestricted fund balances
4. Committed, assigned and unassigned
5. Encumbrances, if significant, are reported in conjunction with other disclosures of significant commitments.
6. Description of any formally adopted minimum fund balance policies.
 - a. Appropriate level of unrestricted fund balance to be maintained in the general fund
 - b. Circumstances in which unrestricted fund balances can be "spent down"
 - c. Policy for replenishing deficiencies (source of funding and time period)
 - d. Circumstances under which contingencies may be spent should be as specific as possible.
7. The purpose of each major special revenue fund and which revenues or other sources are reported in each of those funds.

Fund Balance Policies

If a school establishes a minimum fund balance policy, it needs to look at their operations and determine what they want their fund balance limits to be. Determining the components of fund balance will be an exercise to perform each year as part of the year-end financial reporting. Consider the following variables when setting the minimum amount of general fund unrestricted fund balance:

- Volatility of operating revenues (state and federal sources)
- Exposure to natural disasters
- Concentration of revenue sources (state and federal funded)
- Timing differences between revenue collections and expenditures

The Next Step

Schools should review their current policies and procedures to determine if resources will meet the definition of committed or assigned, and consider policy changes as they approach adoption of this statement. Additional policies may need to be adopted or revised to be consistent with the new definitions.

GASB 54 will improve the reporting of the fund balance and will help those who use the financial statements. Disaggregating the fund balance into non-spendable, restricted, committed, assigned and unassigned categories will greatly facilitate the understanding of a school's commitment of financial resources. It means we will have to get used to changes in the familiar fund accounting terminology before the end of the 2010-11 school year.

Honey Creek Community School
Governmental Funds
Fund Balance - New Format
June 30, 2010

	<u>General Fund</u>
Fund balance	
Nonexpendable	
Prepaid items	\$ -
Restricted for:	
Special projects (fundraising)	18,063
8th grade class trip (donation)	1,501
Library (donation)	1,582
Middle school camp (donation)	1,985
Committed to:	
(Board action)	-
Assigned to:	
(Non board action)	-
Unassigned	<u>403,484</u>
 Total fund balance	 <u>\$ 426,615</u>