

**HANOVER-HORTON
SCHOOL DISTRICT**

**FINANCIAL
STATEMENTS**

JUNE 30, 2009

**KARL L. DRAKE
CERTIFIED PUBLIC ACCOUNTANT**

HANOVER-HORTON SCHOOL DISTRICT

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2009

Board of Education

Kathie Michel	President
Brian Brockie	Vice President
Chris Vincent	Secretary
Leon Densmore	Treasurer
Michele Rogotzke	Board Member
Gary Schuette	Board Member
Joseph Childs	Board Member

Management

Linda Brian	Superintendent
Andrienne Spencer	Business Manager
Karl L. Drake, PC	Auditor
Thrun Law Firm, P.C.	Attorney
Abbott, Thomson, and Beer, PLC	Attorney

HANOVER-HORTON SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District, as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hanover-Horton School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards 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, each major fund, and the aggregate remaining fund information of Hanover-Horton School District as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and 29-31 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Hanover-Horton School District

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hanover-Horton School District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.



Karl L. Drake, P.C.
Certified Public Accountant

September 3, 2009

This section of Hanover-Horton School District's annual financial report presents discussion and analysis of the School District's financial performance during the year ended June 30, 2009. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hanover-Horton School District financially as a whole. The *District-Wide Financial Statements* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and Food Service Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund and Food Service Fund
(Required Supplemental Information)

Other Supplemental Information

Federal Financial Assistance

Reporting The School District As A Whole - District-Wide Financial Statements

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

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

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

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

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

Reporting the School District's Fiduciary Responsibilities - The School District as Trustee

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

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2009 and 2008:

TABLE 1	Governmental Activities (In Millions)	
	2009	2008
ASSETS		
Current and other assets	\$ 3.7	\$ 3.4
Capital assets - Net of accumulated depreciation	8.9	9.2
TOTAL ASSETS	12.6	12.6
LIABILITIES		
Current liabilities	2.1	2.0
Long-term liabilities	6.1	6.6
TOTAL LIABILITIES	8.2	8.6
NET ASSETS		
Invested in property and equipment - Net of related debt	2.2	1.7
Restricted	0.5	0.2
Unrestricted	1.7	2.1
TOTAL NET ASSETS	\$ 4.4	\$ 4.0

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$4.4 million at June 30, 2009. Capital assets, net of related debt totaling \$2.2 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Long-term liabilities were reduced because of refinancing the 1999 Debt. Future interest costs will be reduced by approximately \$400,000 because of the refinancing. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$1.7 million) was unrestricted.

The \$1.7 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2009 and 2008.

TABLE 2	Governmental Activities	
	(In Millions)	
REVENUE	2009	2008
Program Revenue		
Charges for services	\$ 0.7	\$ 0.8
Grants and categoricals	1.2	0.7
General Revenue		
Property taxes	2.1	2.1
State foundation allowance	8.3	8.6
Other	0.1	0.1
TOTAL REVENUE	\$ 12.4	\$ 12.3

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

FUNCTION/PROGRAM EXPENSES	(In Millions)	
	2009	2008
Instruction	\$ 6.8	\$ 6.7
Support Services	3.7	3.6
Food Services	0.5	0.5
Athletics	0.3	0.3
Interest on Long-Term Debt	0.3	0.4
Depreciation (unallocated)	0.4	0.4
TOTAL FUNCTION/PROGRAM EXPENSES	12.0	11.9
INCREASE IN NET ASSETS	\$ 0.4	\$ 0.4

Key reasons for the change in net assets were establishment of a sinking fund and continued efforts at debt reduction. The School District also has established a stringent energy conservation policy and has significantly reduced energy usage. Fluctuating diesel fuel prices saved the District money in the 2008-09 school year as the fuel prices were significantly lower than 2007-08.

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

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$2.3 million, which is an increase of \$0.2 million from last year. The primary reason for the increase is controlling expenditures. The General Fund, the principal operating fund, saw fund balance decrease \$44,851 to \$1,689,130, which is more than the budgeted decrease of \$42,488.

- Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$10,326.
- Combined, the Debt Service Funds showed a fund balance increase of \$5,652. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Fund Balances in the Debt Service Funds are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District amends its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

General Fund Budgetary Highlights

To avoid an additional decrease in the fund balance this year, the School District made cuts in line item spending as well as eliminated one elementary teacher. Declining enrollment continues to hit the School District hard especially at the elementary level. Our projections are that this will continue for the unforeseen future within Jackson County. The state and county economic situation has negatively impacted our District as well as all of those within Jackson County.

Capital Asset and Debt Administration

Capital Asset

At June 30, 2009, the School District had \$8.9 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$260,923 or 3 percent, from last year.

	<u>2009</u>	<u>2008</u>
Land and Improvements	\$ 2,019,727	\$ 2,019,727
Buildings and Improvements	11,875,334	11,875,334
Buses and Other Vehicles	861,207	773,884
Furniture and Equipment	758,931	807,962
Total Capital Assets	<u>15,515,199</u>	<u>15,476,907</u>
Less Accumulated Depreciation	<u>6,559,845</u>	<u>6,260,630</u>
Net Capital Assets	<u>\$ 8,955,354</u>	<u>\$ 9,216,277</u>

The additions for this year included two new buses. New debt of \$134,456 was issued for these additions.

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

Debt

At the end of this year, the School District had \$6.7 million in bonds and loans outstanding versus \$7.2 million in the previous year - a decrease of 9 percent. Debt consisted of the following:

	2009	2008
General Obligation Bonds	\$ 6,532,344	\$ 7,138,211
Bus Loans	152,348	48,533
	<u>\$ 6,684,692</u>	<u>\$ 7,186,744</u>

The School District's general obligation bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$6.7 million is significantly below the statutorily imposed limit. The School District refinanced its 1999 Bonded Debt saving it approximately \$400,000 in future interest costs.

Economic Factors and Next Year's Budgets And Rates

The elected officials and administration considered many factors when setting the School District's 2009-10 fiscal year budget. One of the most important factors impacting the budget remains the student count. The District had 1,418.25 students enrolled in the fall of 2003. In the fall of 2007, the District had dropped to 1,347. This is a drop of over 71 students. We anticipate that this trend will continue, as the kindergarten classes that have been entering are smaller than the graduation classes. The birth rate is down in Michigan, and the State and Jackson County unemployment rates are having a negative impact on the School District as well. Housing values are dropping and many homes in the area have been foreclosed. The small increases in the State foundation allowance are not enough to offset the rising costs of healthcare and other expenses that are increasing, and the long-term impact of this is causing the School District to limit spending for the foreseeable future. The School District does not want to have to make cuts in staffing in the middle of the school year.

The State foundation revenue is determined by multiplying the blended student count (using two separate count days) times the per student foundation allocation. The blended count for the 2008-2009 school year is 25 percent of the count from February 2008 and 75 percent of the count from September 2008. The 2009-2010 fiscal year budget was based on an estimate of students that will be enrolled in September 2009. Approximately 75 percent to 80 percent of the total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at

the end of the 2008-2009 school year, we anticipate that the fall student count (2009-2010) will decrease by an additional 20 students from the spring 2008 student count. This is a reduction of an additional 39 students from the fall of 2007. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts. The State periodically holds a revenue consensus conference to estimate revenue. Based on the results of the January and May conferences of 2009, the State was unable to meet the foundation allowance requirement for 2008-2009 school year, so American Reinvestment and Recovery Act (ARRA) dollars were allocated from the State Budget Stabilization fund to cover the shortfall in the State Aid budget. The State Aid payments to local school districts were reduced in July and August by \$372.81 per student and ARRA funds were substituted to restore most of the lost funds. This also necessitated approval of a final budget amendment in July by the Board of Education to reflect this process. The State financial health continues to decline and it is anticipated that they will use additional ARRA Economic Stabilization funds to balance the 2009-2010 school year. We also might see a reduction to the foundation allowance and/or a proration, although at this time the state budget for 2009-2010 has not been finalized.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Hanover-Horton School District with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 237 Farview Street, Horton, Michigan 49246.

HANOVER-HORTON SCHOOL DISTRICT

District-Wide Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2009

ASSETS	Governmental Activities	
	2009	2008
Current Assets		
Cash and Cash Equivalents	\$ 2,034,993	\$ 1,773,895
Due From Other Governmental Units	1,670,969	1,658,673
Accounts Receivable	6,172	8,466
Inventories	5,529	4,452
Prepaid Expenditures	---	---
Total Current Assets	3,717,663	3,445,486
Non-Current Assets		
Capital Assets	15,515,200	15,476,907
Less: Accumulated Depreciation	-6,559,846	-6,260,630
Total Non-Current Assets	8,955,354	9,216,277
TOTAL ASSETS	\$ 12,673,017	\$ 12,661,763
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 16,159	\$ 6,412
Accrued Salaries and Expenses	1,093,188	1,032,746
Deferred Revenue	---	---
Accrued Interest	62,259	62,492
Bonds and Loans Payable, Due within One Year	961,307	921,508
Total Current Liabilities	2,132,913	2,023,158
Non-Current Liabilities		
Bonds Payable	5,911,197	6,516,703
Loans Payable	112,188	48,533
Compensated Absences	31,504	16,126
Total Non-Current Liabilities	6,054,889	6,581,362
TOTAL LIABILITIES	8,187,802	8,604,520
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	2,270,662	1,667,041
Restricted for Debt Service	164,099	158,447
Restricted for Capital Projects	239,034	48,950
Restricted for Sinking Fund	85,878	40,088
Unrestricted	1,725,542	2,142,717
TOTAL NET ASSETS	4,485,215	4,057,243
TOTAL LIABILITIES AND NET ASSETS	\$ 12,673,017	\$ 12,661,763

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

	Program Revenues			Governmental Activities	
	Expenses	Charges For Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets	
FUNCTIONS/PROGRAMS				2009	2008
Governmental Activities					
Instruction	\$ 6,741,873	\$ 315,414	\$ 917,716	\$ -5,508,743	\$ -5,906,139
Support Services	3,662,811	24,046	28,241	-3,610,524	-3,533,141
Food Services	491,139	268,146	231,531	8,538	6,368
Athletics	311,455	55,405	---	-256,050	-232,970
Community Services	34,740	16,001	---	-18,739	-30,054
Interest on Long-Term Debt	303,080	---	---	-303,080	-354,990
Depreciation (Unallocated)	430,911	---	---	-430,911	-453,114
Total Governmental Activities	\$ 11,976,009	\$ 679,012	\$ 1,177,488	-10,119,509	-10,504,040
General Revenue					
Taxes					
Property Taxes, Levied for General Operations				956,516	952,227
Property Taxes, Levied for Debt Service				902,411	881,612
Property Taxes, Levied for Sinking Fund				251,811	246,066
State of Michigan Aid, Unrestricted				8,274,539	8,608,028
Interest Earnings				25,474	74,267
Other				136,730	129,318
Total General Revenue				10,547,481	10,891,518
CHANGE IN NET ASSETS				427,972	387,478
NET ASSETS - BEGINNING OF YEAR				4,057,243	3,669,765
NET ASSETS - END OF YEAR				\$ 4,485,215	\$ 4,057,243

See Accompanying Notes to Financial Statements.

HANOVER-HORTON SCHOOL DISTRICT

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2009

	General	Food Service	Other Non-Major Governmental Funds	2009 Total Governmental Funds	2008 Total Governmental Funds
ASSETS					
Cash and Investments	\$ 1,689,925	\$ 187,170	\$ 157,898	\$ 2,034,993	\$ 1,773,895
Accounts Receivable	1,472	---	4,700	6,172	8,466
Due from Other Governmental Units	1,670,969	---	---	1,670,969	1,658,673
Due from Other Funds	60,922	---	326,706	387,628	58,120
Inventories	---	5,529	---	5,529	4,452
Prepaid Expenditures	---	---	---	---	---
TOTAL ASSETS	\$ 3,423,288	\$ 192,699	\$ 489,304	\$ 4,105,291	\$ 3,503,606
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 9,801	\$ 6,065	\$ ---	\$ 15,866	\$ 6,412
Accrued Interest	4,463	---	---	4,463	9,476
Accrued Salaries and Withholdings	1,093,188	---	---	1,093,188	1,032,746
Due to Other Funds	326,706	60,922	---	387,628	58,120
Due to Other Governmental Units	---	---	293	293	---
Deferred Revenue	---	---	---	---	---
Short-term Loans	300,000	---	---	300,000	300,000
TOTAL LIABILITIES	1,734,158	66,987	293	1,801,438	1,406,754
FUND BALANCES					
Reserved for Inventories	---	5,529	---	5,529	4,452
Reserved for Debt Service	---	---	164,099	164,099	158,447
Reserved for Capital Projects	---	---	239,034	239,034	48,950
Reserved for Sinking Fund	---	---	85,878	85,878	40,088
Unreserved and Undesignated	1,689,130	---	---	1,689,130	1,733,981
Unreserved and Undesignated, Food Services	---	120,183	---	120,183	110,934
Unreserved and Undesignated, Athletics	---	---	---	---	---
TOTAL FUND BALANCES	1,689,130	125,712	489,011	2,303,853	2,096,852
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,423,288	\$ 192,699	\$ 489,304	\$ 4,105,291	\$ 3,503,606
TOTAL GOVERNMENTAL FUND BALANCES					\$ 2,303,853
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:					
Cost of the Capital Assets is					\$ 15,515,200
Accumulated Depreciation is					<u>-6,559,846</u>
					<u>8,955,354</u>
Long-Term Liabilities are not due and payable in the current period and are not reported in the fund.					
Bonds Payable					-6,532,344
Loans Payable					-152,348
Compensated Absences					-31,504
Accrued interest on long-term liabilities is not included as a liability in governmental funds.					<u>-57,796</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES					\$ 4,485,215

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2009

	General	Food Service	Other Non-Major Governmental Funds	2009 Totals	2008 Totals
REVENUE					
Local Sources	\$ 1,461,390	\$ 269,934	\$ 1,228,034	\$ 2,959,358	\$ 3,088,827
State Sources	8,543,227	32,291	---	8,575,518	8,958,490
Federal Sources	669,865	199,240	---	869,105	300,968
Miscellaneous	---	---	---	---	---
TOTAL REVENUE	10,674,482	501,465	1,228,034	12,403,981	12,348,285
EXPENDITURES					
Current					
Instruction	6,741,873	---	---	6,741,873	6,673,824
Supporting Services	3,421,206	491,139	549,922	4,462,267	4,424,836
Community Services	34,740	---	---	34,740	55,546
Debt Service	45,264	---	5,867,836	5,913,100	919,808
Capital Outlay	134,456	---	---	134,456	107,795
TOTAL EXPENDITURES	10,377,539	491,139	6,417,758	17,286,436	12,181,809
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	296,943	10,326	-5,189,724	-4,882,455	166,476
OTHER FINANCING SOURCES <USES>					
Loan Proceeds	134,456	---	4,955,000	5,089,456	46,006
Operating Transfers In	---	---	476,250	476,250	232,970
Operating Transfers Out	-476,250	---	---	-476,250	-232,970
TOTAL OTHER FINANCING SOURCES <USES>	-341,794	---	5,431,250	5,089,456	46,006
NET CHANGE IN FUND BALANCES	-44,851	10,326	241,526	207,001	212,482
FUND BALANCES - BEGINNING OF YEAR	1,733,981	115,386	247,485	2,096,852	1,884,370
FUND BALANCES - END OF YEAR	\$ 1,689,130	\$ 125,712	\$ 489,011	\$ 2,303,853	\$ 2,096,852

See Accompanying Notes to Financial Statements.

HANOVER-HORTON SCHOOL DISTRICT

Fund Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 207,001**

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

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

Depreciation Expense	-430,911	
Capital Outlay	<u>169,988</u>	
		-260,923

- Loan proceeds are recorded as other financing sources in the governmental funds, but not in the statement of activities (where it increases long-term debt). -5,089,456

- Accrued interest on long-term debt is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid. -4,780

- Compensated absences are recorded in the statement of activities when incurred; it is not reported in the governmental funds until paid. -15,378

- Repayments of bond and loan principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt). 5,591,508

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 427,972**

See Accompanying Notes to Financial Statements.

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

ASSETS	2009	2008
Cash and Cash Equivalents	\$ 207,137	\$ 317,494
Accounts Receivable	---	---
TOTAL ASSETS	\$ 207,137	\$ 317,494
LIABILITIES		
Due to Others	\$ ---	\$ ---
Due to Student Groups	207,137	317,494
TOTAL LIABILITIES	\$ 207,137	\$ 317,494

See Accompanying Notes to Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY: Hanover-Horton School District is located in Jackson County, Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

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

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

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based 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 government considers revenue 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 severance pay, are recorded only when payment is due.

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

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.

Debt Retirement Funds - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Retirement Funds maintained by the School District are to retire outstanding 2009, 2002 and Durant bonded indebtedness.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUNDS (CONTINUED)

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The school maintains one capital project fund.

Sinking Fund - This fund is used to account for tax revenue specifically collected for facility improvements and repairs.

FIDUCIARY FUNDS

Agency Fund - The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

C. BUDGETS AND BUDGETARY ACCOUNTING: The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES: Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Jackson and Hillsdale Counties. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

E. INVENTORIES: Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

F. CASH EQUIVALENTS: The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

G. FINANCIAL INSTRUMENTS: The School does not require collateral to support financial instruments subject to credit risk.

H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

I. FUND EQUITY: Reservations of fund balance represent these portions of fund equity not appropriate for expenditure or legally segregated for a specific future use.

J. CAPITAL ASSETS: Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

K. LONG-TERM OBLIGATIONS: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

L. TOTAL COLUMNS ON COMBINED STATEMENTS: Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

M. STATE CATEGORICAL REVENUE: The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

N. RISK MANAGEMENT: The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

O. ESTIMATES: The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

B. TYPES OF DEPOSITS AND INVESTMENTS: The School District maintains its cash deposits in two financial institutions. At June 30, 2009, the book value of the School District's deposits was \$114,475 and the bank balance was \$303,580. Of the bank balance, \$271,694 was covered by federal depository insurance and \$31,886 was uninsured and uncollateralized.

Statutes authorize the School District to invest in obligations of the U.S. Treasury and U.S. agencies and instrumentalities, U.S. government or federal agency obligation repurchase agreements, obligations of the State, Certificates of Deposit, Commercial paper rated prime, Bankers' acceptances, and Mutual funds and Investment pools composed entirely of instruments that are legal for direct investment by a School District.

The School District invests surplus funds with the Comerica Bank School Cash Investment Fund and the Michigan Liquid Asset Fund in investment trust accounts in accordance with Sections 622, 1221, and 1223 of the School Code.

Investments are stated at cost, which approximates market value. The Comerica Bank School Cash Investment Fund and Michigan Liquid Asset Fund are categorized as mutual funds. Each School District owns a prorata share of each investment or deposit, which is held in the name of the funds.

The amounts of investments as of June 30, 2009, which are not required to be categorized as to level of risk are as follows:

	Carrying Amount	Book Amount
General Fund	\$ 1,596,393	\$ 1,596,393
Cafeteria Fund	171,117	171,117
Debt Retirement Fund	158,698	158,703
Capital Projects Fund	18,833	18,833
Trust and Agency Fund	182,609	182,609
	\$ 2,127,650	\$ 2,127,655

B. TYPES OF DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the government or its agent in the District's name.
2. Uninsured or unregistered, with securities held by the counter party's trust department or agent in the District's name.
3. Uninsured or unregistered, with securities held by the counter party, or by its trust department or agent but not in the District's name.

NOTE 3 - INVENTORY

There is \$5,529 of inventory in the Special Revenue Fund - Food Service.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2009, is comprised of the following:

General Fund

State of Michigan - State Aid	\$ 1,147,366
- Title 1	21,172
- Title 2A	2,267
- Title 2D	274
- ARRA	499,890
Total Due From Other Governmental Units	<u>\$ 1,670,969</u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2009, consisted of the following:

<u>Due To:</u>		<u>Due From:</u>	
Athletic Fund	\$ 20,740	General Fund	\$ 20,740
General Fund	60,922	Food Service	60,922
Sinking Fund	85,766	General Fund	85,766
Capital Projects Fund	220,200	General Fund	220,200
	<u>\$ 387,628</u>		<u>\$ 387,628</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the school district's Governmental activities was as follows:

	Balance July 1, 2008	Additions	Disposals and Adjustments	Balance June 30, 2009
Assets not being depreciated:				
Land	\$ 1,150	\$ ---	\$ ---	\$ 1,150
Capital assets being depreciated:				
Land improvement	2,018,577	---	---	2,018,577
Building and building improvements	11,875,334	---	---	11,875,334
Buses and other vehicles	773,884	169,988	82,664	861,208
Furniture and equipment	807,962	---	49,031	758,931
Subtotal	15,475,757	169,988	131,695	15,514,050
Accumulated depreciation:				
Land Improvements	241,960	40,372	---	282,332
Building and building improvements	4,828,178	275,932	---	5,104,110
Buses and other vehicles	538,679	74,091	82,664	530,106
Furniture and equipment	651,813	40,516	49,031	643,298
Subtotal	6,260,630	430,911	131,695	6,559,846
Net capital assets being depreciated	9,215,127	-260,923	---	8,954,204
Net capital assets	\$ 9,216,277	\$ -260,923	\$ ---	\$ 8,955,354

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 7 - ACCRUED SALARIES AND FRINGE BENEFITS

Of salaries payable at June 30, 2009, \$723,154 represents the unpaid portion of teacher contracts for the 2008-09 school year. On these salaries, there are also fringe benefits payable at year-end totaling \$370,034.

NOTE 8 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2009, long-term debt changed as follows:

HANOVER-HORTON SCHOOL DISTRICT

Notes To Financial Statements

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Bond Issue	Balance 6/30/08	Additional Debt	2008-09 Payments	Balance 6/30/09
2009 Debt	\$ ---	\$ 4,940,000	\$ ---	\$ 4,940,000
1999 Debt	5,415,000	---	5,415,000	---
2002 Debt	1,680,000	---	125,000	1,555,000
Durant Debt	43,211	---	5,867	37,344
Comerica Bus Loan	33,228	---	15,336	17,892
County National Bus Loans	15,305	134,456	15,305	134,456
	<u>\$ 7,186,744</u>	<u>\$ 5,074,456</u>	<u>\$ 5,576,508</u>	<u>\$ 6,684,692</u>

Amounts needed over the next five years for debt principal payments are as follows:

	Bus Loans	2009 Refunding Debt	2002 Debt	Durant Debt	Total
2009-10	\$ 40,160	\$ 460,000	\$ 155,000	\$ 6,147	\$ 661,307
2010-11	28,373	475,000	175,000	17,384	695,757
2011-12	26,850	465,000	175,000	6,746	673,596
2012-13	27,924	455,000	---	7,067	489,991
2013-14	29,041	475,000	350,000	---	854,041
	<u>152,348</u>	<u>2,330,000</u>	<u>855,000</u>	<u>37,344</u>	<u>3,374,692</u>
2014 - Maturity	---	2,610,000	700,000	---	3,310,000
	<u>\$ 152,348</u>	<u>\$ 4,940,000</u>	<u>\$ 1,555,000</u>	<u>\$ 37,344</u>	<u>\$ 6,684,692</u>

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

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

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

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2009 was 16.72% of payroll through September 30, 2008 and 16.54% effective October 1, 2008 through June 30, 2009. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2009, 2008 and 2007 were \$1,045,788, \$1,070,953 and \$1,030,275, respectively, and were equal to the required contribution for those years.

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

Other Post-Employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

NOTE 10 - BUDGETARY ACCOUNTING

During the year ended June 30, 2009, the School incurred no expenditures that were in excess of the amounts appropriated.

NOTE 11 - FUND BALANCE

Components of Fund Balance at June 30, 2009, are as follows:

1. \$5,529 of fund balance in the Special Revenue - Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
2. The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2009, Unreserved General Fund Balance of \$1,689,130 compares to June 30, 2008, Unreserved General Fund Balance of \$1,733,981.

NOTE 12 - COMPENSATED ABSENCES

The School's policy is not to compensate employees for vacation time not used during the school year. Accumulated sick pay policies are as follows:

Teachers

Credited with 11 sick leave days per year; maximum accumulation of 130 days allowed; amounts over 130 days not used are paid at a rate of \$55 per day. A retirement leave benefit of \$55 per day (maximum \$750) is paid to teachers, employed by the District for ten years or more, retiring from the District.

Support Personnel

Credited with one day per month for months worked; maximum accumulation of 120 days allowed; amounts over 120 days not used are paid at a rate of 50% of the employee's daily rate. A retirement leave benefit of 50% of the daily rate (maximum \$500) is paid upon retirement from the District.

NOTE 13 - SINKING FUND

The School has established a sinking fund. Taxpayers are funding the Sinking Fund with 1 mill of property taxes for the years 2007-2011. This money will be used for facility repairs and improvements. In the year ended June 30, 2009, \$252,567 was collected and \$206,777 was spent on facility improvements.

NOTE 14 - SHORT-TERM LOAN

On August 20, 2008, the District borrowed \$300,000 from the Michigan Municipal Bond Authority State Aid Note Loan Program. The full loan amount, plus interest, which accrues at 2.1126% is due on August 20, 2009.

NOTE 15 - ADVANCE REFUNDING AND DEFEASANCE OF DEBT

On February 25, 2009, Hanover-Horton School District issued \$4,940,000 in General Obligation Unlimited Tax Refunding Bonds with interest rates of 3.0% to 4.0% to advance refund \$4,955,000 of outstanding 1999 Building and Site Bonds with an average interest rate of 4.5%. The net proceeds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1999 bonds. As a result, the remaining balance on the 1999 bonds is considered to be defeased. The liability for those bonds has been removed from the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Local Sources	\$ 1,411,256	\$ 1,452,435	\$ 1,461,390	\$ 8,955
State Sources	9,211,285	8,574,609	8,543,227	-31,382
Federal Sources	199,287	743,207	669,865	-73,342
Other Sources	147,156	134,456	134,456	---
TOTAL REVENUE	10,968,984	10,904,707	10,808,938	-95,769
EXPENDITURES				
Current				
Instruction				
Basic Programs	6,105,889	6,098,208	6,038,794	59,414
Added Needs	710,138	725,159	703,079	22,080
Supporting Services				
Pupil	427,906	463,468	387,495	75,973
Instructional Staff	162,727	169,581	164,691	4,890
Administration	1,282,670	1,280,095	1,233,171	46,924
Business Services	1,667,021	1,691,130	1,635,849	55,281
Community Services	45,633	45,633	34,740	10,893
Capital Outlay	134,456	134,456	134,456	---
Debt Service	47,087	47,117	45,264	1,853
Other Uses - Operating Transfers	310,427	292,348	476,250	-183,902
TOTAL EXPENDITURES	10,893,954	10,947,195	10,853,789	93,406
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	75,030	-42,488	-44,851	-2,363
BUDGETARY FUND BALANCE - JULY 1, 2008	1,733,981	1,733,981	1,733,981	280,830
BUDGETARY FUND BALANCE - JUNE 30, 2009	\$ 1,809,011	\$ 1,691,493	\$ 1,689,130	\$ 278,467

HANOVER-HORTON SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE FUND

YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Local Sources	\$ 318,781	\$ 276,680	\$ 269,934	\$ -6,746
State Sources	28,312	32,291	32,291	---
Federal Sources	126,000	170,689	199,240	28,551
Other Sources	---	---	---	---
TOTAL REVENUE	473,093	479,660	501,465	21,805
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Supporting Services				
Pupil	473,093	503,970	491,139	12,831
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Community Services	---	---	---	---
Capital Outlay	---	---	---	---
Debt Service	---	---	---	---
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	473,093	503,970	491,139	12,831
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES				
	---	-24,310	10,326	34,636
BUDGETARY FUND BALANCE - JULY 1, 2008				
	104,646	104,646	115,386	10,740
BUDGETARY FUND BALANCE - JUNE 30, 2009				
	\$ 104,646	\$ 80,336	\$ 125,712	\$ 45,376

OTHER SUPPLEMENTAL INFORMATION

HANOVER-HORTON SCHOOL DISTRICT

GENERAL FUND

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2009

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
LOCAL SOURCES				
Current Property Tax Levy	\$ 963,976	\$ 956,516	\$ -7,460	\$ 952,227
Interest and Penalties - Delinquent Taxes	12,269	12,812	543	18,015
Tuition	---	---	---	---
Sale of School Property	12,750	12,750	---	24,854
Refunds	20,273	21,386	1,113	32,602
Interest Earned	18,300	18,370	70	47,392
Rental of School Facilities	7,200	7,200	---	9,689
Transportation	10,900	24,046	13,146	27,600
Kids Club Fees	15,250	16,001	751	25,492
Career Prep	23,000	23,000	---	22,990
Other	23,103	21,805	-1,298	33,320
Data Processing Support	30,000	32,090	2,090	31,331
Special Education	315,414	315,414	---	359,363
TOTAL REVENUE FROM LOCAL SOURCES	1,452,435	1,461,390	8,955	1,584,875
STATE SOURCES				
Non Plaintiff Durant Settlement	---	---	---	10,543
State Aid	8,239,585	8,267,135	27,550	8,608,028
Special Education	201,426	142,870	-58,556	178,397
At Risk	133,598	133,222	-376	125,472
TOTAL REVENUE FROM STATE SOURCES	8,574,609	8,543,227	-31,382	8,922,440
FEDERAL SOURCES				
Education Stabilization Funds	499,890	499,890	---	---
Title II - D	1,830	1,010	-820	330
Title I	151,989	141,734	-10,255	104,453
Title II - A	88,498	27,231	-61,267	24,466
Drug Free	1,000	---	-1,000	820
Title V	---	---	---	277
TOTAL REVENUE FROM FEDERAL SOURCES	743,207	669,865	-73,342	130,346
TOTAL REVENUE AND INCOMING TRANSFERS	\$ 10,770,251	\$ 10,674,482	\$ -95,769	\$ 10,637,661

HANOVER-HORTON SCHOOL DISTRICT

General Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2009

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
EXPENDITURES				
Instruction				
BASIC PROGRAMS				
Elementary School	\$ 2,283,123	\$ 2,269,986	\$ 13,137	\$ 2,365,646
Middle School	1,514,360	1,513,671	689	1,530,063
High School	2,233,325	2,189,791	43,534	2,058,936
Summer School	67,400	65,346	2,054	90,895
TOTAL BASIC PROGRAMS	6,098,208	6,038,794	59,414	6,045,540
ADDED NEEDS				
Special Education	568,518	561,345	7,173	523,831
Compensatory Education	156,641	141,734	14,907	104,453
TOTAL ADDED NEEDS	725,159	703,079	22,080	628,284
Total Instruction	6,823,367	6,741,873	81,494	6,673,824
Supportive Services				
PUPIL				
Guidance	193,770	192,329	1,441	182,424
Extra Duties/Aides	179,370	166,926	12,444	201,371
Staff Development	90,328	28,240	62,088	25,073
TOTAL PUPIL	463,468	387,495	75,973	408,868
INSTRUCTIONAL STAFF				
Media Services	169,581	164,691	4,890	161,457
Audio Visual	---	---	---	---
TOTAL INSTRUCTIONAL STAFF	169,581	164,691	4,890	161,457
ADMINISTRATION				
Board of Education	90,995	69,014	21,981	84,671
Executive Administration	412,127	400,509	11,618	397,846
School Administration	776,973	763,648	13,325	737,398
TOTAL ADMINISTRATION	\$ 1,280,095	\$ 1,233,171	\$ 46,924	\$ 1,219,915

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
EXPENDITURES				
Supportive Services - Continued				
BUSINESS SERVICES				
Operation and Maintenance	\$ 994,370	\$ 973,547	\$ 20,823	\$ 992,748
Pupil Transportation	556,880	528,390	28,490	562,268
Technology	105,631	108,451	-2,820	86,600
Other	34,249	25,461	8,788	15,167
TOTAL BUSINESS SERVICES	1,691,130	1,635,849	55,281	1,656,783
Total Supportive Services	3,604,274	3,421,206	183,068	3,447,023
Community Services				
Kids Club	43,495	32,835	10,660	54,431
Other	2,138	1,905	233	1,115
Total Community Services	45,633	34,740	10,893	55,546
Debt Service	47,117	45,264	1,853	41,814
Capital Outlay	134,456	134,456	---	107,795
TOTAL EXPENDITURES	\$ 10,654,847	\$ 10,377,539	\$ 277,308	\$ 10,326,002
EXCESS REVENUE OVER EXPENDITURES	115,404	296,943	181,539	311,659
OTHER FINANCING SOURCES <USES>				
Loan Proceeds	134,456	134,456	---	46,006
Operating Transfers In	---	---	---	---
Operating Transfers Out	-292,348	-476,250	-183,902	-232,970
TOTAL OTHER FINANCING SOURCES <USES>	-157,892	-341,794	-183,902	-186,964
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -42,488	-44,851	\$ -2,363	\$ 124,695
FUND BALANCE - JULY 1, 2008		1,733,981		
FUND BALANCE - JUNE 30, 2009		\$ 1,689,130		

HANOVER-HORTON SCHOOL DISTRICT

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2009

	Food Service Fund	Athletic Fund	Totals
ASSETS			
Cash and Investments	\$ 187,170	\$ -20,740	\$ 166,430
Due From Other Governmental Units	---	---	---
Due From Other Funds	---	20,740	20,740
Prepaid Expenses	---	---	---
Inventory	5,529	---	5,529
TOTAL ASSETS	\$ 192,699	\$ ---	\$ 192,699
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to Other Funds	\$ 60,922	\$ ---	\$ 60,922
Accounts Payable	6,065	---	6,065
Accrued Salaries	---	---	---
Accrued Expenses	---	---	---
TOTAL LIABILITIES	66,987	---	66,987
FUND EQUITY			
Fund Balance - Reserved for Inventory	5,529	---	5,529
Fund Balance - Unreserved	120,183	---	120,183
TOTAL FUND EQUITY	125,712	---	125,712
TOTAL LIABILITIES AND FUND EQUITY	\$ 192,699	\$ ---	\$ 192,699

HANOVER-HORTON SCHOOL DISTRICT

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2009

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
<u>Food Services</u>			
Goods Sold	\$ 4,226	\$ 5,397	\$ 1,171
Student Meals	204,200	205,363	1,163
Adult Meals	12,100	12,090	-10
Ala Carte Meals	29,553	29,404	-149
Breakfast	19,800	10,831	-8,969
Vending Machine Sales	5,000	5,061	61
State Aid	32,291	32,291	---
Federal Aid	160,689	169,278	8,589
Federal USDA Commodities in Kind	10,000	29,962	19,962
Other Income	---	---	---
Interest Income	1,801	1,788	-13
<u>Athletic Activities</u>			
Admission to Games	---	---	---
TOTAL REVENUE	479,660	501,465	21,805
EXPENDITURES			
Salaries	155,602	153,598	2,004
Fringe Benefits	82,793	82,506	287
Dues and Fees	3,460	2,886	574
Purchased Services	3,582	3,847	-265
Food and Supplies	241,787	238,631	3,156
Travel and Conferences	1,300	949	351
Miscellaneous	1,888	151	1,737
Repairs	3,500	1,919	1,581
Capital Outlay	10,058	6,652	3,406
TOTAL EXPENDITURES	\$ 503,970	\$ 491,139	\$ 12,831

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 4,226	\$ 5,397	\$ 1,171
---	---	---	204,200	205,363	1,163
---	---	---	12,100	12,090	-10
---	---	---	29,553	29,404	-149
---	---	---	19,800	10,831	-8,969
---	---	---	5,000	5,061	61
---	---	---	32,291	32,291	---
---	---	---	160,689	169,278	8,589
---	---	---	10,000	29,962	19,962
---	---	---	---	---	---
---	---	---	1,801	1,788	-13
55,405	55,405	---	55,405	55,405	---
55,405	55,405	---	535,065	556,870	21,805
192,718	189,582	3,136	348,320	343,180	5,140
59,329	58,888	441	142,122	141,394	728
12,509	12,184	325	15,969	15,070	899
22,784	22,029	755	26,366	25,876	490
14,250	9,128	5,122	256,037	247,759	8,278
1,348	1,336	12	2,648	2,285	363
20,505	18,308	2,197	22,393	18,459	3,934
---	---	---	3,500	1,919	1,581
---	---	---	10,058	6,652	3,406
\$ 323,443	\$ 311,455	\$ 11,988	\$ 827,413	\$ 802,594	\$ 24,819

HANOVER-HORTON SCHOOL DISTRICT

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2009

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	<u>\$ -24,310</u>	<u>\$ 10,326</u>	<u>\$ 34,636</u>
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	24,310	---	-24,310
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	<u>24,310</u>	<u>---</u>	<u>-24,310</u>
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ ---</u>	<u>10,326</u>	<u>\$ 10,326</u>
FUND BALANCE - BEGINNING OF YEAR		<u>115,386</u>	
FUND BALANCE - END OF YEAR		<u>\$ 125,712</u>	

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ -268,038	\$ -256,050	\$ 11,988	\$ -292,348	\$ -245,724	\$ 46,624
268,038	256,050	-11,988	292,348	256,050	-36,298
---	---	---	---	---	---
268,038	256,050	-11,988	292,348	256,050	-36,298
<u>\$ ---</u>	<u>---</u>	<u>\$ ---</u>	<u>\$ ---</u>	10,326	<u>\$ 10,326</u>
	<u>---</u>			<u>115,386</u>	
	<u>\$ ---</u>			<u>\$ 125,712</u>	

HANOVER-HORTON SCHOOL DISTRICT

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2009

	Debt V	Debt VI	Durant	Totals
ASSETS				
Cash and Investments	\$ 108,728	\$ 51,076	\$ ---	\$ 159,804
Due from other Funds	---	---	---	---
Accounts Receivable	4,067	457	---	4,524
TOTAL ASSETS	\$ 112,795	\$ 51,533	\$ ---	\$ 164,328
 LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Governments	179	50	---	229
TOTAL LIABILITIES	179	50	---	229
 FUND EQUITY				
Fund Balance	112,616	51,483	---	164,099
TOTAL LIABILITIES AND FUND EQUITY	\$ 112,795	\$ 51,533	\$ ---	\$ 164,328

HANOVER-HORTON SCHOOL DISTRICT

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2009

	Debt V		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 702,253	\$ 702,021	\$ -232
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	3,250	3,404	154
Earned Interest	3,142	3,299	157
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	708,645	708,724	79
EXPENDITURES			
Principal on Bonds	5,287,853	5,415,000	-127,147
Interest on Bonds	243,385	243,385	---
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	118,270	5,121	113,149
TOTAL EXPENDITURES	5,649,508	5,663,506	-13,998
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-4,940,863	-4,954,782	-13,919
OTHER FINANCING SOURCES			
Bond Proceeds	4,940,000	4,955,000	15,000
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	4,940,000	4,955,000	15,000
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -863	218	\$ 1,081
FUND BALANCE - BEGINNING OF YEAR		112,398	
FUND BALANCE - END OF YEAR		\$ 112,616	

Debt VI			Durant		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ 200,454	\$ 200,390	\$ -64	\$ ---	\$ ---	\$ ---
---	---	---	---	---	---
918	973	55	---	---	---
930	997	67	---	---	---
---	---	---	---	7,404	7,404
---	---	---	---	---	---
202,302	202,360	58	---	7,404	7,404
125,000	125,000	---	---	5,867	-5,867
71,606	71,605	1	---	1,537	-1,537
---	---	---	---	---	---
1,000	321	679	---	---	---
197,606	196,926	680	---	7,404	-7,404
4,696	5,434	738	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
\$ 4,696	5,434	\$ 738	\$ ---	---	\$ ---
	46,049			---	
	\$ 51,483			\$ ---	

HANOVER-HORTON SCHOOL DISTRICT

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2009

	Total		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 902,707	\$ 902,411	\$ -296
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	4,168	4,377	209
Earned Interest	4,072	4,296	224
State Aid Revenue	---	7,404	7,404
Miscellaneous	---	---	---
TOTAL REVENUE	910,947	918,488	7,541
EXPENDITURES			
Principal on Bonds	5,412,853	5,545,867	-133,014
Interest on Bonds	314,991	316,527	-1,536
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	119,270	5,442	113,828
TOTAL EXPENDITURES	5,847,114	5,867,836	-20,722
EXCESS REVENUE OVER EXPENDITURES	-4,936,167	-4,949,348	-13,181
OTHER FINANCING SOURCES <USES>			
Bond Proceeds	4,940,000	4,955,000	15,000
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	4,940,000	4,955,000	15,000
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 3,833	5,652	\$ 1,819
FUND BALANCE - BEGINNING OF YEAR		158,447	
FUND BALANCE - END OF YEAR		\$ 164,099	

CAPITAL PROJECT FUND

HANOVER-HORTON SCHOOL DISTRICT

Capital Project Fund

COMPARATIVE BALANCE SHEET

JUNE 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and Investments	\$ 18,834	\$ 48,950
Accounts Receivable	---	---
Due from Other Funds	220,200	---
TOTAL ASSETS	\$ 239,034	\$ 48,950
 LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ ---	\$ ---
Due to Other Funds	---	---
TOTAL LIABILITIES	---	---
FUND EQUITY		
Fund Balance	239,034	48,950
TOTAL LIABILITIES AND FUND EQUITY	\$ 239,034	\$ 48,950

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2009

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
Current Taxes	\$ ---	\$ ---	\$ ---	\$ ---
Delinquent Taxes	---	---	---	---
Grants	---	---	---	---
Earned Interest	262	264	2	1,637
Miscellaneous	1,310	1,310	---	5,962
TOTAL REVENUE	1,572	1,574	2	7,599
EXPENDITURES				
Capital Outlay	40,000	31,690	8,310	---
TOTAL EXPENDITURES	40,000	31,690	8,310	---
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-38,428	-30,116	8,312	7,599
OTHER FINANCING SOURCES				
OISD Contribution	---	---	---	---
Operating Transfers In	---	220,200	220,200	---
Operating Transfers Out	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	220,200	220,200	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -38,428	190,084	\$ 228,512	\$ 7,599
FUND BALANCE - BEGINNING OF YEAR		48,950		
FUND BALANCE - END OF YEAR		\$ 239,034		

HANOVER-HORTON SCHOOL DISTRICT

SINKING FUND

COMPARATIVE BALANCE SHEET

JUNE 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and Investments	\$ ---	\$ ---
Taxes Receivable	176	169
Due from Other Funds	85,766	39,919
TOTAL ASSETS	\$ 85,942	\$ 40,088
 LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ ---	\$ ---
Due to Other Governments	64	---
TOTAL LIABILITIES	64	---
FUND EQUITY		
Fund Balance	85,878	40,088
TOTAL LIABILITIES AND FUND EQUITY	\$ 85,942	\$ 40,088

HANOVER-HORTON SCHOOL DISTRICT

Sinking Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2009

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
Current Taxes	\$ 250,519	\$ 250,595	\$ 76	\$ 246,066
Delinquent Taxes	1,150	1,216	66	---
Grants	---	---	---	---
Earned Interest	37	756	719	---
Miscellaneous	---	---	---	---
TOTAL REVENUE	251,706	252,567	861	246,066
EXPENDITURES				
Capital Outlay	251,446	206,777	44,669	205,978
TOTAL EXPENDITURES	251,446	206,777	44,669	205,978
EXCESS REVENUE OVER EXPENDITURES	260	45,790	45,530	40,088
OTHER FINANCING SOURCES				
OISD Contribution	---	---	---	---
Operating Transfers In	---	---	---	---
Operating Transfers Out	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 260	45,790	\$ 45,530	\$ 40,088
FUND BALANCE - BEGINNING OF YEAR		40,088		
FUND BALANCE - END OF YEAR		\$ 85,878		

AGENCY FUNDS

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2009

ASSETS

Cash and Investments	\$ 207,137
Accounts Receivable	---
Due From Other Funds	---

TOTAL ASSETS	<u>\$ 207,137</u>
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LIABILITIES

Due to Other Funds	\$ ---
Due to Student Groups	207,137

TOTAL LIABILITIES	<u>\$ 207,137</u>
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SUMMARY STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2009

	Balance 6/30/08	Receipts	Disbursements	Balance 6/30/09
ASSETS				
Cash and Investments	\$ 317,494	\$ 260,018	\$ 370,375	\$ 207,137
Accounts Receivable	---	---	---	---
Due From Other Funds	---	---	---	---
TOTAL ASSETS	\$ 317,494	\$ 260,018	\$ 370,375	\$ 207,137
LIABILITIES				
Due to Other Funds	\$ ---	\$ ---	\$ ---	\$ ---
Due to Student Groups	317,494	260,018	370,375	207,137
TOTAL LIABILITIES	\$ 317,494	\$ 260,018	\$ 370,375	\$ 207,137

HANOVER-HORTON SCHOOL DISTRICT

Agency Funds

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2009

<u>ACTIVITY</u>	Due to Student Groups 6/30/08	Receipts	Disbursements	Due to Student Groups 6/30/09
Academic Boosters	\$ -709	\$ 2,500	\$ 1,094	\$ 697
Academic Service Learning	2,466	1,400	1,447	2,419
After Prom party	821	---	---	821
Alumni Account	10,859	3,891	514	14,236
Athletic JAVA	174	---	---	174
Athletic Tournaments	5,084	17,845	19,878	3,051
Athletic Vending	2,348	8,833	10,235	946
Band Account	15	404	397	22
Band Fundraising	613	9,378	9,284	707
Band Travels	3	187	---	190
Benevolence	15	---	---	15
Cheerleaders	790	2,236	2,962	64
Choir	95	1,861	1,516	440
Citizens for Education	117	---	---	117
Class of 2007	3,891	---	3,891	---
2008	5,067	30	60	5,037
2009	4,609	3,386	4,112	3,883
2010	2,580	12,965	10,676	4,869
2011	2,337	4,171	2,480	4,028
2012	---	3,611	370	3,241
Competitive Grant (JCF)	180	400	426	154
Counseling	100	---	---	100
Drama Club	5,355	1,725	1,067	6,013
Drop-In Computer Lab	524	---	524	---
Earnings on Investments	16,259	2,056	4,407	13,908
Educational Fund Grants	1,508	3,780	5,148	140
Elementary	16,943	7,087	10,088	13,942
Elementary Classroom	537	---	---	537
Elementary Field Trips	8,738	1,785	2,615	7,908
Elementary Girls Basketball	3,270	10,634	13,147	757
Elementary Lighthouse Project	551	---	56	495
Elementary Merchandise	---	2,437	2,245	192
Elementary Pop Fund	5,420	1,500	2,758	4,162
Elementary Staff Retirement	226	---	---	226
Elementary Student Council	3,465	5,793	5,203	4,055
Entrepreneurial	30	---	---	30
Fifth Grade	2,609	2,085	1,510	3,184
H-H Concessions	---	---	---	---
H-H Renaissance Account	75	200	110	165
H-H Music Boosters	3,416	8,107	8,054	3,469

**DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
INTERNAL ACTIVITIES FUND**

FISCAL YEAR ENDED JUNE 30, 2009

<u>ACTIVITY</u>	Due to Student Groups 6/30/08	Receipts	Disbursements	Due to Student Groups 6/30/09
HS Art	\$ 9	\$ ---	\$ ---	\$ 9
HS Baseball	32	1,210	786	456
HS Baton	19	---	---	19
HS Bottle Refund	1,413	252	711	954
HS Business Manage Class	420	6,673	6,769	324
HS Community Service Club	2,193	452	990	1,655
HS Cross Country	1,106	8,147	7,490	1,763
HS Counseling	---	---	---	---
HS English Dept	500	---	---	500
HS Football	6,692	430	7,121	1
HS Golf	---	392	392	---
HS Human Relations	2,579	1,200	2,354	1,425
HS Journalism	1,812	100	665	1,247
HS Miscellaneous	1,356	3,324	4,336	344
HS National Honor Society	1,092	718	1,266	544
HS Portfolio Supplies	590	---	---	590
HS Tech Lab	687	908	1,060	535
HS Softball	-584	600	---	16
HS World Language Club	2,491	1,497	1,352	2,636
HS World Language Travels	---	1,048	902	146
HS Student Council	5,567	3,183	4,694	4,056
HS Teacher's Lounge	690	737	878	549
HS Track	450	2,858	912	2,396
HS Web Site Develop	230	---	---	230
HS Weight Room	---	---	---	---
HS Wrestling	6	---	---	6
HS Yearbook	2,655	7,054	10,622	-913
Independent Living	---	---	---	---
JCF Youth Mini Grant	73	---	---	73
Junior Pro Boys Basketball	114	8,000	8,114	---
Kids Club	1,656	55	750	961
Ladd Scholarship	97	---	---	97
Library Fund	2,790	14,799	15,424	2,165
Lil Comets	1,056	226	944	338
Loss and Damage	9,934	3,556	3,879	9,611
6 th Grade Basketball Program	354	1,155	1,350	159
Maintenance Rewards and Recognition	349	---	---	349
M. Bytnar Memorial Fund	348	---	18	330

HANOVER-HORTON SCHOOL DISTRICT

Agency Funds

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2009

<u>ACTIVITY</u>	<u>Due to Student Groups 6/30/08</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Due to Student Groups 6/30/09</u>
MS Activity	\$ 7,935	\$ 17,764	\$ 20,810	\$ 4,889
MS Art Fund	49	---	---	49
MS Class of 2012	862	---	862	---
MS Cheerleading	66	1,991	2,019	38
MS Choir	2,121	2,932	2,259	2,794
MS Lego Club	180	---	---	180
MS Miscellaneous	2,031	2,568	1,711	2,888
MS Pop Machine	6,801	1,849	2,685	5,965
MS Popcorn Repair Fund	448	30	---	478
MS Rewards	349	145	398	96
MS Running Club	211	936	---	1,147
MS Skills Class	99	---	---	99
MS Student Council	3,341	1,809	2,043	3,107
MS Weight Training	753	---	---	753
MS Yearbook	1,062	1,792	1,710	1,144
McGee Scholarship L.E.	3,054	---	3,000	54
New Library	1,084	---	---	1,084
New Press Box	340	---	---	340
Night Lights	2,866	4,277	3,476	3,667
Nursing	---	936	915	21
Destination Imagination	75	---	---	75
Pop Machine	3,841	3,099	4,364	2,576
PTA	7	---	---	7
Riot Account	846	---	---	846
Robbie Curtis Charitable	1,004	---	---	1,004
Rothenburger Scholarship	2,000	1,300	2,500	800
Ruth Creps Scholarship	84,558	500	64,400	20,958
Soccer	2,277	8,805	7,632	3,450
Social Responsibility	---	2,413	2,416	-3
Student Teacher Fund	1,200	210	71	1,339
Summer Lights	769	---	---	769
Supplies R Us	2,349	1,888	1,250	2,987
Tech Grant	23,576	12,525	36,101	---
Volleyball Boosters	1,183	---	---	1,183
Wall of Fame	1,000	---	---	1,000
Wrestling Club	---	3,388	---	3,388
Total	\$ 317,494	\$ 260,018	\$ 370,375	\$ 207,137

STATEMENTS OF INDEBTEDNESS

HANOVER-HORTON SCHOOL DISTRICT

Statements Of Indebtedness

JUNE 30, 2009

BUS LOANS

Balance Outstanding - June 30, 2009 \$ 152,348

Balance payable as follows:

LOAN	YEAR	INTEREST RATE	PRINCIPAL	INTEREST	TOTAL
Comerica Bank	2009-10	4.69%	\$ 15,336	\$ 510	\$ 15,846
	2010-11	4.69%	2,556	15	2,571
			<u>17,892</u>	<u>525</u>	<u>18,417</u>
Hillsdale County National Bank	2009-10	4%	24,824	5,378	30,202
	2010-11	4%	25,817	4,385	30,202
	2011-12	4%	26,850	3,352	30,202
	2012-13	4%	27,924	2,278	30,202
	2013-14	4%	29,041	1,163	30,204
			<u>\$ 134,456</u>	<u>\$ 16,556</u>	<u>\$ 151,012</u>

DURANT DEBT

Balance Outstanding - June 30, 2009 \$ 37,344

Balance payable as follows:

Year	Rate	Interest	Principal	Total
Prior	4.761%	\$ 3,861	\$ 10,945	\$ ---
2009 - 10	4.761%	1,257	6,147	7,404
2010 - 11	4.761%	965	6,439	22,210
2011 - 12	4.761%	657	6,746	7,403
2012 - 13	4.761%	336	7,067	7,403
		<u>\$ 7,076</u>	<u>\$ 37,344</u>	<u>\$ 44,420</u>

Statements Of Indebtedness

JUNE 30, 2009

2009 REFUNDING DEBT

Balance Outstanding - June 30, 2009

\$ 4,940,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2009 - 10	3.00%	\$ 183,920	\$ 460,000	\$ 643,920
2010 - 11	3.00%	141,625	475,000	616,625
2011 - 12	3.00%	127,375	465,000	592,375
2012 - 13	3.00%	113,425	455,000	568,425
2013 - 14	3.00%	99,775	475,000	574,775
2014 - 15	3.00%	85,525	465,000	550,525
2015 - 16	3.00%	71,575	450,000	521,575
2016 - 17	3.00%	58,075	440,000	498,075
2017 - 18	3.25%	44,875	430,000	474,875
2018 - 19	3.50%	30,900	420,000	450,900
2019 - 20	4.00%	16,200	405,000	421,200
		<u>\$ 973,270</u>	<u>\$ 4,940,000</u>	<u>\$ 5,913,270</u>

2002 DEBT

Balance Outstanding - June 30, 2009

\$ 1,555,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2009 - 10	3.85%	\$ 67,043	\$ 155,000	\$ 222,043
2010 - 11	4.00%	61,075	175,000	236,075
2011 - 12	4.10%	54,075	175,000	229,075
2012 - 13	4.25%	46,900	---	46,900
2013 - 14	4.25%	46,900	350,000	396,900
2014 - 15	4.50%	32,025	---	32,025
2015 - 16	4.50%	32,025	350,000	382,025
2016 - 17	4.65%	16,275	---	16,275
2017 - 18	4.65%	16,275	350,000	366,275
		<u>\$ 372,593</u>	<u>\$ 1,555,000</u>	<u>\$ 1,927,593</u>

HANOVER-HORTON SCHOOL DISTRICT

FEDERAL FINANCIAL ASSISTANCE

FEDERAL AWARDS PROGRAMS

HANOVER-HORTON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2009

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Program or Award Amount</u>
U.S. DEPARTMENT OF EDUCATION			
Pass Through Michigan Department of Education:			
- Title I Carry-over	84.010	0815300708	\$ 14,155
- Title I	84.010	0815300708	118,169
- Title I	84.010	0915300809	137,834
- Education Stabilization Fund	*84.394	0925250809	499,890
- Title IIA Teacher Training and Recruiting	84.367	0805200708	58,365
- Title IIA Teacher Training and Recruiting	84.367	0905200809	87,457
- Title IID Enhancing Education through Technology	84.318	0942900809	1,094
- Title IID Enhancing Education through Technology	84.318	0842900708	1,066
TOTAL U.S. DEPARTMENT OF EDUCATION			

* Designates a major program.

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2008	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2009
\$ ---	\$ ---	\$ 14,155	\$ 14,155	\$ ---
107,006	25,314	25,314	---	---
---	---	106,407	127,579	21,172
107,006	25,314	145,876	141,734	21,172
---	---	---	499,890	499,890
58,365	5,736	6,778	1,042	---
---	---	23,922	26,189	2,267
58,365	5,736	30,700	27,231	2,267
---	---	---	274	274
330	330	1,066	736	---
330	330	1,066	1,010	274
	\$ 31,380	\$ 177,642	\$ 669,865	\$ 523,603

HANOVER-HORTON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2009

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Program or Award Amount</u>
U.S. DEPARTMENT OF AGRICULTURE			
U.S.D.A. Food Distribution:			
- Entitlement Commodities	10.555	Various	\$ 28,807
- Bonus Commodities	10.555	Various	2,352
Pass Through State Department of Education:			
- National School Lunch Program	10.555	81950,81960 91950,91960	136,636
- Special Breakfast	10.553	81970,91970	37,209
TOTAL U.S. DEPARTMENT OF AGRICULTURE			
TOTAL FEDERAL FINANCIAL ASSISTANCE			

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2008	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2009
\$ ---	\$ ---	\$ 26,372	\$ 26,372	\$ ---
---	---	3,590	3,590	---
---	4,095	140,731	136,636	---
---	1,187	33,829	32,642	---
---	5,282	204,522	199,240	---
	<u>\$ 36,662</u>	<u>\$ 382,164</u>	<u>\$ 869,105</u>	<u>\$ 523,603</u>

HANOVER-HORTON SCHOOL DISTRICT

FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2009

NOTE 1 - MAJOR PROGRAMS

The School has one major program - Education Stabilization Fund. Total expenditures during the year ended June 30, 2009 were \$499,890.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Federal Awards was prepared using the modified accrual basis of accounting. For grants from the Departments of Education and Agriculture, revenue is recognized when the related expense is incurred. Amounts spent but not yet received at June 30, 2009 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2009 are recorded as deferred revenue.

NOTE 3 - ANNUAL GRANT REPORTS

For the grants from the Departments of Education and Agriculture, management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports.

NOTE 4 - SCHEDULE PREPARATION

Management has utilized the Grants Section Audit Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

NOTE 5 - INVENTORY VALUES

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any is included in expenditures.

**SCHEDULE OF RECONCILIATION OF REVENUE WITH EXPENDITURES
FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

YEAR ENDED JUNE 30, 2009

	<u>Financial Statement</u>	<u>Awards Schedule</u>
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	\$ 141,734	\$ 141,734
Education Stabilization Fund	499,890	499,890
Teacher Training and Recruiting	27,231	27,231
Technology Literacy Challenge	1,010	1,010
TOTAL	<u>669,865</u>	<u>669,865</u>
 DEPARTMENT OF AGRICULTURE GRANTS		
SCHOOL LUNCH FUND		
Commodities	29,962	29,962
Federal Aid	169,278	169,278
TOTAL	<u>199,240</u>	<u>199,240</u>
 GRAND TOTAL	 <u><u>\$ 869,105</u></u>	 <u><u>\$ 869,105</u></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***

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District, as of and for the year ended June 30, 2009, which collectively comprise the Hanover-Horton School District's basic financial statements and have issued our report thereon dated September 3, 2009. 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 the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hanover-Horton School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hanover-Horton School District'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 Hanover-Horton School District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the District'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 Hanover-Horton School District'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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be 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

As part of obtaining reasonable assurance about whether Hanover-Horton School District'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, PC
Certified Public Accountant

September 3, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

Compliance

We have audited the compliance of Hanover-Horton School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Hanover-Horton School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Hanover-Horton-School District's management. Our responsibility is to express an opinion on Hanover-Horton-School District's compliance based on our audit.

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

In our opinion, Hanover-Horton School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Hanover-Horton School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hanover-Horton School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hanover-Horton School District's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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, which results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, PC
Certified Public Accountant

September 3, 2009

HANOVER-HORTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2009

Summary of Auditor's Results

1. The auditor issued an unqualified report on the financial statements of Hanover-Horton School District.
2. The audit disclosed no noncompliance that is material to the financial statements of Hanover-Horton School District.
3. The auditor issued an unqualified opinion on compliance for major programs.
4. The audit disclosed no audit findings that are required to be reported under Section 510(a).
5. Hanover-Horton School District had one major program - Education Stabilization Fund.
6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Hanover-Horton School District did not qualify as a low risk auditee under Section 530.

Findings Related to the Financial Statement

NONE

Findings and Questioned Costs for Federal Awards

NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2009

There were no prior audit findings.

Karl L. Drake, P.C.
Certified Public Accountant

3775 Kimmel Road
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax
Email: kdrakecpa@gmail.com

September 3, 2009

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hanover-Horton School District for the year ended June 30, 2009, and have issued our report thereon dated September 3, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 15, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated January 15, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hanover-Horton School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during this fiscal year. We noted no transactions entered into by the governmental unit, during the year, for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of depreciation is based on the useful life of the assets. We evaluated the key factors and assumptions used to develop the estimate, in determining that it is reasonable, in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of long-term debt in Note 8 to the financial statements.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures, and corrected by management, were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 3, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit'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 governmental unit's auditors. The primary discussions held this year revolved around the segregation of responsibilities in the School District office. These discussions occurred in the normal course of our professional relationship, however, and our responses were not a condition to our retention.

Cross Training of Office Personnel

We recommend that office personnel be cross-trained wherever possible to provide back-up and support in the event of illness, unusual circumstances, etc. This is especially important in the area of payroll check preparation.

Maintenance of Fund Balance

These are challenging times for school financing. The State of Michigan is facing dramatic budget cuts in coming years, and this will have a direct bearing on K-12 education. Management at the local District level must continue to reduce expenses wherever possible to withstand future revenue cuts without devastating services.

This information is intended solely for the use of Hanover-Horton School District, management of Hanover-Horton School District and the Michigan Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Karl L. Drake". The signature is written in a cursive style with a large, prominent "K" and "D".

Karl L. Drake, P.C.