

**HANOVER-HORTON
SCHOOL DISTRICT**

**YEAR ENDED
JUNE 30, 2011**

FINANCIAL STATEMENTS

**KARL L. DRAKE
CERTIFIED PUBLIC ACCOUNTANT**

HANOVER-HORTON SCHOOL DISTRICT

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2011

Board of Education

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

Management

Linda Brian	Superintendent
Andrienne Spencer	Business Manager

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, 2011, 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, 2011, 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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2011, on our consideration of Hanover-Horton School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

July 14, 2011

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

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, 2011. 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 inflow 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, 2011 and 2010:

TABLE 1	Governmental Activities (In Millions)	
	2011	2010
ASSETS		
Current and other assets	\$ 2.9	\$ 3.6
Capital assets - Net of accumulated depreciation	8.8	8.8
TOTAL ASSETS	11.7	12.4
LIABILITIES		
Current liabilities	2.1	2.1
Long-term liabilities	4.8	5.4
TOTAL LIABILITIES	6.9	7.5
NET ASSETS		
Invested in property and equipment - Net of related debt	3.4	2.7
Restricted	0.4	0.6
Unrestricted	1.0	1.6
TOTAL NET ASSETS	\$ 4.8	\$ 4.9

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 \$4.8 million at June 30, 2011. Capital assets, net of related debt totaling \$3.4 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. 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 (\$1.0 million) was unrestricted.

The \$1.0 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 2011 and 2010.

TABLE 2	Governmental Activities	
	(In Millions)	
REVENUE	2011	2010
Program Revenue		
Charges for services	\$ 0.6	\$ 0.9
Grants and categoricals	1.1	1.0
General Revenue		
Property taxes	2.1	2.2
State foundation allowance	8.1	8.3
Other	0.2	0.1
TOTAL REVENUE	\$ 12.1	\$ 12.5
	(In Millions)	
FUNCTION/PROGRAM EXPENSES	2011	2010
Instruction	\$ 7.1	\$ 7.1
Support Services	3.9	3.8
Food Services	0.5	0.5
Interest on Long-Term Debt	0.2	0.2
Depreciation (unallocated)	0.5	0.4
TOTAL FUNCTION/PROGRAM EXPENSES	12.2	12.0
INCREASE <DECREASE> IN NET ASSETS	\$ -0.1	\$ 0.5

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

The primary reasons for the change in net assets have been funding cuts at the state level and new federally based revenue that have included: Budget Stabilization funds (ARRA), IDEA ARRA funds, Title I ARRA funds and Education Jobs funds. The net results are still negatively impacting school districts across the state of Michigan and specifically our district. The funding deficit has resulted in cuts to services across the district. The district did renew the Headley override on Non-Homestead Properties in May.

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 \$1.5 million, which is a decrease of \$0.7 million from last year. The primary reason for the decrease is reduced state revenue. The General Fund, the principal operating fund, saw fund balance decrease \$581,749 to \$984,346, which is less than the budgeted decrease of \$924,526.

- Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$3,464.
- Combined, the Debt Service Funds showed a fund balance increase of \$29,114. 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 restricted 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.

The School District made cuts in line item spending as well as eliminating some programs. Two retiring teachers were not replaced. Declining enrollment continues to hit the School District hard especially at the elementary and middle school level. We had budgeted for a 20 student loss but actually dropped 48 students. Our projections are that this will continue for the future within both Jackson County and our school district. Additionally, the District received a \$170 per pupil cut in our State Foundation Allowance in October.

Retirement Costs have started to escalate and are projected to increase dramatically over the next few years. The increased cost of natural gas and diesel fuel has also hit the district hard. Our fund balance has significantly declined as a result of these issues.

Capital Asset and Debt Administration

Capital Asset

At June 30, 2011, the School District had \$8.8 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 \$17,166 or 1 percent, from last year.

	2011	2010
Land and Improvements	\$ 2,377,617	\$ 2,090,138
Buildings and Improvements	12,017,761	11,995,007
Buses and Other Vehicles	934,566	898,633
Furniture and Equipment	781,390	809,540
Total Capital Assets	16,111,334	15,793,318
Less Accumulated Depreciation	7,301,517	6,966,335
Net Capital Assets	\$ 8,809,817	\$ 8,826,983

Debt

At the end of this year, the School District had \$5.4 million in bonds and loans outstanding versus \$6.1 million in the previous year - a decrease of 11 percent. Debt consisted of the following:

	2011	2010
General Obligation Bonds	\$ 5,243,813	\$ 5,911,197
Bus Loans	175,523	174,818
	\$ 5,419,336	\$ 6,086,015

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 \$5.4 million is significantly below the statutorily imposed limit.

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

The elected officials and administration considered many factors when setting the School District's 2011-12 fiscal year budget. The two most important factors are the student count and the amount of revenue that the district will receive per pupil. The District had 1,418.25 students enrolled in the fall of 2003. In the fall of 2010, the District had dropped to 1,286. This was a drop of over 132 students over this time period. We anticipate that this trend will continue, as the kindergarten classes that have been entering are smaller than the graduation classes. All of our largest classes are now in the high school. The birth rate is down in Michigan, and both the State and the 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 upon. The other budget impact is our per pupil allocation. The state foundation revenue is determined by multiplying the blended student count (using two separate count days) by the per student foundation allocation. The per-pupil allocation in 2008-2009 was \$7,316. We have had two years of budget cuts with some ability to partially restore funding through federal funds. All of these funding sources are expiring except for a small amount of Education Jobs funds that we have carried over into next year's budget. Our current foundation allowance is set at \$6,846. This is a \$470 per pupil cut. This puts us at approximately the same funding level as 2005-2006. It is not anticipated that any new or additional federal funding will be available to offset the current state cuts.

While we may be able to qualify for one time incentive money for meeting state "financial best practices" we are seriously underfunded on a per pupil basis for 2011-2012. The district may also be eligible to receive approximately \$100 per pupil additional money to offset the rapidly increasing costs of the Michigan Retirement System. The combination of fewer students and less per pupil funding will result in a very significant budget shortfall for 2011-2012. That shortfall will be dealt with by cutting programs, staff, and reductions to line items. Additionally, changes to the negotiated teacher's contract will need to occur to make sure that the budget is not in a deficit.

The biggest unknown for the 2011-2012 school year is our fall enrollment number. After the final number is known, the 2011-2012 budget will need to be revised. We are anticipating a smaller drop in enrollment than we have experienced in the past few years, as last year's graduation class was slightly smaller than this year's kindergarten enrollment. However, the overall trend still indicates that enrollment will continue to drop over the next few years.

In the past, the School District's revenue was heavily dependent on state funding and the health of the state's School Aid Fund. If there was a surplus in the state School Aid Fund, school districts received increases in their per pupil allocation. If the School Aid Fund was not generating adequate funding to meet their revenue obligations, local school districts could receive mid-year budget reductions or a proration. Now that the School Aid Fund has been tapped by the legislature to help balance the state General Fund, local district funding is even more precarious. The state's long term commitment to local school districts is uncertain at best and budgeting is certainly more challenging as costs continue to rise and revenue continues to decline.

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, 10400 Moscow Road, Horton, Michigan 49246.

HANOVER-HORTON SCHOOL DISTRICT

District-Wide Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2011

ASSETS	Governmental Activities	
	2011	2010
Current Assets		
Cash and Cash Equivalents	\$ 1,293,549	\$ 2,031,399
Due From Other Governmental Units	1,620,528	1,579,433
Accounts Receivable	1,668	8,213
Inventories	4,371	4,807
Prepaid Expenditures	473	595
Total Current Assets	2,920,589	3,624,447
Non-Current Assets		
Capital Assets	16,111,334	15,793,318
Less: Accumulated Depreciation	-7,301,517	-6,966,335
Total Non-Current Assets	8,809,817	8,826,983
TOTAL ASSETS	\$ 11,730,406	\$ 12,451,430
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 18,570	\$ 21,528
Accrued Salaries and Expenses	1,386,579	1,371,233
Deferred Revenue	---	---
Accrued Interest	34,660	35,590
Bonds and Loans Payable, Due within One Year	693,328	707,392
Total Current Liabilities	2,133,137	2,135,743
Non-Current Liabilities		
Bonds Payable	4,597,067	5,243,813
Loans Payable	128,941	134,810
Compensated Absences	41,884	29,269
Total Non-Current Liabilities	4,767,892	5,407,892
TOTAL LIABILITIES	6,901,029	7,543,635
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	3,390,481	2,740,968
Restricted for Debt Service	238,619	209,505
Restricted for Capital Projects	181,202	235,197
Restricted for Sinking Fund	133	113,213
Unrestricted	1,018,942	1,608,912
TOTAL NET ASSETS	4,829,377	4,907,795
TOTAL LIABILITIES AND NET ASSETS	\$ 11,730,406	\$ 12,451,430

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges For Services	Operating Grants	2011	2010
FUNCTIONS/PROGRAMS					
Governmental Activities					
Instruction	\$ 7,086,620	\$ 600	\$ 264,291	\$ -6,821,729	\$ -5,927,691
Support Services	3,900,950	343,355	614,701	-2,942,894	-3,555,957
Food Services	511,205	252,089	262,580	3,464	-18,263
Community Services	39,216	36,245	---	-2,971	-24,782
Interest on Long-Term Debt	215,712	---	---	-215,712	-252,220
Depreciation (Unallocated)	459,431	---	---	-459,431	-436,194
Total Governmental Activities	\$ 12,213,134	\$ 632,289	\$ 1,141,572	-10,439,273	-10,215,107
General Revenue					
Taxes					
Property Taxes, Levied for General Operations				983,271	996,235
Property Taxes, Levied for Debt Service				881,881	909,365
Property Taxes, Levied for Sinking Fund				244,931	253,645
State of Michigan Aid, Unrestricted				8,053,188	8,353,232
Interest Earnings				4,728	7,766
Other				192,856	117,444
Total General Revenue				10,360,855	10,637,687
CHANGE IN NET ASSETS				-78,418	422,580
NET ASSETS - BEGINNING OF YEAR				4,907,795	4,485,215
NET ASSETS - END OF YEAR				\$ 4,829,377	\$ 4,907,795

See Accompanying Notes to Financial Statements.

HANOVER-HORTON SCHOOL DISTRICT

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

	General	Food Service	Other Non-Major Governmental Funds	2011 Total Governmental Funds	2010 Total Governmental Funds
ASSETS					
Cash and Investments	\$ 732,061	\$ 141,667	\$ 419,821	\$ 1,293,549	\$ 2,031,399
Accounts Receivable	1,668	---	---	1,668	8,213
Due from Other Governmental Units	1,620,528	---	---	1,620,528	1,579,433
Due from Other Funds	28,894	---	133	29,027	162,420
Inventories	---	4,371	---	4,371	4,807
Prepaid Expenditures	473	---	---	473	595
TOTAL ASSETS	\$ 2,383,624	\$ 146,038	\$ 419,954	\$ 2,949,616	\$ 3,786,867
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 12,566	\$ 6,004	\$ ---	\$ 18,570	\$ 20,725
Accrued Salaries and Withholdings	1,386,579	---	---	1,386,579	1,371,234
Due to Other Funds	133	28,894	---	29,027	162,420
Due to Other Governmental Units	---	---	---	---	802
Deferred Revenue	---	---	---	---	---
Short-term Loans	---	---	---	---	---
TOTAL LIABILITIES	1,399,278	34,898	---	1,434,176	1,555,181
FUND BALANCES					
Non-spendable	473	4,371	---	4,844	5,402
Restricted	---	106,769	238,752	345,521	425,587
Committed	---	---	181,202	181,202	235,197
Assigned	---	---	---	---	---
Unassigned	983,873	---	---	983,873	1,565,500
TOTAL FUND BALANCES	984,346	111,140	419,954	1,515,440	2,231,686
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,383,624	\$ 146,038	\$ 419,954	\$ 2,949,616	\$ 3,786,867
TOTAL GOVERNMENTAL FUND BALANCES					\$ 1,515,440
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					16,111,334
Accumulated Depreciation is					<u>-7,301,517</u>
					<u>8,809,817</u>
Long-Term Liabilities are not due and payable in the current period and are not reported in the fund.					
Bonds Payable					-5,243,813
Loans Payable					-175,523
Compensated Absences					-41,884
Accrued interest on long-term liabilities is not included as a liability in governmental funds.					<u>-34,660</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES					<u>\$ 4,829,377</u>

See Accompanying Notes to Financial Statements.

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

YEAR ENDED JUNE 30, 2011

	General	Food Service	Other Non-Major Governmental Funds	2011 Totals	2010 Totals
REVENUE					
Local Sources	\$ 1,192,247	\$ 252,089	\$ 1,130,055	\$ 2,574,391	\$ 2,619,192
Inter-District Sources	343,355	---	---	343,355	545,680
State Sources	8,326,738	20,283	22,210	8,369,231	8,366,028
Federal Sources	605,442	242,297	---	847,739	936,291
Miscellaneous	---	---	---	---	---
TOTAL REVENUE	10,467,782	514,669	1,152,265	12,134,716	12,467,191
EXPENDITURES					
Current					
Instruction	7,086,620	---	---	7,086,620	7,058,175
Supporting Services	3,836,466	510,094	---	4,346,560	4,488,201
Community Services	39,216	---	---	39,216	32,886
Debt Service	87,229	---	876,805	964,034	918,182
Capital Outlay	80,713	1,111	413,421	495,245	104,544
TOTAL EXPENDITURES	11,130,244	511,205	1,290,226	12,931,675	12,601,988
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-662,462	3,464	-137,961	-796,959	-134,797
OTHER FINANCING SOURCES <USES>					
Loan Proceeds	80,713	---	---	80,713	62,630
Operating Transfers In	---	---	---	---	249,685
Operating Transfers Out	---	---	---	---	-249,685
TOTAL OTHER FINANCING SOURCES <USES>	80,713	---	---	80,713	62,630
NET CHANGE IN FUND BALANCES	-581,749	3,464	-137,961	-716,246	-72,167
FUND BALANCES - BEGINNING OF YEAR	1,566,095	107,676	557,915	2,231,686	2,303,853
FUND BALANCES - END OF YEAR	\$ 984,346	\$ 111,140	\$ 419,954	\$ 1,515,440	\$ 2,231,686

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, 2011

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ -716,246**

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	-459,431	
Capital Outlay	<u>442,265</u>	
		-17,166

- 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). -80,713

- Accrued interest on long-term debt is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid. 930

- Compensated absences are recorded in the statement of activities when incurred; it is not reported in the governmental funds until paid. -12,615

- 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). 747,392

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ -78,418**

See Accompanying Notes to Financial Statements.

STATEMENT OF FIDUCIARY NET ASSETS**JUNE 30, 2011**

ASSETS	2011	2010
Cash and Cash Equivalents	\$ 207,717	\$ 267,282
Accounts Receivable	---	---
TOTAL ASSETS	\$ 207,717	\$ 267,282
LIABILITIES		
Due to Others	\$ ---	\$ ---
Due to Student Groups	207,717	267,282
TOTAL LIABILITIES	\$ 207,717	\$ 267,282

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 Fund maintained by the School District is the Food Service 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 refunding, 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.

HANOVER-HORTON SCHOOL DISTRICT

Notes to Financial Statements

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, 2011, the book value of the School District's deposits was \$118,062 and the bank balance was \$357,031. Of the bank balance, \$281,188 was covered by federal depository insurance and \$75,843 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.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does have a policy for custodial credit risk, requiring diligence and prudence of investment officials when considering investments in obligations other than those of an agency of the United States. At year end, the School District had no investment securities that were uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the School District's name.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the School District had no such investments.

Concentration of Credit Risk - The School District does limit the amount that it may invest in any one issuer. The School District currently has no one investment which exceeds 20 percent of its total investments.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The School District restricts the amount of investments in foreign currency and, thus, at year end had no securities subject to foreign currency risk.

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.

HANOVER-HORTON SCHOOL DISTRICT

Notes to Financial Statements

B. TYPES OF DEPOSITS AND INVESTMENTS (CONTINUED)

The amounts of investments as of June 30, 2011, which are not required to be categorized as to level of risk are as follows:

	Carrying Amount	Book Amount
General Fund	\$ 625,994	\$ 625,994
Cafeteria Fund	133,804	133,804
Debt Retirement Fund	237,131	237,517
Capital Projects Fund	181,202	181,202
Trust and Agency Fund	204,687	204,687
	<u>\$ 1,382,818</u>	<u>\$ 1,383,204</u>

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 \$4,371 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, 2011, is comprised of the following:

<u>General Fund</u>	
State of Michigan - State Aid	\$ 1,520,870
- Title 1	22,225
- Title 2A	10,376
- Title 2D - ARRA	84
- Education Jobs Fund	26,550
<u>Jackson Intermediate School District</u>	
- Title 1 - ARRA	9,377
- Idea - ARRA	29,211
- McKinney - Vento-ARRA	1,232
- Homeless - ARRA	603
	<u>\$ 1,620,528</u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2011, consisted of the following:

<u>Due To:</u>		<u>Due From:</u>	
General Fund	\$ 28,894	Food Service	\$ 28,894
Sinking Fund	133	General Fund	133
	<u>\$ 29,027</u>		<u>\$ 29,027</u>

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Assets not being depreciated:				
Land	\$ 1,150	\$ ---	\$ ---	\$ 1,150
Capital assets being depreciated:				
Land improvement	2,088,988	287,479	---	2,376,467
Building and building improvements	11,995,007	47,754	25,000	12,017,761
Buses and other vehicles	898,633	80,713	44,780	934,566
Furniture and equipment	809,540	26,319	54,469	781,390
Subtotal	15,792,168	442,265	124,249	16,110,184
Accumulated depreciation:				
Land Improvements	325,520	54,687	---	380,207
Building and building improvements	5,393,385	315,399	25,000	5,683,784
Buses and other vehicles	569,726	62,614	44,780	587,560
Furniture and equipment	677,704	26,731	54,469	649,966
Subtotal	6,966,335	459,431	124,249	7,301,517
Net capital assets being depreciated	8,825,833	-17,166	---	8,808,667
Net capital assets	\$ 8,826,983	\$ -17,166	\$ ---	\$ 8,809,817

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

HANOVER-HORTON SCHOOL DISTRICT

Notes to Financial Statements

NOTE 7 - ACCRUED SALARIES AND FRINGE BENEFITS

Of \$907,492 salaries payable at June 30, 2011, \$827,085 represents the unpaid portion of teacher contracts for the 2010-11 school year. On these salaries, there are also fringe benefits payable at year-end totaling \$479,087.

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, 2011, long-term debt changed as follows:

Bond Issue	Balance 6/30/10	Additional Debt	2010-11 Payments	Balance 6/30/11
2009 Refunding Debt	\$ 4,480,000	\$ ---	\$ 475,000	\$ 4,005,000
2002 Debt	1,400,000	---	175,000	1,225,000
Durant Debt	31,197	---	17,384	13,813
Comerica Bus Loan	2,556	---	2,556	---
County National Bus Loans	172,262	80,713	77,452	175,523
	<u>\$ 6,086,015</u>	<u>\$ 80,713</u>	<u>\$ 747,392</u>	<u>\$ 5,419,336</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
2011-12	\$ 46,582	\$ 465,000	\$ 175,000	\$ 6,746	\$ 693,328
2012-13	48,326	455,000	---	7,067	510,393
2013-14	50,146	475,000	350,000	---	875,146
2014-15	21,818	465,000	---	---	486,818
2015-16	8,651	450,000	350,000	---	808,651
	<u>175,523</u>	<u>2,310,000</u>	<u>875,000</u>	<u>13,813</u>	<u>3,374,336</u>
2016 - Maturity	---	1,695,000	350,000	---	2,045,000
	<u>\$ 175,523</u>	<u>\$ 4,005,000</u>	<u>\$ 1,225,000</u>	<u>\$ 13,813</u>	<u>\$ 5,419,336</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, 2011 was 16.94% of payroll through September 30, 2010 and 20.66% effective October 1, 2010 through June 30, 2011. 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, 2011, 2010 and 2009 were \$1,245,629, \$1,065,600, and \$1,045,788 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.

HANOVER-HORTON SCHOOL DISTRICT

Notes to Financial Statements

NOTE 10 - BUDGETARY ACCOUNTING

During the year ended June 30, 2011, the School incurred no expenditures that were in excess of the amounts appropriated.

NOTE 11 - FUND BALANCE

Components of Fund Balance at June 30, 2011, are as follows:

1. \$4,371 of fund balance in the Special Revenue - Food Service Fund is non-spendable. 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 Food Service Fund.
2. \$473 of the fund balance in the General Fund is non-spendable. This amount represents prepaid expenses at June 30, 2011.
3. \$345,521 of fund balance is restricted for the specific purpose for which it was received. At June 30, 2011, \$106,769 was restricted for food service, \$238,619 was restricted for debt service, and \$133 was restricted for the sinking fund.
4. \$181,202 of fund balance in the capital projects fund has been committed by the Board of Education for future capital expenditures.
5. The balance of the Fund Balance is unassigned and is available to fund future School operations. The June 30, 2011 Unassigned General Fund Balance of \$983,873 compares to June 30, 2010 Unassigned General Fund Balance of \$1,565,500.

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 \$65 per day. A retirement leave benefit of \$70 per day (maximum \$980) 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, 2011, \$246,021 was collected and \$359,150 was spent on facility improvements.

NOTE 14 - SHORT-TERM LOAN

On August 20, 2010, the District borrowed \$400,000 from the Michigan Municipal Bond Authority State Aid Note Loan Program. The full loan amount, plus interest, which accrued at 0.8% was paid in full on May 20, 2011. Total interest expense was \$3,191.

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.

HANOVER-HORTON SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 1,090,482	\$ 1,145,865	\$ 1,192,247	\$ 46,382
Inter-District Sources	383,421	341,181	343,355	2,174
State Sources	8,323,581	8,340,015	8,326,738	-13,277
Federal Sources	245,078	753,615	605,442	-148,173
Other Sources	80,713	80,713	80,713	---
TOTAL REVENUE	10,123,275	10,661,389	10,548,495	-112,894
EXPENDITURES				
Instruction				
Basic Programs	6,242,035	6,290,919	6,210,551	80,368
Added Needs	811,642	986,194	876,069	110,125
Supporting Services				
Pupil	399,651	478,057	415,766	62,291
Instructional Staff	169,741	175,381	169,618	5,763
Administration	1,298,571	1,221,245	1,174,885	46,360
Business Services	1,772,946	1,829,585	1,747,440	82,145
Athletic Activities	287,783	357,218	328,757	28,461
Community Services	25,830	40,002	39,216	786
Capital Outlay	80,713	80,713	80,713	---
Debt Service	44,133	87,229	87,229	---
Other Uses - Operating Transfers	39,372	39,372	---	39,372
TOTAL EXPENDITURES	11,172,417	11,585,915	11,130,244	455,671
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-1,049,142	-924,526	-581,749	342,777
BUDGETARY FUND BALANCE - JULY 1, 2010	1,566,095	1,566,095	1,566,095	---
BUDGETARY FUND BALANCE - JUNE 30, 2011	\$ 516,953	\$ 641,569	\$ 984,346	\$ 342,777

HANOVER-HORTON SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE FUND

YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Local Sources	\$ 246,170	\$ 254,427	\$ 252,089	\$ -2,338
State Sources	20,200	20,282	20,283	1
Federal Sources	216,000	219,633	242,297	22,664
Other Sources	39,372	39,372	---	-39,372
TOTAL REVENUE	521,742	533,714	514,669	-19,045
EXPENDITURES				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Supporting Services				
Pupil	517,242	529,214	510,094	19,120
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Community Services	---	---	---	---
Capital Outlay	---	---	---	---
Debt Service	4,500	4,500	1,111	3,389
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	521,742	533,714	511,205	22,509
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES				
	---	---	3,464	3,464
BUDGETARY FUND BALANCE - JULY 1, 2010				
	107,676	107,676	107,676	---
BUDGETARY FUND BALANCE - JUNE 30, 2011				
	\$ 107,676	\$ 107,676	\$ 111,140	\$ 3,464

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, 2011

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
LOCAL SOURCES				
Current Property Tax Levy	\$ 974,395	\$ 983,271	\$ 8,876	\$ 996,235
Interest and Penalties - Delinquent Taxes	15,831	22,646	6,815	23,275
Tuition	---	600	600	---
Sale of School Property	1,001	1,001	---	6,600
Refunds	13,044	13,153	109	12,368
Athletic Revenue	60,477	59,517	-960	---
Interest Earned	5,700	3,449	-2,251	6,746
Rental of School Facilities	6,800	6,800	---	7,200
Transportation	10,000	39,527	29,527	19,673
Kids Club Fees	32,939	36,245	3,306	8,104
Other	25,678	26,038	360	54,255
TOTAL REVENUE FROM LOCAL SOURCES	1,145,865	1,192,247	46,382	1,134,456
INTER-DISTRICT SOURCES				
Career Prep	23,000	25,173	2,173	23,000
Data Processing Support	31,449	31,449	---	32,364
Special Education	286,732	286,733	1	467,596
TOTAL REVENUE FROM INTER-DISTRICT SOURCES	341,181	343,355	2,174	522,960
STATE SOURCES				
State Aid	8,024,285	8,053,188	28,903	8,037,579
Special Education	135,070	93,121	-41,949	186,092
At Risk	180,660	180,429	-231	122,157
TOTAL REVENUE FROM STATE SOURCES	8,340,015	8,326,738	-13,277	8,345,828
FEDERAL SOURCES				
Medicaid ADM Outreach	2,000	1,783	-217	22,720
Education Stabilization Funds	155,381	155,381	---	376,958
Title II - D	---	---	---	820
Title I	162,086	109,444	-52,642	117,752
Title II - A	106,576	55,910	-50,666	60,559
ARRA Title IID	2,355	2,355	---	376
Education Jobs Fund	108,913	108,910	-3	---
Title I ARRA	50,191	50,191	---	24,075
ARRA Homeless	1,045	1,045	---	298
ARRA IDEA	120,635	79,146	-41,489	120,334
ARRA McKinney Vento	4,433	1,277	-3,156	375
EPA Grant	40,000	40,000	---	---
TOTAL REVENUE FROM FEDERAL SOURCES	753,615	605,442	-148,173	724,267
TOTAL REVENUE	\$ 10,580,676	\$ 10,467,782	\$ -112,894	\$ 10,727,511

HANOVER-HORTON SCHOOL DISTRICT

General Fund

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
EXPENDITURES				
Instruction				
BASIC PROGRAMS				
Elementary School	\$ 2,575,080	\$ 2,561,315	\$ 13,765	\$ 2,369,265
Middle School	1,543,558	1,538,040	5,518	1,571,120
High School	2,170,481	2,109,872	60,609	2,265,597
Summer School	1,800	1,324	476	52,686
Pre-School	---	---	---	106,612
TOTAL BASIC PROGRAMS	6,290,919	6,210,551	80,368	6,365,280
ADDED NEEDS				
Special Education	773,917	716,434	57,483	551,068
Compensatory Education	212,277	159,635	52,642	141,827
TOTAL ADDED NEEDS	986,194	876,069	110,125	692,895
Total Instruction	7,277,113	7,086,620	190,493	7,058,175
Supportive Services				
PUPIL				
Guidance	210,770	212,516	-1,746	224,018
Health Services	21,000	20,365	635	20,263
Extra Duties/Aides	137,355	124,620	12,735	151,982
Staff Development	108,932	58,265	50,667	61,755
TOTAL PUPIL	478,057	415,766	62,291	458,018
INSTRUCTIONAL STAFF				
Media Services	175,381	169,618	5,763	165,501
Audio Visual	---	---	---	---
TOTAL INSTRUCTIONAL STAFF	175,381	169,618	5,763	165,501
ADMINISTRATION				
Board of Education	76,069	57,197	18,872	66,992
Executive Administration	415,994	403,657	12,337	391,566
School Administration	729,182	714,031	15,151	769,396
TOTAL ADMINISTRATION	\$ 1,221,245	\$ 1,174,885	\$ 46,360	\$ 1,227,954

General Fund

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
EXPENDITURES				
Supportive Services - Continued				
BUSINESS SERVICES				
Operation and Maintenance	\$ 1,027,892	\$ 989,099	\$ 38,793	\$ 953,812
Pupil Transportation	567,576	551,340	16,236	573,751
Technology	157,130	137,218	19,912	29,076
Other	76,987	69,783	7,204	16,425
TOTAL BUSINESS SERVICES	1,829,585	1,747,440	82,145	1,573,064
ATHLETIC ACTIVITIES	357,218	328,757	28,461	---
Total Supportive Services	4,061,486	3,836,466	225,020	3,424,537
Community Services				
Kids Club	35,630	35,254	376	29,680
Other	4,372	3,962	410	3,206
Total Community Services	40,002	39,216	786	32,886
Debt Service	87,229	87,229	---	43,349
Capital Outlay	80,713	80,713	---	104,544
TOTAL EXPENDITURES	\$ 11,546,543	\$ 11,130,244	\$ 416,299	\$ 10,663,491
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-965,867	-662,462	303,405	64,020
OTHER FINANCING SOURCES <USES>				
Loan Proceeds	80,713	80,713	---	62,630
Operating Transfers In	296,741	---	-296,741	---
Operating Transfers Out	-336,113	---	336,113	-249,685
TOTAL OTHER FINANCING SOURCES <USES>	41,341	80,713	39,372	-187,055
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -924,526	-581,749	\$ 342,777	\$ -123,035
FUND BALANCE - JULY 1, 2010		1,566,095		
FUND BALANCE - JUNE 30, 2011		\$ 984,346		

HANOVER-HORTON SCHOOL DISTRICT

SPECIAL REVENUE FUND

BALANCE SHEET

JUNE 30, 2011

	<u>Food Service Fund</u>
ASSETS	
Cash and Investments	\$ 141,667
Due From Other Governmental Units	---
Due From Other Funds	---
Prepaid Expenses	---
Inventory	4,371
	<hr/>
TOTAL ASSETS	<u><u>\$ 146,038</u></u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Due to Other Funds	\$ 28,894
Accounts Payable	6,004
Accrued Salaries	---
Accrued Expenses	---
	<hr/>
TOTAL LIABILITIES	<u>34,898</u>
FUND EQUITY	
Fund Balance - Non-spendable	4,371
Fund Balance - Restricted for Food Service	106,769
	<hr/>
TOTAL FUND EQUITY	<u>111,140</u>
	<hr/>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 146,038</u></u>

HANOVER-HORTON SCHOOL DISTRICT

Special Revenue Fund

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

FISCAL YEAR ENDED JUNE 30, 2011

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Goods Sold	\$ 10,850	\$ 12,907	\$ 2,057
Student Meals	165,507	162,070	-3,437
Adult Meals	9,500	9,412	-88
Ala Carte Meals	49,950	50,475	525
Breakfast	14,900	14,651	-249
Vending Machine Sales	3,600	2,451	-1,149
State Aid	20,282	20,283	1
Federal Aid	206,245	211,632	5,387
Federal USDA Commodities in Kind	13,388	30,665	17,277
Other Income	---	---	---
Interest Income	120	123	3
TOTAL REVENUE	494,342	514,669	20,327
EXPENDITURES			
Salaries	159,577	158,235	1,342
Fringe Benefits	106,358	105,991	367
Dues and Fees	3,760	3,861	-101
Purchased Services	16,933	6,323	10,610
Food and Supplies	240,436	234,731	5,705
Travel and Conferences	1,050	883	167
Miscellaneous	1,100	70	1,030
Repairs	---	---	---
Capital Outlay	4,500	1,111	3,389
TOTAL EXPENDITURES	\$ 533,714	\$ 511,205	\$ 22,509

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

FISCAL YEAR ENDED JUNE 30, 2011

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	<u>\$ -39,372</u>	<u>\$ 3,464</u>	<u>\$ 42,836</u>
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	39,372	---	-39,372
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	<u>39,372</u>	<u>---</u>	<u>-39,372</u>
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ ---</u>	<u>3,464</u>	<u>\$ 3,464</u>
FUND BALANCE - BEGINNING OF YEAR		<u>107,676</u>	
FUND BALANCE - END OF YEAR		<u>\$ 111,140</u>	

HANOVER-HORTON SCHOOL DISTRICT

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2011

	2009 Refunding Debt	2002 Debt	Durant Debt	Totals
ASSETS				
Cash and Investments	\$ 184,244	\$ 54,375	\$ ---	\$ 238,619
Due from other Funds	---	---	---	---
Accounts Receivable	---	---	---	---
TOTAL ASSETS	\$ 184,244	\$ 54,375	\$ ---	\$ 238,619
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Governments	---	---	---	---
TOTAL LIABILITIES	---	---	---	---
FUND EQUITY				
Fund Balance	184,244	54,375	---	238,619
TOTAL LIABILITIES AND FUND EQUITY	\$ 184,244	\$ 54,375	\$ ---	\$ 238,619

HANOVER-HORTON SCHOOL DISTRICT

Debt Retirement Funds

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

FISCAL YEAR ENDED JUNE 30, 2011

	2009 Refunding Debt		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 646,772	\$ 649,168	\$ 2,396
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	2,700	122	-2,578
Earned Interest	595	612	17
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	650,067	649,902	-165
EXPENDITURES			
Principal on Bonds	475,000	475,000	---
Interest on Bonds	141,625	141,625	---
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	1,950	1,329	621
TOTAL EXPENDITURES	618,575	617,954	621
EXCESS REVENUE OVER <UNDER> EXPENDITURES	31,492	31,948	456
OTHER FINANCING SOURCES			
Bond Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ 31,492	31,948	\$ 456
FUND BALANCE - BEGINNING OF YEAR		152,296	
FUND BALANCE - END OF YEAR		\$ 184,244	

Debt Retirement Funds

2002 Debt			Durant Debt		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ 231,853	\$ 232,713	\$ 860	\$ ---	\$ ---	\$ ---
---	---	---	---	---	---
965	875	-90	---	---	---
219	219	---	---	---	---
---	---	---	22,210	22,210	---
---	---	---	---	---	---
233,037	233,807	770	22,210	22,210	---
155,000	175,000	-20,000	21,246	21,246	---
61,076	61,075	1	964	964	---
---	---	---	---	---	---
1,000	566	434	---	---	---
217,076	236,641	-19,565	22,210	22,210	---
15,961	-2,834	-18,795	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
\$ 15,961	-2,834	\$ -18,795	\$ ---	---	\$ ---
---	57,209	---	---	---	---
\$ 54,375	---	---	\$ ---	---	---

HANOVER-HORTON SCHOOL DISTRICT

Debt Retirement Funds

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

FISCAL YEAR ENDED JUNE 30, 2011

	Total		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 878,625	\$ 881,881	\$ 3,256
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	3,665	997	-2,668
Earned Interest	814	831	17
State Aid Revenue	22,210	22,210	---
Miscellaneous	---	---	---
TOTAL REVENUE	905,314	905,919	605
EXPENDITURES			
Principal on Bonds	651,246	671,246	-20,000
Interest on Bonds	203,665	203,664	1
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	2,950	1,895	1,055
TOTAL EXPENDITURES	857,861	876,805	-18,944
EXCESS REVENUE OVER <UNDER> EXPENDITURES	47,453	29,114	-18,339
OTHER FINANCING SOURCES <USES>			
Bond Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ 47,453	29,114	\$ -18,339
FUND BALANCE - BEGINNING OF YEAR		<u>209,505</u>	
FUND BALANCE - END OF YEAR		<u>\$ 238,619</u>	

CAPITAL PROJECT FUND

HANOVER-HORTON SCHOOL DISTRICT

Capital Project Fund

COMPARATIVE BALANCE SHEET

JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and Investments	\$ 181,202	\$ 235,197
Accounts Receivable	---	---
Due from Other Funds	---	---
TOTAL ASSETS	\$ 181,202	\$ 235,197
 LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ ---	\$ ---
Due to Other Funds	---	---
TOTAL LIABILITIES	---	---
FUND EQUITY		
Fund Balance	181,202	235,197
TOTAL LIABILITIES AND FUND EQUITY	\$ 181,202	\$ 235,197

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
Current Taxes	\$ ---	\$ ---	\$ ---	\$ ---
Delinquent Taxes	---	---	---	---
Grants	---	---	---	---
Earned Interest	279	277	-2	244
Miscellaneous	---	---	---	1,678
TOTAL REVENUE	279	277	-2	1,922
EXPENDITURES				
Capital Outlay	235,476	54,272	181,204	5,759
TOTAL EXPENDITURES	235,476	54,272	181,204	5,759
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-235,197	-53,995	181,202	-3,837
OTHER FINANCING SOURCES				
OISD Contribution	---	---	---	---
Operating Transfers In	---	---	---	---
Operating Transfers Out	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -235,197	-53,995	\$ 181,202	\$ -3,837
FUND BALANCE - BEGINNING OF YEAR		235,197		
FUND BALANCE - END OF YEAR		\$ 181,202		

HANOVER-HORTON SCHOOL DISTRICT

SINKING FUND

COMPARATIVE BALANCE SHEET

JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and Investments	\$ ---	\$ ---
Taxes Receivable	---	263
Due from Other Funds	133	113,015
TOTAL ASSETS	\$ 133	\$ 113,278
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ ---	\$ ---
Due to Other Governments	---	65
TOTAL LIABILITIES	---	65
FUND EQUITY		
Fund Balance	133	113,213
TOTAL LIABILITIES AND FUND EQUITY	\$ 133	\$ 113,278

HANOVER-HORTON SCHOOL DISTRICT

Sinking Fund

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
Current Taxes	\$ 241,877	\$ 244,931	\$ 3,054	\$ 252,512
Delinquent Taxes	3,167	1,090	-2,077	1,133
Grants	---	---	---	---
Earned Interest	10	48	38	96
Miscellaneous	---	---	---	10,953
TOTAL REVENUE	245,054	246,069	1,015	264,694
EXPENDITURES				
Capital Outlay	359,127	359,149	-22	237,359
TOTAL EXPENDITURES	359,127	359,149	-22	237,359
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-114,073	-113,080	993	27,335
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	\$ -114,073	-113,080	\$ 993	\$ 27,335
FUND BALANCE - BEGINNING OF YEAR		113,213		
FUND BALANCE - END OF YEAR		\$ 133		

AGENCY FUNDS

HANOVER-HORTON SCHOOL DISTRICT

Agency Funds

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2011

ASSETS

Cash and Investments	\$ 207,717
Accounts Receivable	---
Due From Other Funds	---
TOTAL ASSETS	<u>\$ 207,717</u>

LIABILITIES

Due to Other Funds	\$ ---
Due to Student Groups	207,717
TOTAL LIABILITIES	<u>\$ 207,717</u>

SUMMARY STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2011

	Balance 6/30/10	Receipts	Disbursements	Balance 6/30/11
ASSETS				
Cash and Investments	\$ 267,282	\$ 267,945	\$ 327,510	\$ 207,717
Accounts Receivable	---	---	---	---
Due From Other Funds	---	---	---	---
TOTAL ASSETS	\$ 267,282	\$ 267,945	\$ 327,510	\$ 207,717
LIABILITIES				
Due to Other Funds	\$ ---	\$ ---	\$ ---	\$ ---
Due to Student Groups	267,282	267,945	327,510	207,717
TOTAL LIABILITIES	\$ 267,282	\$ 267,945	\$ 327,510	\$ 207,717

HANOVER-HORTON SCHOOL DISTRICT

Agency Funds

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2011

<u>ACTIVITY</u>	Due to Student Groups 6/30/10	Receipts	Disbursements	Due to Student Groups 6/30/11
Academic Boosters	\$ 497	\$ 1,250	\$ 1,205	\$ 542
Academic Service Learning	1,877	2,450	1,681	2,646
After Prom Party	822	---	---	822
Alumni Account	16,274	1,238	190	17,321
Athletic JAVA	174	---	---	174
Athletic Tournaments	3,521	6,871	9,388	1,004
Athletic Vending	3,083	13,859	14,820	2,122
Band Account	4	294	298	---
Band Fundraising	1,663	11,049	11,720	991
Band Travel	3	3,906	2,802	1,107
Benevolence	15	---	---	15
5th Grade	3,084	1,635	1,679	3,040
Cheerleaders	654	5,649	6,124	178
Choir	1,062	2,080	2,027	1,115
Citizens for Education	117	70	183	4
Class of 2009	1,218	20	1,238	---
2010	3,996	151	---	4,147
2011	4,727	4,510	7,127	2,110
2012	4,804	10,669	8,855	6,618
2013	4,986	3,873	1,730	7,130
2014	---	2,849	1,414	1,436
Competitive Grant (JCF)	166	---	---	166
Counseling - Edna	100	---	---	100
Drama Club	7,988	1,304	1,457	7,835
Drop-In Computer Lab	---	---	---	---
Earnings on Investments	9,554	293	6,135	3,712
Educational Fund Grants	666	3,400	2,885	1,182
Elementary	16,672	4,897	3,652	17,918
Elementary Art	883	38	86	835
Elementary Classroom	536	---	---	536
Elementary Field Trips	6,374	3,492	5,478	4,388
Elementary Girls Basketball	2,638	8,059	7,842	2,855
Elementary Lighthouse Project	795	4,243	4,411	627
Elementary Merchandise	412	3,643	1,453	2,602
Elementary Pop Fund	2,997	1,558	2,301	2,254
Elementary RTI	1,470	---	561	909
Elementary Staff Retirement	226	---	---	226
Elementary Student Council	6,009	2,111	4,122	3,998
Entrepreneurial	30	---	---	30
Girl's Golf	400	---	258	142
Girl's Travel Basketball	---	5,904	5,233	671
H-H Concessions	---	---	---	---
H-H Renaissance Account	-263	---	---	-263

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

FISCAL YEAR ENDED JUNE 30, 2011

<u>ACTIVITY</u>	Due to Student Groups 6/30/10	Receipts	Disbursements	Due to Student Groups 6/30/11
H-H Music Boosters	\$ 5,640	\$ 8,354	\$ 9,113	\$ 4,881
H-H Community Service Club	2,886	1,205	1,487	2,604
HS Art	9	1,261	1,261	9
HS Baseball	---	---	---	---
HS Baton	19	---	---	19
HS Bottle Refund	1,022	52	320	754
HS Business Manage Class	281	3,293	3,172	402
HS Cross Country	131	9,454	9,715	-130
HS English Dept	500	---	---	500
HS Football	1	---	---	1
HS World Language	1,845	4,598	5,933	510
HS Golf	45	135	336	-156
HS Human Relations	1,425	---	---	1,425
HS Journalism	1,012	389	881	520
HS Misc	1,581	3,044	2,374	2,251
HS Counseling	61	450	493	18
HS Music and Games	---	---	---	---
HS National Honor Society	13	2,407	1,890	529
HS Portfolio Supplies	590	---	---	590
HS Tech Lab	577	---	---	577
HS Softball	16	768	780	4
HS World Language Club	2,537	814	1,076	2,275
HS SAC	---	1,772	1,180	592
HS Soccer	14	1,800	1,143	671
HS Student Council	4,280	3,568	3,690	4,158
HS Teacher's Lounge	132	1,123	1,008	246
HS Track	1,617	2,020	2,734	904
HS Web Site Develop	230	---	---	230
HS Weight Room	---	---	---	---
HS Wrestling	6	---	---	6
HS Yearbook	-2,471	5,594	2,262	861
Independent Living	---	---	---	---
JCF Youth Mini Grant	73	---	---	73
Junior Pro Boys Basketball	5	5,339	5,168	176
Kids Club	441	394	158	677
Ladd Scholarship	97	---	---	97
Library Fund	269	13,715	13,792	191
Lil Comets	2,190	---	530	1,660
Loss & Damage	8,538	1,040	570	9,008
6th Grade Basketball Program	---	3,647	3,647	---
Maintenance Rewards and Recognition	349	75	216	208
M. Bytnar Memorial Fund	309	---	17	292

HANOVER-HORTON SCHOOL DISTRICT

Agency Funds

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2011

ACTIVITY	Due to Student		Disbursements	Due to Student	
	Groups 6/30/10	Receipts		Groups 6/30/11	Receipts
MS Activity	\$ 6,098	\$ 27,098	\$ 28,093	\$ 5,103	
MS Art Fund	49	---	---	49	
MS Cheerleading	161	117	181	97	
MS Choir	2,917	3,898	3,288	3,527	
MS Lego Club	180	---	---	180	
MS Miscellaneous	2,441	2,524	1,854	3,111	
MS Pop Machine	4,802	914	1,528	4,187	
MS Popcorn Repair Fund	478	---	---	478	
MS Rewards	71	100	102	70	
MS Running Club	110	1,791	1,677	224	
MS Skills Class	---	---	---	---	
MS Student Council	3,933	2,767	2,802	3,898	
MS Weight Training	753	---	---	753	
MS Yearbook	1,269	1,225	---	2,494	
McGee Scholarship L.E.	54	2,000	2,000	54	
New Library	1,084	---	---	1,084	
New Press Box	340	---	---	340	
Nick Thornsbury Memorial	---	800	200	600	
Night Lights	5,961	6,401	3,562	8,800	
Nursing	852	560	1,313	98	
Destination Imagination	75	---	---	75	
Pop Machine	3,025	4,321	5,281	2,065	
PTA	7	---	---	7	
Rachels Challenge	119	78	---	197	
RIOT Account	846	---	---	846	
Robbie Curtis Charitable	1,004	---	---	1,004	
Ruth Creps Scholarship	69,480	1,750	60,500	10,730	
Social Responsibility	76	---	---	76	
Soccer	2,360	12,888	10,157	5,091	
Rothenburger Scholarship	1,197	4,390	3,975	1,612	
Student Teacher Fund	1,253	240	---	1,493	
Summer Lights	769	---	---	769	
Supplies R Us	3,519	2,064	1,988	3,595	
Tech Grant	---	---	---	---	
Volleyball Boosters	926	---	1,593	-667	
Wall of Fame	1,000	---	---	1,000	
Wrestling Club	3,387	---	---	3,387	
Youth Baseball	186	4,345	4,113	418	
Total	\$ 267,282	\$ 267,945	\$ 327,510	\$ 207,717	

STATEMENTS OF INDEBTEDNESS

HANOVER-HORTON SCHOOL DISTRICT

Statements of Indebtedness

JUNE 30, 2011

BUS LOANS

Balance Outstanding - June 30, 2011

\$ 175,523

Balance payable as follows:

Loan	Year	Interest Rate	Principal	Interest	Total
Hillsdale County National Bank	2011-12	4.00%	\$ 26,850	\$ 3,352	\$ 30,202
	2012-13	4.00%	27,924	2,278	30,202
	2013-14	4.00%	29,041	1,163	30,204
			<u>\$ 83,815</u>	<u>\$ 6,793</u>	<u>\$ 90,608</u>
Hillsdale County National Bank	2011-12	3.65%	\$ 12,073	\$ 1,861	\$ 13,934
	2012-13	3.65%	12,509	1,425	13,934
	2013-14	3.65%	12,970	964	13,934
	2014-15	3.65%	13,443	490	13,933
			<u>\$ 50,995</u>	<u>\$ 4,740</u>	<u>\$ 55,735</u>
Hillsdale County National Bank	2011-12	3.07%	\$ 7,658	\$ 1,250	\$ 8,908
	2012-13	3.07%	7,893	1,015	8,908
	2013-14	3.07%	8,135	773	8,908
	2014-15	3.07%	8,385	523	8,908
	2015-16	3.07%	8,642	266	8,908
			<u>\$ 40,713</u>	<u>\$ 3,827</u>	<u>\$ 44,540</u>

DURANT DEBT

Balance Outstanding - June 30, 2011

\$ 13,813

Balance payable as follows:

Year	Interest Rate	Principal	Interest	Total
2011 - 12	4.761%	\$ 6,746	\$ 657	\$ 7,403
2012 - 13	4.761%	7,067	336	7,403
		<u>\$ 13,813</u>	<u>\$ 993</u>	<u>\$ 14,806</u>

Statements of Indebtedness**JUNE 30, 2011****2009 REFUNDING DEBT****Balance Outstanding - June 30, 2011****\$ 4,005,000**

Balance payable as follows:

Year	Interest Rate	Principal	Interest	Total
2011 - 12	3.00%	\$ 465,000	\$ 127,375	\$ 592,375
2012 - 13	3.00%	455,000	113,425	568,425
2013 - 14	3.00%	475,000	99,775	574,775
2014 - 15	3.00%	465,000	85,525	550,525
2015 - 16	3.00%	450,000	71,575	521,575
2016 - 17	3.00%	440,000	58,075	498,075
2017 - 18	3.25%	430,000	44,875	474,875
2018 - 19	3.50%	420,000	30,900	450,900
2019 - 20	4.00%	405,000	16,200	421,200
		<u>\$ 4,005,000</u>	<u>\$ 647,725</u>	<u>\$ 4,652,725</u>

2002 DEBT**Balance Outstanding - June 30, 2011****\$ 1,225,000**

Balance payable as follows:

Year	Interest Rate	Principal	Interest	Total
2011 - 12	4.10%	\$ 175,000	\$ 54,075	\$ 229,075
2012 - 13	4.25%	---	46,900	46,900
2013 - 14	4.25%	350,000	46,900	396,900
2014 - 15	4.50%	---	32,025	32,025
2015 - 16	4.50%	350,000	32,025	382,025
2016 - 17	4.65%	---	16,275	16,275
2017 - 18	4.65%	350,000	16,275	366,275
		<u>\$ 1,225,000</u>	<u>\$ 244,475</u>	<u>\$ 1,469,475</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, 2011

Program Title	Federal CFDA Number	Contract Number	Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Pass Through Michigan Department of Education:			
- Title I Carry-over	84.010	1015300910	\$ 10,649
- Title I	84.010	1015300910	124,078
- Title I	84.010	1115301011	151,438
- Title I ARRA	84.389	1115351011	50,191
- Education Stabilization Fund - ARRA	*84.394	1125251011	155,381
- Education Jobs Fund	*84.410A		297,273
- Title IIA Teacher Training and Recruiting	84.367	1005200910	103,460
- Title IIA Teacher Training and Recruiting	84.367	1105201011	92,775
- Title IIA Teacher Training and Recruiting Carryover		1005200910	13,802
- Title IID Enhancing Education through Technology - ARRA	84.386	1142951011	2,355
- Title IID Enhancing Education through Technology - ARRA	84.386	1042950910	2,732
Pass Through Jackson Intermediate School District			
- IDEA - ARRA	84.027A		79,146
- McKinney - Vento - ARRA	84.196A		1,277
- Homeless - ARRA	84.387A		1,045
TOTAL U.S. DEPARTMENT OF EDUCATION			

* Designates a major program.

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2010	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2011
\$ ---	\$ ---	\$ 10,649	\$ 10,649	\$ ---
107,791	39,699	39,699	---	---
---	---	100,645	98,795	-1,850
---	---	16,739	50,191	33,452
107,791	39,699	167,732	159,635	31,602
---	---	155,381	155,381	---
---	---	82,360	108,910	26,550
49,748	5,038	5,038	---	---
---	---	31,732	42,108	10,376
---	---	13,802	13,802	---
49,748	5,038	50,572	55,910	10,376
---	---	2,271	2,355	84
376	299	299	---	---
376	299	2,570	2,355	84
---	---	49,935	79,146	29,211
---	---	45	1,277	1,232
---	---	442	1,045	603
	\$ 45,036	\$ 509,037	\$ 563,659	\$ 99,658

HANOVER-HORTON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2011

Program Title	Federal CFDA Number	Contract Number	Program or Award Amount
U.S. DEPARTMENT OF AGRICULTURE			
U.S.D.A. Food Distribution:			
- Entitlement Commodities	10.555	Various	\$ 29,072
- Bonus Commodities	10.555	Various	1,593
Pass Through State Department of Education:			
- National School Lunch Program	10.555	101950,101960 111950,111960	165,233
- Special Breakfast	10.553	111970,101970	46,399
TOTAL U.S. DEPARTMENT OF AGRICULTURE			
U.S. ENVIRONMENTAL PROTECTION AGENCY			
- ARRA-National Clean Diesel Funding Assistance	66.039	2A-00E86001-0	40,000
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
- Medicaid Administrative Outreach	93.778		1,783
TOTAL FEDERAL FINANCIAL ASSISTANCE			

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2010	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2011
\$ ---	\$ ---	\$ 29,072	\$ 29,072	\$ ---
---	---	1,593	1,593	---
---	---	165,233	165,233	---
---	---	46,399	46,399	---
---	---	242,297	242,297	---
---	---	40,000	40,000	---
---	---	1,783	1,783	---
	\$ 45,036	\$ 793,117	\$ 847,739	\$ 99,658

HANOVER-HORTON SCHOOL DISTRICT

FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2011

NOTE 1 - MAJOR PROGRAMS

The School has two major programs - Education Stabilization Fund - ARRA and Education Jobs Fund. Total expenditures during the year ended June 30, 2011 were \$155,381 and \$108,910, respectively.

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, 2011 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2011 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, 2011

	<u>Financial Statement</u>	<u>Awards Schedule</u>
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	\$ 159,635	\$ 159,635
Education Stabilization Fund	155,381	155,381
Teacher Training and Recruiting	55,910	55,910
Technology Literacy Challenge	2,355	2,355
IDEA - ARRA	79,146	79,146
Education Jobs Fund	108,910	108,910
McKinney - Vento - ARRA	1,277	1,277
Homeless - ARRA	1,045	1,045
TOTAL	<u>563,659</u>	<u>563,659</u>
ENVIRONMENTAL PROTECTION AGENCY GRANT		
GENERAL FUND		
ARRA-National Clean Diesel Funding Assistance	40,000	40,000
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
GENERAL FUND		
Medicaid Administrative Outreach	<u>1,783</u>	<u>1,783</u>
TOTAL GENERAL FUND	<u>605,442</u>	<u>605,442</u>
DEPARTMENT OF AGRICULTURE GRANTS		
SCHOOL LUNCH FUND		
Commodities	30,665	30,665
Federal Aid	<u>211,632</u>	<u>211,632</u>
TOTAL	<u>242,297</u>	<u>242,297</u>
GRAND TOTAL	<u><u>\$ 847,739</u></u>	<u><u>\$ 847,739</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 remaining fund information of Hanover-Horton School District, as of and for the year ended June 30, 2011, and have issued our report thereon dated July 14, 2011. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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

July 14, 2011

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

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

Compliance

We have audited Hanover-Horton School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 referred to above 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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 compliance requirements referred to above that could have a 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 those requirements.

In our opinion, Hanover-Horton School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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 that could have a direct and material effect on a major program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hanover-Horton School District's internal control over compliance.

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

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

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



Karl L. Drake, PC
Certified Public Accountant

July 14, 2011

HANOVER-HORTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2011

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 two major programs - Education Stabilization Fund - ARRA and Education Jobs Fund.
6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Hanover-Horton School District qualifies 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, 2011

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

July 14, 2011

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, 2011, and have issued our report thereon dated July 14, 2011. 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 December 7, 2010, 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 December 7, 2010.

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 July 14, 2011.

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.

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 cursive script that reads "Karl L. Drake". The signature is written in black ink and is positioned above the printed name.

Karl L. Drake, P.C.