

Waverly Community Schools

**Financial Report
with Supplemental Information
June 30, 2010**

Waverly Community Schools

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Independent Auditor's Report

To the Board of Education
Waverly Community Schools

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Waverly Community Schools (the "School District") as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Waverly Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform 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, the major fund, and the aggregate remaining fund information of Waverly Community Schools as of June 30, 2010 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the Board of Education
Waverly Community Schools

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

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated August 11, 2010 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

August 11, 2010

Waverly Community Schools

Management's Discussion and Analysis

This section of Waverly Community Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2010. Please read it 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 Waverly Community Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole 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 fund - the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, 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

(Required Supplemental Information)

Budgetary Information for Major Fund

Other Supplemental Information

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 you answer this question. We prepare these statements 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 revenues and expenses are taken into account regardless of when cash is received or paid.

Waverly Community Schools

Management's Discussion and Analysis (Continued)

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 revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial 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 the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support 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 Fund - 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 many other funds to help it control and manage money for particular purposes (the Food Service, Athletics, and Community Service Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). 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 how money flows in and out of funds and the balances left 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 to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Waverly Community Schools

Management's Discussion and Analysis (Continued)

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

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 assets and liabilities. We exclude these activities 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, 2010 and 2009:

	Governmental Activities	
	June 30	
	2010	2009
	(in millions)	
Assets		
Current and other assets	\$ 8.7	\$ 9.8
Capital assets	50.3	52.0
Total assets	59.0	61.8
Liabilities		
Current liabilities	3.9	4.0
Long-term liabilities	39.0	41.6
Total liabilities	42.9	45.6
Net Assets		
Invested in capital assets - Net of related debt	12.7	11.8
Restricted	0.5	0.4
Unrestricted	2.9	4.0
Total net assets	<u>\$ 16.1</u>	<u>\$ 16.2</u>

The above analysis focuses on the net assets (see Table I). 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 \$16.1 million at June 30, 2010. Capital assets, net of related debt totaling \$12.7 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt 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 (\$2.9 million) was unrestricted.

Waverly Community Schools

Management's Discussion and Analysis (Continued)

The \$2.9 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. 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 years 2010 and 2009.

Table 2

	Governmental Activities	
	2010	2009
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.8	\$ 0.9
Operating grants and contributions	6.9	6.2
General revenue:		
Property taxes	13.5	13.5
State foundation allowance	14.7	16.1
Other	0.1	0.2
Total revenue	<u>36.0</u>	<u>36.9</u>
Functions/Program Expenses		
Instruction	20.4	20.5
Support services	11.8	12.3
Athletics	0.7	0.8
Food services	1.0	1.0
Community services	0.5	0.5
Interest on long-term debt	1.7	1.8
Total functions/program expenses	<u>36.1</u>	<u>36.9</u>
Decrease in Net Assets	(0.1)	-
Net Assets - Beginning of year	<u>16.2</u>	<u>16.2</u>
Net Assets - End of year	<u><u>\$ 16.1</u></u>	<u><u>\$ 16.2</u></u>

Waverly Community Schools

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$36.1 million. Certain activities were partially funded from those who benefited from the programs (\$0.8 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$13.5 million in taxes, \$14.7 million in state foundation allowance, and with our other revenues (i.e., interest and general entitlements).

The School District's net assets remained relatively consistent.

As discussed above, 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 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 we noted earlier, the School District uses funds to help it control and manage money for particular 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 approximately \$5.0 million, which is a decrease of \$1.0 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$1.2 million to \$4.1 million. The change is mainly due to a decrease in foundation allowance revenue due to a larger than anticipated decrease in student enrollment and an anticipated reduction in state aid.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds remained stable from the prior years, showing a net increase of approximately \$143,000.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$40,000. Millage rates were increased to offset reductions in taxable value. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

Waverly Community Schools

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in February. 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.

There were revisions made to the 2009-2010 General Fund original budget. Budgeted revenues were decreased approximately \$360,000 due to changes in certain categorical revenue from the State and a decrease in foundation allowance payments due to actual student enrollment less than original estimates.

Budgeted expenditures were increased approximately \$90,000 to account for changes in salaries and benefits resulting from the School District's revised operating plan. The amount of transfers to other funds established in the amended budget was \$0.6 million and represents support provided by the General Fund to other functions.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2010, the School District had \$71.7 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease of approximately \$30,000 from last year.

	2010	2009
Land	\$ 100,500	\$ 100,500
Buildings and building improvements	68,442,822	68,423,522
Buses and other vehicles	1,949,777	1,999,425
Furniture and equipment	1,235,464	1,235,464
Total capital assets	71,728,563	71,758,911
Less accumulated depreciation	(21,432,249)	(19,692,094)
Net capital assets	<u>\$ 50,296,314</u>	<u>\$ 52,066,817</u>

This year's additions of \$19,300 included improvements to the parking lot.

Waverly Community Schools

Management's Discussion and Analysis (Continued)

No major capital projects are planned for the 2010-2011 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had approximately \$35.7 million in bonds outstanding versus approximately \$38.0 million in the previous year - a change of 6.6 percent. Those bonds consisted of the following:

	2010	2009
Building and Site Bonds	\$ -	\$ 2,275,000
Refunding bonds	35,585,000	35,680,000
Installment note payable	151,566	298,375
Total	<u>\$ 35,736,566</u>	<u>\$ 38,253,375</u>

Other obligations include accrued vacation pay and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2011 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2011 fiscal year is 25 percent and 75 percent of the February 2010 and September 2010 student counts, respectively. The 2011 budget was adopted in June 2010, based on an estimate of students that will be enrolled in September 2010. Approximately 82 percent of total General Fund revenue is from the foundation allowance. The School District is classified as a hold-harmless district, and is allowed to levy property taxes above the state foundation allowance; however, the School District funding is still heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2010-2011 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2010-2011 budget. Once the final student count and related per pupil funding are validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Waverly Community Schools

Management's Discussion and Analysis (Continued)

Contacting the District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

Waverly Community Schools

Statement of Net Assets June 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash and investments (Note 3)	\$ 5,239,778
Receivables (Note 4)	3,429,882
Inventories	21,095
Prepaid costs and other assets	59,482
Capital assets - Net (Note 5)	<u>50,296,314</u>
Total assets	59,046,551
Liabilities	
Accounts payable	478,063
Accrued payroll-related liabilities	2,646,386
Other accrued liabilities	793,683
Deferred revenue (Note 4)	25,112
Long-term liabilities (Note 7):	
Due within one year	2,865,203
Due in more than one year	<u>36,146,553</u>
Total liabilities	<u>42,955,000</u>
Net Assets	
Invested in capital assets - Net of related debt	12,704,739
Restricted - Debt service	469,668
Unrestricted	<u>2,917,144</u>
Total net assets	<u>\$ 16,091,551</u>

Waverly Community Schools

Statement of Activities Year Ended June 30, 2010

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Activities Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 20,489,273	\$ 15,541	\$ 5,875,823	\$ (14,597,909)
Support services	11,828,614	-	366,805	(11,461,809)
Athletics	724,030	83,353	-	(640,677)
Food services	958,349	386,722	718,307	146,680
Community services	464,722	285,925	-	(178,797)
Interest	1,683,728	-	-	(1,683,728)
Total primary government	<u>\$ 36,148,716</u>	<u>\$ 771,541</u>	<u>\$ 6,960,935</u>	(28,416,240)
General revenues:				
Taxes:				
Property taxes - Levied for general purposes				9,243,083
Property taxes - Levied for debt service				4,267,044
State aid not restricted to specific purposes				14,729,940
Interest and investment earnings				6,522
Other				43,354
Total general revenues				<u>28,289,943</u>
Change in Net Assets				(126,297)
Net Assets - Beginning of year				<u>16,217,848</u>
Net Assets - End of year				<u>\$ 16,091,551</u>

Waverly Community Schools

Governmental Funds Balance Sheet June 30, 2010

	General Fund	Nonmajor Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 4,444,285	\$ 795,493	\$ 5,239,778
Receivables (Note 4)	3,420,316	9,566	3,429,882
Due from other funds	-	109,347	109,347
Inventories	-	21,095	21,095
Prepaid costs and other assets	56,432	3,050	59,482
	<u>\$ 7,921,033</u>	<u>\$ 938,551</u>	<u>\$ 8,859,584</u>
Total assets			
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 475,456	\$ 2,607	\$ 478,063
Accrued payroll-related liabilities	2,614,165	32,221	2,646,386
Other accrued liabilities	640,910	-	640,910
Due to other funds	109,347	-	109,347
Deferred revenue (Note 4)	-	25,112	25,112
	<u>3,839,878</u>	<u>59,940</u>	<u>3,899,818</u>
Total liabilities			
Fund Balances			
Reserved:			
Debt service	-	469,668	469,668
Inventories	-	21,095	21,095
Prepaid costs	56,432	3,050	59,482
Unreserved - Undesignated - Reported in:			
General Fund	4,024,723	-	4,024,723
Special Revenue Funds	-	384,798	384,798
	<u>4,081,155</u>	<u>878,611</u>	<u>4,959,766</u>
Total fund balances			
Total liabilities and fund balances	<u>\$ 7,921,033</u>	<u>\$ 938,551</u>	<u>\$ 8,859,584</u>

Waverly Community Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2010

Fund Balance Reported in Governmental Funds \$ 4,959,766

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 governmental funds:

Cost of capital assets	\$ 71,728,563	
Accumulated depreciation	<u>(21,432,249)</u>	50,296,314

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds and installment note payable including premium	(37,591,575)	
Compensated absences	<u>(1,420,181)</u>	(39,011,756)

Accrued interest payable is not included as a liability in governmental funds

(152,773)

Net Assets of Governmental Activities

\$ 16,091,551

Waverly Community Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2010

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenue			
Local sources	\$ 9,299,929	\$ 5,031,615	\$ 14,331,544
State sources	16,563,964	81,021	16,644,985
Federal sources	2,006,494	637,286	2,643,780
Intergovernmental	2,402,110	-	2,402,110
Total revenue	30,272,497	5,749,922	36,022,419
Expenditures			
Current:			
Instruction	19,011,738	-	19,011,738
Support services	11,360,251	-	11,360,251
Athletics	-	545,050	545,050
Food services	-	958,349	958,349
Community services	9,207	455,515	464,722
Debt service:			
Principal	146,809	2,370,000	2,516,809
Interest	9,625	1,865,506	1,875,131
Capital outlay	284,194	4,905	289,099
Total expenditures	30,821,824	6,199,325	37,021,149
Excess of Expenditures Over Revenue	(549,327)	(449,403)	(998,730)
Other Financing Sources (Uses)			
Transfers in (Note 6)	-	632,129	632,129
Transfers out (Note 6)	(632,129)	-	(632,129)
Net Change in Fund Balances	(1,181,456)	182,726	(998,730)
Fund Balances - Beginning of year	5,262,611	695,885	5,958,496
Fund Balances - End of year	\$ 4,081,155	\$ 878,611	\$ 4,959,766

Waverly Community Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (998,730)

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

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

Depreciation expense	\$ (1,789,803)	
Capitalized capital outlay	<u>19,300</u>	(1,770,503)

Underwriter's premium reported as revenue in the prior year's funds and amortized in the statement of activities	168,637
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Repayment of bond and installment note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,516,809
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Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	22,766
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Compensated absences are recorded when earned in the statement of activities. In the current year, more was earned than paid out	<u>(65,276)</u>
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Change in Net Assets of Governmental Activities \$ (126,297)

Waverly Community Schools

Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2010

	<u>Agency Funds</u>
Assets	
Cash and investments	\$ 159,088
Receivables	<u>927</u>
Total assets	<u>\$ 160,015</u>
Liabilities	<u>\$ 160,015</u>

Waverly Community Schools

Notes to Financial Statements June 30, 2010

Note I - Summary of Significant Accounting Policies

The accounting policies of Waverly Community Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) 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 revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 revenues 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 district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial 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 flows. 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.

Private sector standards of accounting issued prior to November 30, 1989 generally are followed to the extent that those standards do not conflict with guidance of the Governmental Accounting Standards Board.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

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

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

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

Waverly Community Schools

Notes to Financial Statements June 30, 2010

Note I - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental fund:

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

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Food Services, Athletics, and Community Services Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Funds - The Debt Service Funds are used to record tax and interest revenue and the payment of interest, principal, and other expenditures on the 2000 and 2005 debt issues. The 2000 debt issue was paid in full at June 30, 2010.

Student Activities Agency Fund - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund is recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Waverly Community Schools

Notes to Financial Statements June 30, 2010

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$15,000 and an estimated useful life in excess of one 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 or materially extend 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 building additions	20 to 50 years
Buses and other vehicles	7 to 10 years
Furniture and other equipment	10 to 20 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Long-term Obligations - In the district-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 are 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.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Waverly Community Schools

Notes to Financial Statements June 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Comparative Data/Reclassifications - Comparative data is not included in the School District's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2010 has not been computed.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Note 3 - Cash and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

Waverly Community Schools

Notes to Financial Statements June 30, 2010

Note 3 - Cash and Investments (Continued)

The School District has designated two banks for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investments as listed in the state statutory authority as listed above.

The School District's cash and investments are subject to two types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$5,950,916 had \$5,795,846 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the School District has \$7,337 invested in the Michigan Liquid Asset Fund (MILAF). At June 30, 2010, MILAF is rated AAAM by Standard and Poor's.

Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the School District's individual major fund and the nonmajor funds in the aggregate are as follows:

	General Fund	Nonmajor Funds	Total
Receivables:			
Accounts receivable	\$ 8,632	\$ 9,566	\$ 18,198
Due from other governmental units	3,411,684	-	3,411,684
Total receivables	<u>\$ 3,420,316</u>	<u>\$ 9,566</u>	<u>\$ 3,429,882</u>

Waverly Community Schools

Notes to Financial Statements June 30, 2010

Note 4 - Receivables and Deferred Revenue (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of receipts received prior to meeting all eligibility requirements and other items totaling \$25,112.

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

Governmental Activities	Balance June 30, 2009	Additions	Disposals	Balance June 30, 2010
Capital assets not being depreciated -				
Land	\$ 100,500	\$ -	\$ -	\$ 100,500
Capital assets being depreciated:				
Buildings and improvements	68,423,522	19,300	-	68,442,822
Furniture and equipment	1,235,464	-	-	1,235,464
Buses and other vehicles	1,999,425	-	49,648	1,949,777
Subtotal	71,658,411	19,300	49,648	71,628,063
Accumulated depreciation:				
Buildings and improvements	17,911,985	1,579,675	-	19,491,660
Furniture and equipment	490,239	79,930	-	570,169
Buses and other vehicles	1,289,870	130,198	49,648	1,370,420
Subtotal	19,692,094	1,789,803	49,648	21,432,249
Net capital assets being depreciated	51,966,317	(1,770,503)	-	50,195,814
Net capital assets	<u>\$ 52,066,817</u>	<u>\$ (1,770,503)</u>	<u>\$ -</u>	<u>\$ 50,296,314</u>

Depreciation expense was charged to activities of the School District (primary government) as follows:

Governmental activities:	
Instruction	\$ 1,431,843
Support services	178,980
Athletics	178,980
Total governmental activities	<u>\$ 1,789,803</u>

Waverly Community Schools

Notes to Financial Statements June 30, 2010

Note 6 - Interfund Receivables, Payables, and Transfers

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund investment accounts. Transfers represent routine cash flow assistance from the General Fund.

Note 7 - Long-term Debt

The School District issues bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and an installment note payable.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 37,955,000	\$ -	\$ 2,370,000	\$ 35,585,000	\$ 2,545,000
Bond premiums	2,023,646	-	168,637	1,855,009	168,637
Total bonds payable	39,978,646	-	2,538,637	37,440,009	2,713,637
Installment note	298,375	-	146,809	151,566	151,566
Employee compensated absences	1,354,905	284,001	218,725	1,420,181	-
Total governmental activities	<u>\$ 41,631,926</u>	<u>\$ 284,001</u>	<u>\$ 2,904,171</u>	<u>\$ 39,011,756</u>	<u>\$ 2,865,203</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2011	\$ 2,696,566	\$ 1,756,661	\$ 4,453,227
2012	2,725,000	1,639,500	4,364,500
2013	2,955,000	1,515,750	4,470,750
2014	3,100,000	1,368,000	4,468,000
2015	3,280,000	1,213,000	4,493,000
2016-2020	17,475,000	3,520,250	20,995,250
2021	3,505,000	175,250	3,680,250
Unamortized premium	1,855,009	-	1,855,009
Total	<u>\$ 37,591,575</u>	<u>\$ 11,188,411</u>	<u>\$ 48,779,986</u>

Waverly Community Schools

Notes to Financial Statements June 30, 2010

Note 7 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

Refunding bonds totaling \$36,535,000, due in annual installments of \$2,545,000 to \$3,575,000 through May 2021; interest at 3.50% to 5.00%	\$ 35,585,000
Installment purchase totaling \$453,627, due in an annual installment of \$151,566 in August 2010; interest at 3.24%	<u>151,566</u>
Total	<u>\$ 35,736,566</u>

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefits claims.

The School District participates in the SEG Self-insurers Workers' Disability Compensation Fund (risk pool) for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 9.73 percent of covered payroll for the period from July 1, 2009 through September 30, 2009 and 10.13 percent for the period from October 1, 2009 through June 30, 2010. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's required and actual contributions to the plan for the years ended June 30, 2010, 2009, and 2008 were \$1,907,828, \$1,907,592, and \$1,995,525, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.81 percent of covered payroll for the period from July 1, 2009 through September 30, 2009 and 6.81 percent for the period from October 1, 2009 through June 30, 2010. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2010, 2009, and 2008 were \$1,295,345, \$1,307,593, and \$1,253,783, respectively.

Note 10 - Upcoming Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The School District will implement GASB Statement No. 54 beginning with the fiscal year ending June 30, 2011.

Required Supplemental Information

Waverly Community Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Over (Under) <u>Final Budget</u>
Revenue				
Local sources	\$ 9,601,174	\$ 9,399,861	\$ 9,299,929	\$ (99,932)
State sources	18,003,769	16,411,358	16,563,964	152,606
Federal sources	671,476	2,055,645	2,006,494	(49,151)
Intergovernmental	2,175,000	2,225,000	2,402,110	177,110
Total revenue	<u>30,451,419</u>	<u>30,091,864</u>	<u>30,272,497</u>	<u>180,633</u>
Expenditures				
Current:				
Instruction:				
Basic program	15,749,872	15,237,343	15,222,177	(15,166)
Added needs	3,726,880	3,827,156	3,789,561	(37,595)
Total instruction	<u>19,476,752</u>	<u>19,064,499</u>	<u>19,011,738</u>	<u>(52,761)</u>
Support services:				
Pupil	2,110,433	2,086,833	2,071,142	(15,691)
Instructional staff	1,561,987	2,189,115	2,092,908	(96,207)
General administration	364,558	355,285	355,309	24
School administration	1,880,135	1,997,398	1,983,309	(14,089)
Business	500,091	507,702	500,494	(7,208)
Operations and maintenance	3,491,391	3,292,195	3,197,450	(94,745)
Pupil transportation services	791,342	781,842	780,156	(1,686)
Central	384,038	381,485	371,763	(9,722)
Other	35,000	35,000	7,720	(27,280)
Total support services	<u>11,118,975</u>	<u>11,626,855</u>	<u>11,360,251</u>	<u>(266,604)</u>
Community services	13,350	9,308	9,207	(101)
Debt service:				
Principal	146,810	146,809	146,809	-
Interest	9,667	9,626	9,625	(1)
Capital outlay	323,812	321,184	284,194	(36,990)
Total expenditures	<u>31,089,366</u>	<u>31,178,281</u>	<u>30,821,824</u>	<u>(356,457)</u>
Excess of Expenditures Over Revenue	<u>(637,947)</u>	<u>(1,086,417)</u>	<u>(549,327)</u>	<u>537,090</u>
Transfers Out	<u>(598,727)</u>	<u>(598,727)</u>	<u>(632,129)</u>	<u>(33,402)</u>
Net Change in Fund Balance	<u>(1,236,674)</u>	<u>(1,685,144)</u>	<u>(1,181,456)</u>	<u>503,688</u>
Fund Balance - Beginning of year	<u>5,262,611</u>	<u>5,262,611</u>	<u>5,262,611</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 4,025,937</u>	<u>\$ 3,577,467</u>	<u>\$ 4,081,155</u>	<u>\$ 503,688</u>

Other Supplemental Information

Waverly Community Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2010

	Special Revenue Funds			Debt Service Funds		Total Nonmajor Governmental Funds
	Food Services	Athletics	Community Services	2000 Building and Site Bonds	2005 Refunding Bonds	
Assets						
Cash and investments	\$ 315,982	\$ 3,584	\$ 6,259	\$ 1,075	\$ 468,593	\$ 795,493
Receivables	9,566	-	-	-	-	9,566
Due from other funds	86,947	9,915	12,485	-	-	109,347
Inventories	21,095	-	-	-	-	21,095
Prepaid costs and other assets	-	3,050	-	-	-	3,050
Total assets	\$ 433,590	\$ 16,549	\$ 18,744	\$ 1,075	\$ 468,593	\$ 938,551
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 1,276	\$ 766	\$ 565	\$ -	\$ -	\$ 2,607
Accrued payroll-related liabilities	17,078	15,143	-	-	-	32,221
Deferred revenue	6,293	640	18,179	-	-	25,112
Total liabilities	24,647	16,549	18,744	-	-	59,940
Fund Balances						
Reserved	21,095	3,050	-	1,075	468,593	493,813
Unreserved, reported in - Unreserved fund balance (deficit)	387,848	(3,050)	-	-	-	384,798
Total fund balances	408,943	-	-	1,075	468,593	878,611
Total liabilities and fund balances	\$ 433,590	\$ 16,549	\$ 18,744	\$ 1,075	\$ 468,593	\$ 938,551

Waverly Community Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2010

	Special Revenue Funds			Debt Service Funds		Total Nonmajor Governmental Funds
	Food Services	Athletics	Community Services	2000 Building and Site Bonds	2005 Refunding Bonds	
Revenue						
Local sources	\$ 386,722	\$ 83,353	\$ 285,925	\$ 2,221,571	\$ 2,054,044	\$ 5,031,615
State sources	81,021	-	-	-	-	81,021
Federal sources	637,286	-	-	-	-	637,286
Total revenue	1,105,029	83,353	285,925	2,221,571	2,054,044	5,749,922
Expenditures						
Current:						
Instruction:						
Athletics	-	545,050	-	-	-	545,050
Food services	958,349	-	-	-	-	958,349
Community services	-	-	455,515	-	-	455,515
Debt service:						
Principal	-	-	-	2,275,000	95,000	2,370,000
Interest	-	-	-	110,906	1,754,600	1,865,506
Capital outlay	4,063	842	-	-	-	4,905
Total expenditures	962,412	545,892	455,515	2,385,906	1,849,600	6,199,325
Excess of Revenue Over (Under) Expenditures	142,617	(462,539)	(169,590)	(164,335)	204,444	(449,403)
Other Financing Sources -						
Transfers in	-	462,539	169,590	-	-	632,129
Net Change in Fund Balances	142,617	-	-	(164,335)	204,444	182,726
Fund Balances - Beginning of year	266,326	-	-	165,410	264,149	695,885
Fund Balances - End of year	\$ 408,943	\$ -	\$ -	\$ 1,075	\$ 468,593	\$ 878,611

Waverly Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2010

<u>June 30</u>	<u>2005 Refunding Bonds Principal</u>
2011	\$ 2,545,000
2012	2,725,000
2013	2,955,000
2014	3,100,000
2015	3,280,000
2016	3,335,000
2017	3,485,000
2018	3,575,000
2019	3,550,000
2020	3,530,000
2021	<u>3,505,000</u>
Total principal	<u>\$ 35,585,000</u>
Principal payments due	May 1
Interest payments due	May 1 and November 1
Interest rate	3.50% to 5.00%
Original issue	<u>\$ 36,535,000</u>