NEW ISSUE—Book-Entry-Only

RATING†*: Standard & Poor's Ratings Services: AA-
Michigan School Bond Qualification and Loan Program

In the opinion of Thrun Law Firm, P.C., Bond Counsel, under existing law, (i) the interest on the Bonds is not excluded from gross income for federal income tax purposes, as described in the opinion of Bond Counsel, and (ii) the Bonds and the interest thereon are exempt from all taxation in the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. See "TAX MATTERS" herein.

$15,000,000
HOMER COMMUNITY SCHOOL DISTRICT
COUNTIES OF CALHOUN, JACKSON, HILLSDALE AND BRANCH
STATE OF MICHIGAN
2011 SCHOOL BUILDING AND SITE BONDS, SERIES A
(GENERAL OBLIGATION – UNLIMITED TAX)
(Federally Taxable – Qualified School Construction Bonds – Direct Payment)

Dated: May 18, 2011 **Due:** May 1 as shown below

On February 22, 2011 the qualified electors of Homer Community School District, Counties of Calhoun, Jackson, Hillsdale and Branch, State of Michigan (the "School District") approved the issuance of bonds of the School District in an amount not to exceed $18,000,000 for building and site purposes to be issued in one or more series as described herein. Proceeds of the 2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable – Qualified School Construction Bonds – Direct Payment) (the "Bonds") in the amount of $15,000,000 representing the first series of bonds under the authorization will be used for such school building and site purposes. The Bonds were authorized by the Board of Education of the School District by resolutions adopted on March 7, 2011 and expected to be adopted on May 16, 2011 (the "Resolutions"). The Bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the School District without limitation as to rate or amount. The School District will issue its $3,000,000** 2011 School Building and Site Bonds, Series B (General Obligation – Unlimited Tax) on or about May 18, 2011** as the final series of bonds under the February 22, 2011 authorization.

The School District will designate the Bonds as "Qualified School Construction Bonds" as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the "Code") and will irrevocably elect under Section 6431(f)(1) of the Code to receive a direct payment from the United States Department of Treasury equal to the lesser of the amount of interest payable on the Bonds or the amount of interest which would have been payable on the Bonds if interest were calculated at the applicable credit rate determined under Section 54A(b)(3) of the Code. The School District will covenant to deposit all such credits into the debt retirement fund pledged for the payment of the Bonds.

The Bonds will be fully qualified as of the date of delivery for the Michigan School Bond Qualification and Loan Program, pursuant to Act 92, Public Acts of Michigan, 2005, as amended, enacted pursuant to Article IX, Section 16 of the Michigan Constitution of 1963. Under the terms of said constitutional and statutory provisions, if for any reason the School District will be or is unable to pay the principal of and interest on the Bonds when due, the School District shall borrow and the State of Michigan shall lend to it an amount sufficient to enable the School District to make the payment. See "QUALIFICATION BY THE STATE OF MICHIGAN" and APPENDIX A, "State Qualification," herein.

The Bonds are issuable only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry-only form in the denomination of $5,000 or any integral multiple thereof. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive certificates representing their beneficial interest in Bonds purchased. So long as Cede & Co. is the Bondholder, as nominee of DTC, references herein to the Bondholders or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. See "THE BONDS—Book-Entry-Only System" herein.

Principal of and interest on the Bonds will be paid by the corporate trust office of The Huntington National Bank, Grand Rapids, Michigan (the "Paying Agent"). So long as DTC or its nominee, Cede & Co., is the Bondholder, such payments will be made directly to such Bondholder. Disbursement of such payments to DTC's Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC's Direct Participants and Indirect Participants, as more fully described herein. Interest will be payable semiannually on November 1 and May 1, commencing November 1, 2011, to the Bondholders of record as of the applicable record dates herein described.

(Base CUSIP§: 437506)

Maturity	Amount	Interest Rate	Price	CUSIP§	Maturity	Amount	Interest Rate	Price	CUSIP§
2012	$750,000	1.65%	100.00%	BU1	2018	$750,000	5.20%	100.00%	CA4
2013	750,000	2.40	100.00	BV9	2019	755,000	5.45	100.00	CB2
2014	750,000	3.15	100.00	BW7	2020	1,280,000	5.55	100.00	CC0
2015	750,000	3.75	100.00	BX5	2021	1,280,000	5.75	100.00	CD8
2016	750,000	4.30	100.00	BY3	2022	1,280,000	5.95	100.00	CE6
2017	750,000	4.80	100.00	BZ0					

$2,565,000 6.15% Term Bonds Due May 1, 2024 Price 100.00% - CUSIP§ CG1
$2,590,000 6.25% Term Bonds Due May 1, 2026 Price 100.00% - CUSIP§ CJ5

The Bonds maturing May 1, 2024 and May 1, 2026 (the "Term Bonds") are subject to mandatory redemption on the redemption dates and in the principal amounts set forth herein at a redemption price equal to the principal amount thereof without premium. See "THE BONDS – Mandatory Redemption of Term Bonds" herein.

THE BONDS MATURING ON OR AFTER MAY 1, 2022 ARE SUBJECT TO OPTIONAL REDEMPTION BEGINNING MAY 1, 2021, IN THE MANNER AND AT THE TIMES DESCRIBED HEREIN. See "THE BONDS — Optional Redemption" herein. THE BONDS ARE SUBJECT TO EXTRAORDINARY OPTIONAL REDEMPTION AND EXTRAORDINARY MANDATORY REDEMPTION FROM UNEXPENDED PROCEEDS OF THE BONDS, AS PROVIDED HEREIN. See "THE BONDS – Extraordinary Optional Redemption" and "THE BONDS – Extraordinary Mandatory Redemption from Unexpended Proceeds of the Bonds" herein.

The Bonds will be offered when, as and if issued by the School District and accepted by the Underwriters subject to the approving legal opinion of Thrun Law Firm, P.C., East Lansing, Michigan, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Clark Hill PLC, Birmingham, Michigan. It is expected that the Bonds will be available for delivery through DTC on or about May 18, 2011.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

STIFEL NICOLAUS

Edward Jones

The date of this Official Statement is April 5, 2011

† For an explanation of the rating, see "RATINGS" herein.
* As of date of delivery.
** Preliminary, subject to change.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement in connection with the offer made hereby and, if given or made, such other information or representation must not be relied upon as having been authorized by the School District or the Underwriters. This Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may an offer to buy these securities be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Information contained herein has been obtained from the School District, The Depository Trust Company and other sources believed to be reliable. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information (except for information under the section captioned "UNDERWRITING," which was obtained from the Underwriters).

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency will have passed upon the adequacy of this Official Statement, or, except for the School District and the Department of Treasury of the State of Michigan, approved the Bonds for sale.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION AND ANALYSIS OF THE INFORMATION PRESENTED IN THIS OFFICIAL STATEMENT CONCERNING THE SCHOOL DISTRICT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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Dick Folk, Vice President
Kevyn VanWert, Treasurer
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OFFICIAL STATEMENT
relating to

$15,000,000
HOMER COMMUNTIY SCHOOL DISTRICT
COUNTIES OF CALHOUN, JACKSON, HILLSDALE AND BRANCH
STATE OF MICHIGAN
2011 SCHOOL BUILDING AND SITE BONDS, SERIES A
(General Obligation – Unlimited Tax)
(Federally Taxable – Qualified School Construction Bonds – Direct Payment)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and Appendices, is to furnish information in connection with the issuance and sale by Homer Community School District, Counties of Calhoun, Jackson, Hillsdale and Branch, State of Michigan (the "School District") of its 2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable – Qualified School Construction Bonds – Direct Payment) (the "Bonds") in the principal amount of $15,000,000.

PURPOSE AND SECURITY

On February 22, 2011, the qualified electors of the School District approved a proposal authorizing the issuance of bonds in an aggregate amount of not to exceed $18,000,000 to be issued in one or more series. Proceeds of the Bonds in the amount of $15,000,000 representing the first series of bonds under the authorization, are to be used for the purpose of erecting, furnishing and equipping an addition to and partially remodeling, furnishings and refurnishing, and equipping and re-equipping the school building, in part for security purposes; acquiring, installing and equipping educational technology for the school building, including the new addition; constructing, equipping, developing and improving play fields and playgrounds; developing and improving parking areas and the site; and paying the costs of issuing the Bonds. The School District will also issue its $3,000,000[1] 2011 School Building and Site Bonds, Series B (General Obligation – Unlimited Tax) on or about May 18, 2011[1] as the second and final series of bonds under the February 22, 2011 authorization.

The Bonds, as authorized for issuance by resolutions of the Board of Education of the School District adopted on March 7, 2011 and expected to be adopted on May 16, 2011 (the "Resolutions"), are a full faith and credit unlimited tax general obligation of the School District. The principal of and interest on the Bonds are payable from the proceeds of ad valorem taxes levied on all taxable property in the School District which may be levied without limitation as to rate or amount. As of the date of delivery, the Bonds will be fully qualified for participation in the State of Michigan School Bond Qualification and Loan Program. See "QUALIFICATION BY THE STATE OF MICHIGAN" and "APPENDIX A: State Qualification," in this Official Statement.

QUALIFIED SCHOOL CONSTRUCTION BONDS

The School District will designate the Bonds as "Qualified School Construction Bonds" ("QSCBs") as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the "Code") and will irrevocably elect under Section 6431(f)(1) of the Code to receive a direct payment from the United States Department of Treasury equal to the lesser of the amount of interest payable on the Bonds or the amount of interest which would have been payable on the Bonds if interest were calculated at the

[1] Preliminary, subject to change.

applicable credit rate determined under Section 54A(b)(3) of the Code. The School District will covenant to deposit all such credits into the debt retirement fund pledged for the payment of the Bonds. On April 26, 2010, the Internal Revenue Service issued Notice 2010-35 (the "Notice") regarding the manner in which the direct subsidy payments will be made to the School District for each interest payment, information reporting, payment procedures and certain interim guidance. The School District will covenant to comply with such Notice to assure eligibility of the School District for receipt of the direct interest payment credit.

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") amended the Code, authorizing QSCBs to provide financing for the construction, rehabilitation or repair of public school facilities, or the acquisition of land on which such facilities are to be constructed with part of the proceeds of such bonds, or for expenditures for costs of acquisition of equipment to be used in such portion or portions of the public school facility that is being constructed, rehabilitated or repaired with proceeds of such bonds ("QSCB Purposes"). Section 54F of the Code provides a national bond limitation authorization for QSCBs of $11 billion for each of the years 2009 and 2010, and a portion of such authorization was allocated to the State of Michigan which, acting through the Michigan Department of Treasury, granted the School District an allocation of $15,000,000 for QSCBs. The School District has determined that it is in the best interests of the School District to use the School District's allocation to issue and sell the Bonds to pay the costs of the Project qualifying for QSCB Purposes, including the costs of issuance of the Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

SOURCES	
Par Amount of the Bonds	$15,000,000.00
Total Sources	$15,000,000.00
USES	
Series A Capital Projects Fund	$14,800,670.12
Deposit to Debt Retirement Fund	25,817.38
Underwriters' Discount	90,000.00
Estimated Costs of Issuance	83,512.50
Total Uses	$15,000,000.00

THE BONDS

Description and Form of the Bonds

The Bonds will be issued in book-entry-only form as one fully registered Bond per maturity, without coupons, in the aggregate principal amount for each maturity set forth on the cover page hereof and may be purchased in denominations of $5,000 or any integral multiple thereof. The Bonds will be dated as of, and bear interest from, the date of issuance. Interest on the Bonds shall be payable semiannually each November 1 and May 1 to maturity or early redemption, commencing November 1, 2011. Interest on the Bonds shall be computed using a 360-day year with twelve 30-day months, and the Bonds will mature on the dates and in the principal amounts and will bear interest at the rates as set forth on the cover of this Official Statement.

The corporate trust office of The Huntington National Bank, Grand Rapids, Michigan, or its successor will serve as the Paying Agent (the "Paying Agent") and also as bond registrar and transfer agent if the Bonds cease to be held in book-entry-only form. For a description of payment of principal and interest, transfers and exchanges and notice of redemption on the Bonds, which are held in the book-entry-only system, see "Book-Entry-Only System" below. In the event the Bonds cease to be held in the book-entry-only system, then interest on the Bonds shall be payable when due by check or draft to the person or entity who or which is, as of the fifteenth (15th) day of the month preceding each interest payment date, the registered owner of record, at the owner's registered address. See "Transfer Outside Book-Entry-Only System" below.

Book-Entry-Only System

The information in this section has been furnished by The Depository Trust Company, New York, New York ("DTC"). No representation is made by the School District, the Paying Agent or the Underwriters as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the School District, the Paying Agent or the Underwriters to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the School District nor the Paying Agent will have any responsibility or obligation to Direct Participants, Indirect Participants (both as defined below) or the persons for which they act as nominees with respect to the Bonds, or for any principal, premium, if any, or interest payment thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the School District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and interest and redemption amounts, if any, on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the School District or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or the School District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, interest and redemption amounts, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the School District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the School District or Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The School District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Transfer Outside Book-Entry-Only System

In the event that the book-entry-only system is discontinued, the following provisions would apply to the Bonds. The Paying Agent shall keep the registration books for the Bonds (the "Bond Register") at its corporate trust office. Subject to the further conditions contained in the Resolutions, the Bonds may be transferred or exchanged for one or more Bonds in different authorized denominations upon surrender thereof at the corporate trust office of the Paying Agent by the registered owners or their duly authorized attorneys; upon surrender of any Bonds to be transferred or exchanged, the Paying Agent shall record the transfer or exchange in the Bond Register and shall authenticate replacement bonds in authorized denominations; during the fifteen (15) days immediately preceding the date of mailing of any notice of redemption or any time following the mailing of any notice of redemption, the Paying Agent shall not be required to effect or register any transfer or exchange of any bond which has been selected for such redemption, except the Bonds properly surrendered for partial redemption may be exchanged for new Bonds in authorized denominations equal in the aggregate to the unredeemed portion; the School District and the Paying Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in the Bond Register as of the appropriate dates, as the owners of such Bonds for all purposes under the Resolutions. No transfer or exchange made other than as described above and in the Resolutions shall be valid or effective for any purposes under the Resolutions.

Optional Redemption

The Bonds or portions of the Bonds maturing on or after May 1, 2022 in multiples of $5,000 are subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2021, at par plus accrued interest to the date fixed for redemption.

Mandatory Redemption of Term Bonds

The Bonds maturing on May 1, 2024 and May 1, 2026 (the "Term Bonds"), are subject to mandatory redemption, in part, by lot, on the redemption dates and in the principal amounts set forth below and at a redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date. When Term Bonds are purchased by the School District and delivered to the Paying Agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of the Term Bonds affected shall be reduced by the principal amount of the Bonds so redeemed or purchased in the order determined by the School District.

Term Bonds due May 1, 2024

Redemption Dates	Principal Amounts
May 1, 2023	$1,280,000
May 1, 2024 (maturity)	1,285,000

Term Bonds due May 1, 2026

Redemption Dates	Principal Amounts
May 1, 2025	$1,290,000
May 1, 2026 (maturity)	1,300,000

Extraordinary Optional Redemption

If for any reason other than one attributable to the action or inaction of the School District, the United States Department of Treasury determines that the School District is ineligible to receive all or part of the interest rate subsidy payable with respect to the Bonds or if the United States Department of

Treasury or any agency of the United States of America at any time ceases to remit to the School District all or any part of the interest rate subsidy payable with respect to the Bonds in accordance with the Code, for any reason other than one attributable to the action or inaction of the School District, the School District has the right to redeem and retire all or any part of the principal amount of the Bonds then outstanding in multiples of $5,000 within a single maturity in such order of maturity as the School District shall determine and within a single maturity by lot on any date at a redemption price of 103% of par plus accrued interest to the redemption date.

Extraordinary Mandatory Redemption from Unexpended Proceeds of the Bonds

The Bonds or portions of the Bonds in multiples of $5,000 within a single maturity in such order of maturity as the School District shall determine and within a single maturity by lot, are subject to extraordinary mandatory redemption within 90 days after the later of (a) the third anniversary date of the date of original issue of the Bonds or (b) the Extension Period Expiration Date as defined herein, at par, plus accrued interest to the date of redemption, in a total amount equal to the unexpended available proceeds of the sale of the Bonds plus such amount as shall be necessary to permit the Bonds to be redeemed in multiples of $5,000 within a single maturity, but only to the extent available proceeds of the Bonds including available proceeds held by the School District are not expended by the later of: (i) the third anniversary of the date of original issue of the Bonds; or (ii) the Extension Period Expiration Date.

The term "Extension Period Expiration Date" means the last day of any extension of time negotiated with the Internal Revenue Service (the "IRS"), as evidenced in writing from the IRS, that extends the date by which the proceeds of the Bonds must be expended.

Notice of Redemption and Manner of Selection

Notice of redemption of any Bond shall be given not less than thirty (30) days and not more than sixty (60) days prior to the date fixed for redemption by mail to the registered owner at the registered address shown on the registration books kept by the Paying Agent. The Bonds shall be called for redemption in multiples of $5,000 and Bonds of denominations of more than $5,000 shall be treated as representing the number of Bonds obtained by dividing the face amount of the Bond by $5,000 and such Bonds may be redeemed in part. The notice of redemption for Bonds redeemed in part shall state that upon surrender of the Bond to be redeemed a new Bond or Bonds in an aggregate face amount equal to the unredeemed portion of the Bond surrendered shall be issued to the registered owner thereof.

If less than all of the Bonds of any maturity shall be called for redemption prior to maturity, unless otherwise provided, the particular Bonds or portions of Bonds to be redeemed shall be selected by lot by the Paying Agent, in the principal amounts designated by the School District. Any Bonds selected for redemption will cease to bear interest on the date fixed for redemption, whether presented for redemption, provided funds are on hand with the Paying Agent to redeem said Bonds. Upon presentation and surrender of such Bonds at the corporate trust office of the Paying Agent, such Bonds shall be paid and redeemed.

So long as the book-entry-only system remains in effect, in the event of a partial redemption the Paying Agent will give notice to Cede & Co., as nominee of DTC, only, and only Cede & Co. will be deemed to be a holder of the Bonds. DTC is expected to reduce the credit balances of the applicable DTC Participants in respect of the Bonds and in turn the DTC Participants are expected to select those Beneficial Owners whose ownership interests are to be extinguished or reduced by such partial redemption, each by such method as DTC or such DTC Participants, as the case may be, deems fair and appropriate in its sole discretion.

QUALIFICATION BY THE STATE OF MICHIGAN

The Bonds will be fully qualified as of the date of delivery pursuant to Act 92 of the Public Acts of Michigan, 2005, as amended ("Act 92"), enacted pursuant to Article IX, Section 16, of the Michigan Constitution of 1963. Under the terms of said constitutional and statutory provisions, if for any reason the School District will be or is unable to pay the principal and interest on the Bonds when due, the School District shall borrow and the State of Michigan (the "State") shall lend to it from the School Loan Revolving Fund (the "School Loan Revolving Fund") established by the State, an amount sufficient to enable the School District to make the payment. Article IX, Section 16 of the State Constitution as implemented by Act 112 of the Public Acts of Michigan, 1961, as amended, authorizes the State, without approval of its electors, to borrow from time to time such amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefor, for the purpose of making loans to school districts as provided under such section. Loans to school districts for such purposes are made from the proceeds of such State borrowing. See "APPENDIX A: State Qualification," in this Official Statement.

Complete financial statements of all of the State's funds as included in the State's Comprehensive Annual Financial Report ("CAFR") prepared by the State's Office of the State Budget are available from the Office of the State Budget web site www.michigan.gov/budget. The State has agreed to file its CAFR with the Nationally Recognized Municipal Securities Rulemaking Board (as described in Rule 15c2-12(b)(5) of the Securities and Exchange Commission) annually, so long as any bonds qualified for participation in the Michigan School Bond Qualification and Loan Program remain outstanding.

TAX PROCEDURES

Article IX, Section 3, of the Michigan Constitution provides that the proportion of true cash value at which property shall be assessed shall not exceed 50% of true cash value. The Michigan Legislature by statute has provided that property shall be assessed at 50% of its true cash value, except as described below. The Michigan Legislature or the electorate may at some future time reduce the percentage below 50% of true cash value.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize ad valorem taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as "Taxable Value." Beginning in 1995, taxable property has two valuations -- State Equalized Valuation ("SEV") and Taxable Value. Property taxes are levied on Taxable Value. Generally, Taxable Value of property is the lesser of (a) the Taxable Value of the property in the immediately preceding year, adjusted for losses, and increased or reduced by the lesser of the inflation rate or 5%, plus additions, or (b) the property's current SEV. Under certain circumstances, therefore, the Taxable Value of property may be different from the same property's SEV.

When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

Responsibility for assessing taxable property rests with the local assessing officer of each township and city. Any property owner may appeal the assessment to the local assessor, to the local board of review and ultimately to the Michigan Tax Tribunal and to the Michigan Court of Appeals.

The Michigan Constitution also mandates a system of equalization for assessments. Although the assessors for each local unit of government within a county are responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. Assessments are established initially by the municipal assessor. Municipal assessments are then equalized to the 50% levels as determined by the county's department of equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important, aside from its use in determining Taxable Value for the purpose of levying ad valorem property taxes, because of its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs, State revenue sharing and in the calculation of debt limits.

Property that is exempt from property taxes, e.g., churches, government property, public schools, is not included in the SEV and Taxable Value data in the Official Statement. Property granted tax abatements under Act 198, Public Acts of Michigan, 1974, as amended, is recorded on a separate tax roll while subject to tax abatement. The valuation of tax-abated property is based upon SEV but is not included in either the SEV or Taxable Value data in the Official Statement except as noted. Under limited circumstances, other state laws permit the partial abatement of certain taxes for other types of property for periods of up to 12 years.

LEVY AND COLLECTION OF TAXES FOR PAYMENT OF THE BONDS AND BONDHOLDERS' REMEDIES

The Resolutions authorizing the issuance of the Bonds and State law obligate the School District to levy a tax annually in an amount sufficient so that the estimated collections therefrom, together with amounts, if any, to be borrowed from the School Loan Revolving Fund for the Bonds, will be sufficient to pay promptly when due the principal of and interest on the Bonds becoming due prior to the time of the next tax levy. The tax levy shall not be subject to limitation as to rate or amount. Taxes for the payment of the principal of or interest on the Bonds are certified for collection each year with the school tax levies. In the event of the failure of the proper officials to certify taxes for the payment of the principal and interest requirements, a timely action in the nature of mandamus could compel certification and collection of adequate taxes or could compel the School District to make application to borrow the necessary funds from the School Loan Revolving Fund and thus prevent a default. However, if a paying agent for any bonds of the School District qualified for State loans as provided in Article IX, Section 16, of the State Constitution notifies the State Treasurer that the School District has failed to deposit sufficient funds to pay principal and interest on the qualified bonds when due or if a bond holder notifies the State Treasurer that the School District has failed to pay principal or interest on such qualified bonds when due, whether or not the School District has filed a draw request with the State Treasurer, the State Treasurer shall promptly pay the principal or interest on the qualified bonds when due.

If sufficient funds for full payment of debt service on the Bonds do not reach the Paying Agent five business days prior to the debt service payment due date, the Paying Agent will notify the School District of the amount of insufficient funds four business days prior to the due date. In the event that the School District does not immediately resolve the insufficient funds situation, the Paying Agent will notify the Michigan Department of Treasury of the deficiency three business days before the payment due date and the State Treasurer shall make the payment.

Any amount paid by the State Treasurer as described in the preceding paragraphs shall be deemed a loan made to the School District pursuant to the requirements of said Article IX, Section 16, of the State Constitution. Registered owners of the Bonds may attempt to obtain a money judgment against the School District for the principal amount of the Bonds or interest not paid when due and may periodically attempt to enforce the collection of the money judgment by requiring the tax assessing officers for the School District to place the amount of such judgment on the next tax rolls of the School District. The rights of the holders of the Bonds and the enforceability thereof are subject to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement also may be subject to the exercise of judicial discretion in appropriate cases. See "APPENDIX A: State Qualification," in this Official Statement.

SOURCES OF SCHOOL OPERATING REVENUE

On March 15, 1994, the electors of the State of Michigan approved a ballot proposition to amend the State Constitution of 1963, in part, to increase the State sales tax from 4% to 6% as part of a complex plan to restructure the source of funding of public education (K-12) in order to reduce reliance on local property taxes for school operating purposes and to reduce the per pupil finance resource disparities among school districts. The State aid package passed by the Legislature as part of the school finance reform legislation instituted a per pupil foundation allowance beginning in fiscal year 1994/95. The Legislature has appropriated funds to establish a base foundation allowance in 2010/11 ranging from $7,316 to $8,489 per pupil, depending upon the district's 1993/94 revenue. In the future, the foundation allowance may be adjusted annually by an index based upon the change in revenues to the State school aid fund and change in the total number of pupils statewide and the spread between the high and low per pupil allowance is reduced. The foundation allowance is funded by locally raised property taxes plus State aid. The revenues for the State's contribution to the foundation allowance are derived from a mix of taxing sources, including, but not limited to, a statewide property tax of 6 mills on all taxable property[1], a State sales and use tax, a real estate transfer tax and a cigarette tax.

School districts are required to levy a local property tax of not more than 18 mills or the number of mills levied in 1993 for school operating purposes, whichever is less, on non-homestead properties[2] in order for the school district to receive its per pupil foundation allowance. An intermediate school district may seek voter approval for three enhancement mills for distribution to local constituent school districts on a per pupil basis. Proceeds of the enhancement mills are not counted toward the foundation allowance. Furthermore, school districts whose per pupil foundation allowance in 2010/11 calculate to an amount in excess of $8,489 are authorized to levy additional millage to obtain the foundation allowance, first by levying such amount of the 18 mills against homestead property[3] as is necessary to hold themselves harmless and, if the 18 mills is insufficient, to then levy such additional mills against all property uniformly as is necessary to obtain the foundation allowance. The School District's per pupil foundation allowance does not exceed $8,489, and the School District does not levy such additional millage.

State aid appropriations and the payment schedule for state aid may be changed by the Legislature at any time. See "STATE AID PAYMENTS" in APPENDIX B. Due to State budget constraints, the State School Aid Act, as amended, reduced categorical state school aid by $372 per pupil for 2008/09. The $372 per pupil reduction in 2008/09 was offset by Federal stimulus money received by the State of Michigan pursuant to the American Recovery and Reinvestment Act. In 2009/10, the State of Michigan again experienced reduced revenue in the State School Aid Fund resulting in an additional reduction of $71 per pupil (for a total of $443). Out of the total reduction of State school aid, approximately $278 per pupil was offset by Federal stimulus money in 2009/10, leaving a net reduction in 2009/10 of $165 per pupil from what was received in 2008/09 (taking into consideration the Federal stimulus money in both fiscal years). In July, 2010, the Legislature restored $11 in state aid per pupil for 2009/10 and on December 3, 2010, restored another $6 per pupil, together with federal Education Jobs Fund dollars of $148 per pupil for 2009/10. For 2010/11, the state aid component of the foundation allowance has been reduced by $170 per pupil. On December 3, 2010, the Governor signed HB 5887 (designated Public Act 217 of 2010) which appropriates one-time federal dollars to each school district in a range of $111 to $222 per pupil. The School District is to receive a restoration of $222 per pupil. In addition, the State appropriated $16 per pupil in 2010/11 to pay school district expenses associated with a

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[1] "Taxable property" in this context does not include industrial personal property.

[2] "Non-homestead property" includes all taxable property other than principal residence, qualified agricultural property, qualified forestry property and industrial personal property. Commercial personal property is exempt from the first 12 mills of not more than 18 mills levied by school districts.

[3] "Homestead property", in this context, means principal residence, qualified agricultural property, qualified forestry property, industrial personal property and commercial personal property.

previously unfunded mandate after the Michigan Supreme Court ruled in favor of school district plaintiffs in *Adair v. State of Michigan*.

In February 2011, the Governor's budget proposal included a reduction in the foundation allowance for the 2011/12 fiscal year to $6,846 per pupil, which is a $470 per pupil reduction from the 2010/11 foundation allowance. The proposed budget also includes a retirement plan contribution rate of 24.46% for the period of October 1, 2011 to September 30, 2012, which will require the School District to contribute an additional approximately $187 per pupil to meet its contribution obligation. See "RETIREMENT PLAN" in APPENDIX B for information regarding historical retirement plan contribution rates.

THE SOURCES OF THE SCHOOL DISTRICT'S OPERATING REVENUE DO NOT IMPACT THE TAXING AUTHORITY OF THE SCHOOL DISTRICT FOR PAYMENT OF GENERAL OBLIGATION UNLIMITED TAX SCHOOL BONDS AND DO NOT AFFECT THE OBLIGATION OF THE SCHOOL DISTRICT TO LEVY TAXES FOR PAYMENT OF DEBT SERVICE ON GENERAL OBLIGATION UNLIMITED TAX BONDS OF THE SCHOOL DISTRICT, INCLUDING THE BONDS OFFERED HEREIN.

LITIGATION

The School District has not been served with any litigation, administrative action or proceeding, and to the knowledge of the appropriate officials of the School District no litigation or administrative action or proceeding has been threatened, restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Bonds, or questioning or contesting the validity of the Bonds or the proceedings or authorities under which they are authorized to be issued, sold, executed and delivered. A certificate to such effect will be delivered to the Underwriters at the time of the original delivery of the Bonds.

TAX MATTERS

State

In the opinion of Thrun Law Firm, P.C., East Lansing, Michigan ("Bond Counsel"), based on its examination of the documents described in its opinion, under existing State statutes, regulations and court decisions, the Bonds and the interest thereon are exempt from all taxation in the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

Federal

In the opinion of Bond Counsel based upon its examination of the documents described in its opinion, under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is not excluded from gross income for federal income tax purposes. For purposes of the Bonds, the School District has elected to receive a refundable credit (the "Refundable Credit") from the United States Department of Treasury under Section 6431(f)(1)(C) of the Internal Revenue Code of 1986, as amended (the "Code"). The Refundable Credit will be deposited into the debt retirement fund for the Bonds and will be used solely for payment of interest on the Bonds. The availability of the Refundable Credit as set forth in this paragraph is subject to the condition that the School District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to conform to the requirements of qualified school construction bonds as provided under Section 54F of the Code. The School District has covenanted or is expected to covenant to comply with such requirements prior to issuance of the Bonds. Failure to comply with certain of such requirements may cause the loss of the Refundable Credit to be retroactive to the date of issuance of the Bonds. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds.

Future Developments

No assurance can be given that any future legislation or clarifications or amendments to the Code, if enacted into law, will not contain proposals which could reduce or eliminate the Refundable Credit with respect to the Bonds or adversely affect the market price or marketability of the Bonds.

Furthermore, no assurance can be given that the impact of any future court decisions will result in the reduction or elimination of the Refundable Credit with respect to the Bonds or adversely affect the market price or marketability of the Bonds.

Additionally, no assurance can be given that any future legislation in the State of Michigan, if enacted into law, will not contain proposals which could cause interest on the Bonds to be subject directly or indirectly to Michigan state income taxation. Similarly, no assurance can be given that the impact of any future court decision will not cause the interest on the Bonds to be subject directly or indirectly to Michigan state income taxation.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS.

Circular 230 Notice

The opinions of Bond Counsel contain the following provision (see APPENDIX E):

> The advice contained herein cannot be used by any taxpayer, including holders or owners of the Bonds, for the purpose of avoiding penalties related to Federal income tax matters that may be imposed on such taxpayer. Taxpayers, including holders or owners of the Bonds, should seek advice based upon such taxpayers' particular circumstances from an independent tax advisor.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization, issuance and sale by the School District of the Bonds and with regard to the State of Michigan tax-exempt status thereof are subject to the approving opinion of Thrun Law Firm, P.C., East Lansing, Michigan, Bond Counsel. Except to the extent necessary to issue its approving opinion as to the validity of the Bonds, Bond Counsel has made no inquiry as to any financial information, statements or materials contained in any financial documents, statements or materials that have been or may be furnished in connection with the authorization, issuance or marketing of the Bonds, and accordingly will not express any opinion with respect to the accuracy or completeness of any such financial information, statements or materials.

Certain legal matters will be passed upon for the Underwriters by their counsel, Clark Hill PLC, Birmingham, Michigan.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), will assign, as of the date of delivery of the Bonds, its municipal bond rating of "AA-" to the Bonds based upon the fact that each Bond will be fully qualified for participation in the Michigan School Bond Qualification and Loan Program as of its date of delivery. See "QUALIFICATION BY THE STATE OF

MICHIGAN," "LEVY AND COLLECTION OF TAXES FOR PAYMENT OF THE BONDS AND BONDHOLDERS' REMEDIES" and "APPENDIX A: State Qualification," herein.

S&P will also assign, as of the date of delivery of the Bonds, its underlying municipal bond rating of "A" to the Bonds without regard to qualification of the Bonds for participation in the Michigan School Bond Qualification and Loan Program.

No application has been made to any other ratings service for a rating on the Bonds. The School District furnished to S&P certain materials and information in addition to that provided herein. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions. There is no assurance that such ratings will prevail for any given period of time or that they will not be revised downward or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse affect on the market price of the Bonds. Any ratings assigned represent only the views of S&P. Further information is available upon request from Standard & Poor's Ratings Services, 55 Water Street, New York, NY 10014, (212) 438-1000.

UNDERWRITING

Stifel, Nicolaus & Company, Incorporated, and Edward D. Jones & Co., L.P., (the "Underwriters") have agreed, subject to the terms of the Bond Purchase Agreement, to purchase the Bonds from the School District. The Bond Purchase Agreement provides, in part, that the Underwriters, subject to certain conditions, will purchase from the School District the aggregate principal amount of Bonds for a purchase price as set forth therein. The Underwriters have further agreed to offer the Bonds to the public at the approximate initial offering prices as set forth on the cover hereto. The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the cover hereto. The offering prices may be changed from time to time by the Underwriters. The aggregate underwriting fee equals 0.600 percent of the original principal amount of the Bonds.

The Bond Purchase Agreement provides that the obligations of the Underwriters are subject to certain conditions, including, among other things, that (i) no event has occurred which impairs or threatens to impair the status of the Bonds or interest thereon as exempt from taxation in the State (except as described under the heading "TAX MATTERS" above) or (ii) proceedings relating to the Bonds are not pending or threatened by the Securities and Exchange Commission. The Bond Purchase Agreement further provides that the School District will provide to the Underwriters, within seven business days of the date of the Bond Purchase Agreement, sufficient copies of the Official Statement to enable the Underwriters to comply with the requirements of Rule 15c2-12(b)(4) under the Securities Exchange Act of 1934, as amended.

FINANCIAL ADVISOR'S OBLIGATION

Stauder, Barch & Associates, Inc., Ann Arbor, Michigan (the "Financial Advisor"), has been retained by the School District to provide certain financial advisory services. The information contained in the Official Statement was prepared in part by the Financial Advisor and is based on information supplied by various officials from records, statements and reports required by various local, county or state agencies of the State of Michigan in accordance with constitutional or statutory requirements.

To the best of the Financial Advisor's knowledge, all of the information contained in the Official Statement, which it assisted in preparing, while it may be summarized is (i) complete and accurate; (ii) does not contain any untrue statement of a material fact; and (iii) does not omit any material fact, or make any untrue statement which would be misleading in light of the circumstances under which these statements are being made. However, the Financial Advisor has not or will not independently verify the completeness and accuracy of the information contained in the Official Statement.

The Financial Advisor's duties, responsibilities and fees arise solely as financial advisor to the School District and it has no underwriting, secondary market obligations or other responsibility to the School District. The Financial Advisor's fees are expected to be paid from Bond proceeds.

Further information concerning the Bonds may be secured from Stauder, Barch & Associates, Inc., 3989 Research Park Drive, Ann Arbor, Michigan 48108, (734) 668-6688, Financial Advisor to the School District, or from Homer Community School District, 403 South Hillsdale Street, Homer, Michigan 49245-1265, (517) 568-4461.

CONTINUING DISCLOSURE

Prior to delivery of the Bonds, the School District will execute a Continuing Disclosure Agreement (the "Agreement") for the benefit of the holders of the Bonds and the Beneficial Owners (as hereinafter defined under this caption only) to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. "Beneficial Owner" means, under this caption only, any person, which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including any person holding Bonds through nominees, depositories or any other intermediaries). The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and the other terms of the Agreement, are set forth in "APPENDIX F: Form of Continuing Disclosure Agreement." Additionally, the School District shall provide certain annual financial information and operating data generally consistent with the information contained within the tables under the headings "PROPERTY VALUATIONS - Historical Valuations," "MAJOR TAXPAYERS," "TAX RATES (Per $1,000 of Valuation) – Homer Community School District," "STATE AID PAYMENTS," "TAX LEVIES AND COLLECTIONS," "PENSION FUND," "DEBT STATEMENT - DIRECT DEBT," "SCHOOL BOND QUALIFICATION AND LOAN PROGRAM" and "SCHOOL ENROLLMENT - Historical Enrollment," in APPENDIX B and General Fund Budget Summary in APPENDIX C.

A failure by the School District to comply with the Agreement will not constitute an event of default under the Resolutions and holders of the Bonds or Beneficial Owners are limited to the remedies described in the Agreement. A failure by the School District to comply with the Agreement must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price. Further, the School District has not, in the previous five years, failed to comply, in all material respects, with any previous continuing disclosure agreements executed by the School District pursuant to the Rule.

OTHER MATTERS

All information contained in this Official Statement, in all respects, is subject to the complete body of information contained in the original sources thereof. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

HOMER COMMUNITY SCHOOL DISTRICT
COUNTIES OF CALHOUN, JACKSON, HILLSDALE AND BRANCH
STATE OF MICHIGAN

By: /s/ Robert A. Ridgeway
Its: Superintendent of Schools

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APPENDIX A
STATE QUALIFICATION

ARTICLE IX, SECTION 16 OF THE
1963 STATE OF MICHIGAN CONSTITUTION

State loans to school districts.

Sec. 16. The state, in addition to any other borrowing power, may borrow from time to time such amounts as shall be required, pledge its faith and credit and issue its notes or bonds therefor, for the purpose of making loans to school districts as provided in this section.

Amount of loans.

If the minimum amount which would otherwise be necessary for a school district to levy in any year to pay principal and interest on its qualified bonds, including any necessary allowances for estimated tax delinquencies, exceeds 13 mills on each dollar of its assessed valuation as finally equalized, or such lower millage as the legislature may prescribe, then the school district may elect to borrow all or any part of the excess from the state. In that event the state shall lend the excess amount to the school district for the payment of principal and interest. If for any reason any school district will be or is unable to pay the principal and interest on its qualified bonds when due, then the school district shall borrow and the state shall lend to it an amount sufficient to enable the school district to make the payment.

Qualified bonds.

The term "qualified bonds" means general obligation bonds of school districts issued for capital expenditures, including refunding bonds, issued prior to May 4, 1955, or issued thereafter and qualified as provided by law pursuant to Section 27 or Section 28 of Article X of the Constitution of 1908 or pursuant to this section.

Repayment of loans, tax levy by school district.

After a school district has received loans from the state, each year thereafter it shall levy for debt service, exclusive of levies for nonqualified bonds, not less than 13 mill or such lower millage as the legislature may prescribe, until the amount loaned has been repaid, and any tax collections therefrom in any year over and above the minimum requirements for principal and interest on qualified bonds shall be used toward the repayment of state loans. In any year when such levy would produce an amount in excess of the requirements and the amount due to the state, the levy may be reduced by the amount of the excess.

Bonds, state loans, repayment.

Subject to the foregoing provisions, the legislature shall have the power to prescribe and to limit the procedure, terms and conditions for the qualification of bonds, for obtaining and making state loans, and for the repayment of loans.

Power to tax unlimited.

The power to tax for the payment of principal and interest on bonds hereafter issued which are the general obligations of any school district, including refunding bonds, and for repayment of any state loans made to school districts, shall be without limitations as to rate or amount.

Rights and obligations to remain unimpaired.

All rights acquired under Sections 27 and 28 of Article X of the Constitution of 1908, by holders of bonds heretofore issued, and all obligations assumed by the state or any school district under these sections, shall remain unimpaired.

ACT 92, PUBLIC ACTS OF MICHIGAN 2005, AS AMENDED
School Bond Qualification, Approval and Loan Act*

AN ACT to prescribe the procedures, terms, and conditions for the qualification or approval of school bonds and other bonds; to authorize this state to make loans to certain school districts for the payment of certain bonds and to authorize schools to borrow from this state for that purpose; to prescribe the terms and conditions of certain loans to school districts; to prescribe the powers and duties of certain state agencies and certain state and local officials; to provide for certain fees; to prescribe certain penalties; and to repeal acts and parts of acts.

The People of the State of Michigan enact:

Sec. 1. This act shall be known and may be cited as the “school bond qualification, approval, and loan act”.

*Act 92 was signed into law with immediate effect on July 20, 2005. It repealed Act 108, Public Acts of Michigan, 1961, as amended.

Sec. 2. The purpose of this act is to implement section 16 of article IX of the state constitution of 1963 and to provide for loans to school districts.

Sec. 3. As used in this act:

(a) "Computed millage" means the number of mills in any year, not less than 7 mills and not more than 13 mills, determined on the date of issuance of the order qualifying the bonds or on a later date if requested by the school district and approved by the state treasurer, that, if levied by the school district, will generate sufficient annual proceeds to pay principal and interest on all the school district's qualified bonds plus principal and interest on all loans related to those qualified bonds no later than the date specified in the note and repayment agreement entered into by the school district under this act.

(b) "Qualified bond" means a bond that is qualified under this act for state loans as provided in section 16 of article IX of the state constitution of 1963. A qualified bond includes the interest amount required for payment of a school district's net interest obligation under an interest rate exchange or swap, hedge, or other agreement entered into pursuant to the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821, but does not include a termination payment or similar payment related to the termination or cancellation of an interest rate exchange or swap, hedge, or other similar agreement. A qualified bond may include a bond issued to refund loans owed to the state under this act.

(c) "Qualified loan" means a loan made under this act or 1961 PA 108, MCL 388.951 to 388.963, from this state to a school district to pay debt service on a qualified bond.

(d) "Revolving loan fund" means the school loan revolving fund created under section 16c of the shared credit rating act, 1985 PA 227, MCL 141.1066c.

(e) "School district" means a general powers school district organized under the revised school code, 1976 PA 451, MCL 380.1 to 380.1852, or a school district of the first class as described in the revised school code, 1976 PA 451, MCL 380.1 to 380.1852, having the power to levy ad valorem property taxes.

(f) "State treasurer" means the state treasurer or his or her duly authorized designee.

(g) "Superintendent of public instruction" means the superintendent of public instruction appointed under section 3 of article VIII of the state constitution of 1963.

(h) "Taxable value" means the value determined under section 27a of the general property tax act, 1893 PA 206, MCL 211.1 to 211.157.

Sec. 4. (1) A school district may issue and market bonds as qualified bonds if the state treasurer has issued an order granting qualification under this act.

(2) Except with regard to qualification of new bonds, nothing in this act shall be construed to alter the terms and conditions applicable to outstanding qualified bonds issued in accordance with 1961 PA 108, MCL 388.951 to 388.963, and the loans associated with those qualified bonds. Unless otherwise amended as permitted by this act, outstanding qualified loans incurred in association with outstanding qualified bonds described in this subsection shall continue to bear interest and be due and payable as provided in the repayment agreements entered into between the school district and the state before the effective date of this act.

(3) The state treasurer may qualify bonds for which the state treasurer has received an application for prequalification on or before May 25, 2005 without regard to the requirements of section 5(2)(f) if the electors of the school district approve the bonds at an election held during 2005.

Sec. 5. (1) A school district may apply to the state treasurer for preliminary qualification of a proposed school bond issue by filing an application in the form and containing the information required by this act.

(2) An application for preliminary qualification of a school bond shall contain all of the following information:

(a) The proposed ballot language to be submitted to the electors.

(b) A description of the project or projects proposed to be financed.

(c) A pro forma debt service projection showing the estimated mills the school district will levy to provide revenue the school district will use to pay the qualified bonds. For the purpose of the pro forma debt service projection, the school district may assume for the first 5 years following the date of the application the average growth in taxable value for the 5 years preceding the date of the application and the lesser of that average growth rate or 3% for the remaining term of the proposed bonds.

(d) Evidence that the rate of utilization of each project to be financed will be at least 85% for new buildings and 60% for renovated facilities. If the projected enrollment of the district would not otherwise support utilization at the rates described in this subsection, the school district may include an explanation of the actions the school district intends to take to address the underutilization, including, if applicable, actions to close school buildings or other actions designed to assure continued assured use of the facilities being financed.

(e) Evidence that the cost per square foot of the project or projects will be reasonable in light of economic conditions applicable to the geographic area in which the school district is located.

(f) Evidence that the school district will repay all outstanding qualified loans at the times described in section 9.

(g) The weighted average age of all school buildings in the school district based on square footage.

(h) The overall utilization rate of all school buildings in the school district, excluding special education purposes.

(i) The taxable value per pupil.

(j) The total bonded debt outstanding of the school district and the total taxable value of property in the school district for the school district fiscal year in which the application is filed.

(k) A statement describing any environmental or usability problems to be addressed by the project or projects.

(l) An architect's analysis of the overall condition of the facilities to be renovated or replaced as a part of the project or projects.

(m) An amortization schedule demonstrating that the weighted average maturity of the qualified bond issue does not exceed 120% of the average reasonably expected useful life of the facilities, excluding land and site improvements, being financed or refinanced with the proceeds of the qualified bonds, determined as of the later of the date on which the qualified bonds will be issued or the date on which each facility is expected to be placed in service.

Sec. 6. The state treasurer shall prequalify bonds of a school district if the state treasurer determines all of the following:

(a) The issuance of additional qualified bonds will not prevent the school district from repaying its outstanding qualified loans on the earlier of the dates described in section 9.

(b) The form of the ballot conforms with the requirements of this act.

Sec. 7. (1) The state treasurer shall qualify bonds of a school district if the state treasurer determines all of the following:

(a) A majority of the school district electors have approved the bonds.

(b) The terms of the bond issue comply with applicable provisions of the revised school code, 1976 PA 451, MCL 380.1 to 380.1852.

(c) The school district is in compliance with the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821.

(d) The weighted average maturity of the qualified bond issue does not exceed 120% of the average reasonably expected useful life of the facilities, excluding land and site improvements, being financed or refinanced with the proceeds of the bonds, determined as of the later of the date on which the qualified bonds will be issued or the date on which each facility is expected to be placed in service.

(e) The school district has filed any information necessary to update the contents of the original application to reflect changes in any of the information approved in the preliminary qualification process.

(f) The school district has paid a qualification fee of not less than $3,000.00 or the amount determined by the state treasurer, which shall be approximately equal to the amount required to pay the estimated administrative expenses incurred under this act for the fiscal year in which the state treasurer imposes the fee.

(2) An order qualifying bonds shall specify the principal and interest payment dates for all the bonds, the maximum principal amount of and maximum interest rate on the bonds, the computed millage, if any, the final repayment date for any loans made with respect to those bonds, and other matters as the state treasurer shall determine or as are required by this act.

(3) If the application for prequalification demonstrates that the school district will borrow from this state in accordance with this act, the state treasurer and the school district shall enter into a loan agreement setting forth the terms and conditions of any qualified loans to be made to the school district under this act.

(4) If a school district does not issue its qualified bonds within 180 days after the date of the order qualifying bonds, the school district may reapply for qualification by filing an application and information necessary to update the contents of the original application for prequalification or qualification.

(5) The state treasurer shall qualify refunding bonds issued to refund qualified bonds if the state treasurer finds that the refunding bonds comply with the provisions of the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821.

Sec. 8. A ballot submitted to the school electors of a school district after November 8, 2005 requesting authorization to issue unlimited tax general obligations that will be guaranteed by this state in accordance with section 16 of article IX of the state constitution of 1963 shall inform the electors that if the school district borrows from this state to pay debt service on the bonds, the school district may be required to continue to levy mills beyond the term of the bonds to repay this state.

Sec. 9. (1) Except as otherwise provided in this act, a school district may borrow from the state an amount not greater than the difference between the proceeds of the school district's computed millage and the amount necessary to pay principal and interest on its qualified bonds, including any necessary allowances for estimated tax delinquencies.

(2) For school districts having qualified loans outstanding as of July 20, 2005, the state treasurer shall review information relating to each school district regarding the taxable value of the school district and the actual debt service of outstanding qualified bonds as of July 20, 2005 and shall issue an order establishing the payment date for all those outstanding qualified loans and any additional qualified loans expected to be incurred by those school districts related to qualified bonds issued before July 20, 2005. The payment date shall be not later than 72 months after the date on which the qualified bonds most recently issued by the school district are due and payable.

(3) For qualified loans related to qualified bonds issued after July 20, 2005, the qualified loans shall be due not later than 72 months after the date on which the qualified bonds for which the school borrowed from this state are due and payable. This section does not preclude early repayment of qualified bonds or qualified loans.

(4) Except with regard to qualified loans described in subsection (2), each loan made or considered made to a school district under this act shall be for debt service on only a specific qualified bond issue. The state treasurer shall maintain separate accounts for each school district on the books and accounts of this state noting the qualified bond, the related qualified loans, the final payment date of the bonds, the final payment date of the qualified loans, and the interest rate accrued on the loans.

(5) For qualified loans relating to qualified bonds issued after July 20, 2005, a school district shall continue to levy the computed mills until it has completely repaid all principal and interest on its qualified loans.

(6) For qualified loans relating to qualified bonds issued before July 20, 2005, a school district shall continue to comply with the levy and repayment requirements imposed before July 20, 2005. Not less than 90 days after July 20, 2005, the state treasurer and the school district shall enter into amended and restated repayment agreements to incorporate the levy and repayment requirements applicable to qualified loans issued before July 20, 2005.

(7) Upon the request of a school district made before June 1 of any year, the state treasurer annually may waive all or a portion of the millage required to be levied by a school district to pay principal and interest on its qualified bonds or qualified loans under this section if the state treasurer finds all of the following:

(a) The school board of the school district has applied to the state treasurer for permission to levy less than the millage required to be levied to pay the principal and interest on its qualified bonds or qualified loans under subsection (1).

(b) The application specifies the number of mills the school district requests permission to levy.

(c) The waiver will be financially beneficial to this state, the school district, or both.

(d) The waiver will not reduce the millage levied by the school district to pay principal and interest on qualified bonds or qualified loans under this act to less than 7 mills.

(e) The board of the school district, by resolution, has agreed to comply with all conditions that the state treasurer considers necessary.

(8) Except as otherwise provided in this act, qualified loans shall bear interest at 1 of the following rates:

(a) The greater of 3% or the average annual cost of funds computed by the state treasurer not less often than annually on the basis of 1 of the following:

(i) All notes or bonds issued by the Michigan municipal bond authority to fund qualified loans or refinance those notes or bonds plus 0.125%.

(ii) If no bonds or notes issued by the Michigan municipal bond authority are outstanding, all bonds or notes issued by this state under sections 15 and 16 of article IX of the state constitution of 1963 plus 0.125%.

(b) A lesser rate determined by the state treasurer to be necessary to maintain the exemption from federal income tax of interest on any qualified loans.

Sec. 10. The state treasurer shall keep all certificates of qualification or approval in a permanent file and shall deliver copies of the certificates to the school district.

Sec. 11. The state treasurer shall promulgate rules to implement this act pursuant to the administrative procedures act of 1969, 1969 PA 306, MCL 24.201 to 24.328.

Sec. 12. If a school district does not apply for prequalification or qualification or approval of a bond issue before the issuance of those bonds, the state treasurer shall not approve or qualify those bonds as qualified bonds under this act.

Sec. 13. (1) If a school district owes a balance due to the revolving loan fund or has been identified as a potential borrower, the school district shall file an annual loan activity application with the state treasurer no less than 60 days before certifying its annual tax levy. The annual loan activity application shall be submitted in a format prescribed by the state treasurer and shall provide the taxable value, debt service, and any other information necessary to determine the proper required millage levy required under this act. The application shall contain a resolution passed by the local school board authorizing a designated school district official to complete all necessary documents to obtain a loan from the revolving loan fund or for making repayment to the revolving loan fund for the year.

(2) If a school district is eligible to borrow for debt service on qualified bonds, the school district shall file a draw request with the state treasurer not less than 30 days before each date on which the school district owes the debt service. The draw request shall include all of the following:

(a) A statement of the debt service owed in the next 6 months.

(b) A copy of the most recent bank statement showing the amount on hand in the debt service accounts for all qualified bonds.

(c) A statement of any revenue received for payment of the debt service since the date of the bank statement.

(d) A statement of any withdrawals made from the debt service account since the date of the bank statement.

(3) Not more than 7 days before the date established by the state treasurer for making qualified loans, the school district shall confirm in writing the final qualified loan amount to be drawn on a certificate in the form prescribed by the state treasurer.

(4) Upon receipt of a qualified loan confirmation described in subsection (3), the state treasurer shall determine the amount of the draw, which shall be the difference between the funds on hand in all debt service accounts and the amount of the debt service, and shall make a qualified loan in that amount to the school district no later than 6 days before the date the debt service is due.

(5) When a school district's computed millage is sufficient to pay principal and interest on its qualified bonds, a school district shall file a loan activity statement with the state treasurer no later than 30 days before the date set for payment of the qualified bonds setting forth all of the following:

(a) A statement of the debt service owed in the next 6 months.

(b) A copy of the most recent bank statement showing the amount on hand in the debt service account for the qualified bonds.

(c) A statement of any revenue received for payment of the debt service since the date of the bank statement.

(d) A statement of any withdrawals made from the debt service account since the date of the bank statement.

(6) Within 30 days after receipt of the loan activity statement under subsection (5), the state treasurer shall send an invoice to the school district for the amount of repayment the school district owes on its outstanding qualified loans, which shall be the difference between the debt service payable or paid to bondholders and the funds on hand at the school district, less a reasonable amount of funds on hand, as determined by the state treasurer, to cover minimum balance requirements or potential tax disputes. The school district shall remit the amount specified in the invoice within 30 days after the dated date of the invoice.

Sec. 14. (1) If any paying agent for a school district's qualified bonds notifies the state treasurer that the school district has failed to deposit sufficient funds to pay principal and interest due on the qualified bonds when due, or if a bondholder notifies the state treasurer that the school district has failed to pay principal or interest on qualified bonds when due, whether or not the school district has filed a draw request with the state treasurer, the state treasurer shall promptly pay the principal or interest on the qualified bond when due.

(2) If the state treasurer pays any amount described in this section, the state treasurer shall bill the school district for the amount paid and the school district shall immediately remit the amount to the state treasurer. If the school district would have been eligible to borrow the debt service in accordance with the terms of this act, the school district shall enter into a loan agreement establishing the terms of the qualified loan as provided in this act. If the state treasurer directs the Michigan municipal bond authority to pay any amount described in this section, the state treasurer shall cause the Michigan municipal bond authority to bill the school district for the amount paid and the school district shall immediately remit the amount to the Michigan municipal bond authority.

Sec. 15. (1) If a school district that owes this state loan repayments relating to qualified bonds fails to levy at least the computed millage upon its taxable value for debt retirement purposes for qualified bonds and for repayment of a qualified loan made under this act while any part of the qualified loan is unpaid or defaults in its agreement to repay a qualified loan or any installment of a qualified loan, the school district shall increase its debt levy in the next succeeding year to obtain the amount necessary to repay this state the amount of the default plus a late charge of 3% and shall pay that amount to this state together with any other amounts owed during the next tax year. The school district may use other funds to repay this state including a transfer of general funds of the school district, if approved by the state treasurer. The state treasurer shall not disburse state school aid to the school district until the school district has made satisfactory arrangements with the state treasurer for the payment of the amount in default.

(2) If a school district fails to process any report, application, confirmation, or repayment as required under this act, the state treasurer may withhold a school district's state aid funds until the school district complies with the requirements under this act.

Sec. 16. The state treasurer shall deposit all fees collected under this act into a separate fund established within the state treasury, and shall use the proceeds of the fees solely for the purpose of administering and enforcing this act. The unexpended and unobligated balance of this fund at the end of each state fiscal year shall be carried forward over to the succeeding state fiscal year and shall not lapse to the general fund but shall be available for reappropriation for the next state fiscal year.

Sec. 17. A person who knowingly makes a false statement or conceals material information for the purpose of obtaining qualification of a bond issue under this act or for the purpose of obtaining a qualified loan under this act, or who knowingly uses all or part of the proceeds of a qualified loan obtained under this act for any purpose not authorized by this act, is guilty of a felony punishable by imprisonment for not more than 4 years or a fine of not more than $5,000.00, or both.

Sec. 18. If a school district has completed the projects approved by the school electors of the school district to be funded from proceeds of qualified bonds, a school district may use any remaining proceeds of the qualified bonds as follows:

(a) To pay for enhancements to the projects approved by the school electors as described in the ballot proposing the qualified bonds.

(b) To pay debt service on the qualified bonds.

(c) To repay this state.

Sec. 19. The state treasurer may designate in writing a person or persons to take any actions required to be taken by the state treasurer under this act. The signature of any designee shall have the same force and effect as the signature of the state treasurer for all purposes of this act.

OPINION #4422 OF THE ATTORNEY GENERAL, STATE OF MICHIGAN
DATED MARCH 12, 1965

CONSTITUTIONAL LAW:
SCHOOL BONDS:
MUNICIPAL FINANCE COMMISSION:

Article 9, § 16, Michigan Constitution of 1963, requires school districts to borrow and State to lend sufficient sum to cover debt service payments on qualified bonds of school districts. Although this is not a pledge of full faith and credit of the State, the Municipal Finance Commission may and must enforce the duty of the district to borrow and the State to lend such sum.

No. 4422 March 12, 1965.

Hon. Sanford A. Brown
State Treasurer
Lansing, Michigan

You have asked in your letter of February 5 whether Article IX, § 16 of the Michigan Constitution of 1963 pledges the full faith and credit of the State to the payment of principal and interest of qualified school bonds.

Article IX, § 16 of the Michigan Constitution of 1963 provides in pertinent part as follows:

> "The state * * * may borrow from time to time such amounts as shall be required, pledge its faith and credit and issue its notes or bonds therefor, for the purpose of making loans to school districts as provided in this section.
>
> "If the minimum amount which would otherwise be necessary for a school district to levy in any year to pay principal and interest on its qualified bonds, including any necessary allowances for estimated tax delinquencies, exceeds 13 mills on each dollar of its assessed valuation as finally equalized, or such lower millage as the legislature may prescribe, then the school district may elect to borrow all or any part of the excess from the state. In that event the state shall lend the excess amount to the school district for payment of principal and interest. If for any reason any school district will be or is unable to pay the principal and interest on its qualified bonds when due, then the school district shall borrow and the state shall lend to it an amount sufficient to enable the school district to make the payment.
>
> "The term 'qualified bonds' means general obligation bonds of school districts issued for capital expenditures, including refunding bonds, issued prior to May 4, 1955, or issued thereafter and qualified as provided by law pursuant to Section 27 or Section 28 of Article X of the Constitution of 1908 or pursuant to this section."

Thus, the school district is <u>required</u> to borrow and the State to lend an amount sufficient to enable the school district to make payments of principal and interest due on qualified bonds, and the state is <u>empowered</u> to borrow and to issue its notes or bonds for the purpose of making such loans, and to pledge its full faith and credit for such state bonds or notes.

The constitutional provision quoted does not pledge the full faith and credit of the state to all qualified bonds. The state is not primarily liable on qualified bonds of a school district. Rather, the state is required to lend whatever the school district needs, from time to time, to meet debt service requirements on such bonds.

You ask what remedies are available to enforce the obligation of the state.

The quoted language makes it mandatory upon the school district to borrow and upon the state to lend "an amount necessary to enable the school district to make the payment." Under Chapter II, Section 2(f) of the Municipal Finance Act [C.L. 1948 § 132.2; M.S.A. 1958 Rev. Vol. § 5.3188(4)f], the Municipal Finance Commission has power to enforce compliance with any law by, <u>inter alia</u>, the "institution of appropriate proceedings in the courts of the state, including those for writs of mandamus and injunction."

The Commission could and indeed must enforce the duty of the district to borrow and the state to lend. The bondholders also would have an action to enforce the duty of the district to borrow and of the state to lend.

Thus the bondholders are assured of the availability of state funds where needed to meet debt service requirements on qualified bonds. This is not a pledge of full faith and credit, but gives the bondholders as much or more protection as would such a pledge.

FRANK J. KELLEY,
Attorney General

OPINION #4508 OF THE ATTORNEY GENERAL, STATE OF MICHIGAN
DATED AUGUST 29, 1966

BONDS: Qualified bonds of school districts.
CONSTITUTION OF 1963: School Bond Loan Fund.
SCHOOLS: Bond Loans.
STATE TREASURER: Payment of principal and interest on qualified school district bonds.

Authority of State Treasurer and procedures to be followed in paying from the School Bond Loan Fund principal and interest on qualified school bonds upon presentment by a bondholder.

No. 4508 Hon. Allison Green August 29, 1966.
State Treasurer
Capitol Building
Lansing, Michigan

You have requested my opinion on what procedures should be followed by the state treasurer preparatory to making loans to local school districts which are unable to make payments on principal and interest of qualified school district bonds.[1]

Loans to bonded school districts are authorized by Article IX, Section 16, Constitution of 1963, which in part contains pertinent language:

> "If the minimum amount which would otherwise be necessary for a school district to levy in any year to pay principal and interest on its qualified bonds, including any necessary allowances for estimated tax delinquencies, exceeds 13 mills on each dollar of its assessed valuation as finally equalized, or such lower millage as the legislature may prescribe, then the school district may elect to borrow all or any part of the excess from the state. In that event the state shall lend the excess amount to the school district for the payment of principal and interest. If for any reason any school district will be or is unable to pay the principal and interest on its qualified bonds when due, then the school district shall borrow and the state shall lend to it an amount sufficient to enable the school district to make the payment.
>
> "The term 'qualified bonds' means general obligation bonds of school districts issued for capital expenditures, including refunding bonds, issued prior to May 4, 1955, or issued thereafter and qualified as provided by law pursuant to Section 27 or Section 28 of Article X of the Constitution of 1908 or pursuant to this section."

Article IX, Section 16, Constitution of 1963, is a continuation with minor revisions of the provisions relating to school bond financing which appeared in Sections 27 and 28 of Article X, Constitution of 1908. Section 27, Article X, Constitution of 1908, was proposed by joint resolution of the legislature in 1955 and approved by the people at the regular election of April 4, 1955. The loan provisions of Section 27 ceased to have effectiveness after July 1, 1962, and were replaced by the provisions of Section 28, Article X, Constitution of 1908, which was proposed by joint resolution of the legislature in 1960 and approved by the people at the general election of November 8, 1960. Section 28 by its own terms took effect on July 1, 1962.

Section 28, Article X, Constitution of 1908, was implemented by the legislature by the enactment of Act 108, P.A. 1961, which took effect September 8, 1961. The first section of Act 108, P.A. 1961, stated that the purpose of the act was to implement Section 28 of Article X of the Constitution of 1908. The Constitution of 1963 took effect on January 1, 1964. In anticipation of the effectiveness of that Constitution, the legislature passed Act 33, P.A. 1963, Second Extra Session, such act to take effect on January 1, 1964. Act 33, P.A. 1963, Second Extra Session, amended Sections 1, 3, 8 and 9 of Act 108, P.A. 1961, and further amended section 7 of Act 108, P.A. 1961, as amended by Act 131, P.A. 1962. The first section of amendatory Act 33 stated that the act's purpose was to implement Section 16 of Article IX of the Constitution of 1963. Subsequent amendment has been made to Sections 2, 4, 6, 9 and 10 of Act 108, P.A. 1961, by Act 169, P.A. 1964, which act also added a new Section 4a.[2].

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[1]In your letter of request you stated that you were familiar with Opinion No. 4422 issued by me on March 12, 1965, in which it was ruled that Article IX, Section 16, Constitution of 1963, requires school districts to borrow and the state to lend sufficient sums to cover debt service payments on qualified bonds of school districts but that this requirement is not a pledge of the full faith and credit of the state; the Municipal Finance Commission however may and must enforce the duty of the school district to borrow and have the state to lend the necessary amounts.

[2]Act 108, P.A. 1961, in its present amended form appears in M.S.A. 1965 Cum. Supp. § S 3.424(111) et seq.

Answer to your question is to be found in amended Sections 6, 7 and 8 of the act. These sections present two situations in which you may become involved as state treasurer. The first situation is where a loan is to be made to the school district to permit the district to meet the principal and interest requirements on its bonds without a default in payment; the second is where the principal or interest on the bonds has not been paid when due upon proper presentation because of inadequate funds resulting in a default in payment.

Under amended Section 6 of the act, in any school district where the amount necessary to be levied in any year for principal and interest on qualified bonds exceeds 7 mills on each dollar of the assessed valuation of the school district as last equalized by the state, such school district on or before 60 days prior to the time of certification of its tax levy to the assessing officer shall file with the superintendent of public instruction[3] a preliminary application for a loan from the state in the amount of any part of such excess over 7 mills which the school district does not propose to levy in such year.[4] Amended Section 6 specifies the information to be supplied in the application. The superintendent of public instruction if he finds the application in proper form shall approve or deny the application in whole or in part and notify the school district of his action. Amended Section 7 of the act provides that if a loan from the state shall become necessary for the payment of principal and interest on qualified bonds in accordance with an approved preliminary application to the superintendent of public instruction or by virtue of a supplemental application, it shall be the duty of the superintendent of public instruction after audit to forward to the state treasurer a statement setting forth the amount to be loaned to the school district for the payment of principal and interest and the date on or before which loan shall be made.[5] The superintendent shall prepare a voucher as a basis for the issuance of a warrant and upon receipt of such statement and warrant, it shall be the duty of the state treasurer to loan to the school district from the school bond loan fund the amount set forth in the statement of the superintendent of public instruction on or before the date specified therein. The state treasurer upon making such loan shall obtain from the school district a receipt for the amount so loaned which receipt shall specify the terms of repayment in accordance with the provisions of Section 16 of Article IX, Constitution of 1963 and the act. The school district treasurer upon receipt of the loan is required to deposit the same in the debt retirement fund to be used solely for the payment of principal and interest on qualified bonds.

The foregoing summaries of the procedures prescribed by amended Section 6 and 7 relate to the first situation above-described where the loan to the school district is to be made before the school district has defaulted in the payment of the principal or interest on its bonds.

The second situation described above is covered by amended Section 8 of the act which prescribes that in the event the principal or interest on any qualified bond is not paid when due, upon proper presentation of the bond or interest coupon to the agent or officer charged with making payment thereof, the state treasurer shall forthwith pay such principal or interest upon presentation of the bond or coupon to him. Any amount so paid by the state treasurer shall be deemed a loan to the school district made pursuant to the requirements of Section 16, Article IX, Constitution of 1963, and the act and the school district shall give a receipt therefor and repay the loan in the manner provided in the act for the repayment of loans.

The method of processing loans to school districts under amended Sections 6 and 7 before default in payment of principal or interest is adequately spelled out in those sections and no additional comment from me is necessary. Your real concern is in regard to the applicable procedures which you should follow in the situation where the school district has defaulted in the payment of principal or interest on its bonds and the bond or bonds and the interest coupons have not been paid when due by the paying agent because of lack of funds. In the event of such a happening it is assumed for the purposes of this opinion that the holder of the bond or of the interest coupon will make demand on you as state treasurer for the prompt payment of the obligation thereunder. Should such demand be made on you as state treasurer, you would be entitled to take the following action before making payment:

a. Ascertaining from the superintendent of public instruction or from the records in your own office that the bonds involved are duly qualified bonds as defined and described in amended Section 3 of the act;

b. Requiring proof reasonably satisfactory to you that the bond or bonds or the interest coupons have been properly presented for payment to the paying agent or officer charged with the responsibility for making payment thereof and that payment has been refused because sufficient monies had not been deposited by the school district for that purpose; such proof of nonpayment may be furnished you in the form of a certificate from the paying agent.

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[3]Article VIII, Section 3, Constitution of 1963 requires the state board of education to appoint a superintendent of public instruction who shall be the principal executive officer of the department of education and who shall have powers and duties provided by law. Section 14 of Act 287, P.A. 1964 (M.S.A. 1965 Cum. Supp. § 15.1023(14)) specifies that after June 30, 1965, a reference in any law to the powers and duties of the superintendent of public instruction shall be deemed to be made to the state board of education, subject to exceptions not pertinent here, and that the state board of education may delegate any of its functions to the superintendent. Section 300 of Act 380, P.A. 1965, creates a department of education. Section 301 of that act provides that the head of the department of education is the state board of education. Section 303 of that act transfers by a Type III transfer all powers, duties and functions then vested by law in the superintendent of public instruction to the department of education. Section 305 of the act specifies that the principal executive officer of the department of education is the superintendent of public instruction. Act 380 appears in M.S.A. 1965 Cum. Supp. at § 3.29(1) et seq. Act 380, P.A. 1965, was amended without regard to the sections involved here by Act 407, P.A. 1965. Without doubt, under the foregoing provisions the state board of education could delegate to the superintendent of public instruction the performance of all of the functions and duties imposed on the board in connection with the School Bond Loan Fund.

[4]Other details set forth in amended Section 6 have been omitted.

[5]Other details set forth in amended Section 7 have been omitted.

c. Notification to the school district given by you or your designee of the action taken by paying agent in refusing payment of the bonds or interest coupons on presentment because of the failure of the school district to have deposited funds with the paying agent for that purpose and verification from the school district of the fact of such failure to supply the required funds; notification to the school district by you or your designee that payment of the required amounts were to be made from the school bond loan fund by you as state treasurer and that such payment would be in the form of a loan to the school district which the school district would be required to be repay to the school bond loan fund in the manner required by law; the school district will be required to furnish you as state treasurer with a receipt evidencing the loan and specifying the terms of repayment, as required by law.

Upon the fulfillment of the above conditions in a manner reasonably acceptable to you, you would be authorized to make payment of the amounts due on the bonds and interest coupons and thereupon to demand their surrender and delivery to you as state treasurer.

Because of the safeguards built into the Michigan Constitution and statutes there should be no default of Michigan qualified school bonds. The School Loan Fund Program will have afforded the school district access to loan funds prior to the due date of the principle [sic] and interest on such bonds. In order to advise of the procedures in the remote possibility of nonpayment, however, I have set forth the foregoing guide lines [sic].

FRANK J. KELLEY,
Attorney General

APPENDIX B[1]

HOMER COMMUNITY SCHOOL DISTRICT

GENERAL FINANCIAL INFORMATION

AREA

The School District encompasses an area of 96 square miles.

POPULATION

The estimated population for the School District are as follows:

	School District
2010 (Estimate)	3,618*
2000	3,682
1990	3,560
1980	3,500

* Estimated based on an extrapolation of the U.S. Census figures of the local units within the School District.

PROPERTY VALUATIONS

In accordance with Act 539, Public Acts of Michigan, 1982, as amended, and Article IX, Section 3 of the Michigan Constitution, the ad valorem State Equalized Valuation (SEV) represents 50% of true cash value. SEV does not include any value of tax exempt property (e.g. churches, governmental property) or property granted tax abatements under Act 198, Public Acts of Michigan, 1974, as amended. **As a result of Proposal A, ad valorem property taxes are assessed on the basis of taxable value, which is subject to assessment caps. SEV is used in the calculation of debt margin and true cash value.** See **"TAX PROCEDURES"** herein for more information.

Taxable property in the School District is assessed by the local municipal assessor and is subject to review by the County Equalization Department.

Historical Valuations

Year	Principal Residence†	Non-Principal Residence†	Total Taxable Valuation	State Equalized Valuation
2010	$79,626,033	$32,024,257	$111,650,290	$171,956,427
2009	82,418,166	33,568,088	115,986,254	172,732,729
2008	80,726,190	34,407,863	115,134,053	178,898,834
2007	77,081,988	32,930,359	110,012,347	168,219,057
2006	71,438,240	33,499,807	104,938,047	163,229,338

2010 Taxable Valuation	$111,650,290
Plus: 2010 IFT Taxable Valuation**	7,657,124
Total Valuation	$119,307,414

** Millage is levied at half rate against the amount listed. See "PROPERTY VALUATIONS - *Industrial Facilities Tax (IFT)*" herein.

† Until 2008 all personal property was included in non-homestead valuations. Beginning in 2008, all industrial personal property is included in the principal residence tax base. While commercial personal property continues to be included in the non-principal residence tax base, it is exempt from the first 12 mills of the 18 operating mills levied on non-principle residence property only. In 2010 industrial personal property has a taxable value of $7,827,900 and commercial personal property has a taxable value of $2,053,610 in the School District.

[1] Information included in this Official Statement under the headings "General Financial Information, "General Economic Information," and "General School Information" was obtained from the School District, unless otherwise noted.

Per Capita Valuation

2010 Per Capita Taxable Valuation	$30,859.67
2010 Per Capita State Equalized Valuation	$47,528.03
2010 Per Capita Estimated True Cash Valuation	$95,056.07

Industrial Facilities Tax (IFT)

Act 198, Public Acts of Michigan, 1974, as amended ("Act 198"), provides significant property tax incentives to industry to renovate and expand aging plants and to build new industrial facilities in Michigan. Under the provisions of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage the restoration or replacement of obsolete industrial facilities and to attract new industrial facilities.

Property tax owners situated in such districts pay an Industrial Facilities Tax ("IFT") in lieu of ad valorem taxes on the facility and equipment for a period of up to 12 years. For rehabilitated plants and equipment, the IFT is determined by calculating the product of the state equalized valuation of the replacement facility in the year before the effective date of the abatement certificate multiplied by the total mills levied by all taxing units in the current year. New plants and equipment receiving their abatement certificate prior to January 1, 1994 are taxed at one-half the total mills levied by all taxing units, other than mills levied for local and intermediate school district operating purposes or under the State Education Tax Act, plus one-half of the number of mills levied for school operating purposes in 1993. For new facility abatements granted after 1993, new plants and equipment are taxed at one-half of the total mills levied as ad valorem property taxes by all taxing units except mills levied under the State Education Tax Act, plus the number of mills levied under the State Education Tax Act. For new facility abatements granted after 1993, the State Treasurer may permit abatement of all, none or one-half of the mills levied under the State Education Tax Act. It must be emphasized, however, that ad valorem property taxes on land are not reduced in any way since land is specifically excluded under Act 198.

The 2010 IFT Taxable Valuation for properties granted IFT abatements within the School District's boundaries is $7,657,124, which is subsequently taxed at half rate. For further information see "PROPERTY VALUATIONS - *Historical Valuations*" herein.

TAX BASE COMPOSITION

A breakdown of the School District's 2010 Taxable Valuation by municipality, class and use are as follows:

Municipality	Principal[1] Residence	Non-Principal[1] Residence	Total Taxable Valuation	Percent of Total
Calhoun County				
Albion Township	$8,395,122	$7,216,892	$15,612,014	13.98%
Claredon Township	21,215,533	6,493,489	27,709,022	24.82
Eckford Township	10,000,369	904,431	10,904,800	9.77
Fredonia Township	1,242,700	86,700	1,329,400	1.19
Homer Township	36,246,993	16,964,895	53,211,888	47.66
Tekonsha Township	183,451	4,400	187,851	0.17
Branch County				
Butler Township	590,845	94,527	685,372	0.61
Hillsdale County				
Litchfield Township	462,585	144,539	607,124	0.54
Jackson County				
Pulaski Township	1,288,435	114,384	1,402,819	1.26
TOTAL	$79,626,033	$32,024,257	$111,650,290	100.00%

[1] See "SOURCES OF SCHOOL OPERATING REVENUE" in this Official Statement for further details.

Class	Taxable Valuation	Percent of Total
Real Property	$98,989,310	88.66%
Personal Property	12,660,980	11.34
TOTAL	$111,650,290	100.00%
Use		
Agricultural	$31,981,556	28.64%
Commercial	5,524,857	4.95
Industrial	3,907,140	3.50
Residential	57,575,757	51.57
Personal Commercial	2,053,610	1.84
Personal Industrial	7,827,900	7.01
Personal	2,779,470	2.49
TOTAL	$111,650,290	100.00%

Source: Respective municipalities

MAJOR TAXPAYERS

The ten largest taxpayers in the School District and their 2010 Taxable Valuations and Industrial Facilities Tax Valuations are as follows:

Taxpayer	Product/Service	Taxable Valuation	+	IFT Valuation	=	Total Valuation
Brembo North American	Mfg. industrial shop	$5,008,462		$6,388,800		$11,397,262
RSB Trans NA, Inc.	Machining job shop	2,668,940		1,100,734		3,769,674
Barton Farm Company	Agriculture	2,567,742		0		2,567,742
Consumer Energy Company	Utility	2,232,931		0		2,232,931
Calhoun Foundry Co., Inc.	Foundry	1,048,863		0		1,048,863
Mike Barton Company	Farm	907,439		0		907,439
Lighthouse on the Lake Assoc.	Campgrounds	867,091		0		867,091
Miller Brothers Real Estate	Commercial	617,533		0		617,533
Trojan Heat Treat Company	Heat treating metal	560,150		0		560,150
C & L Farms	Agriculture	497,384		0		497,384
TOTAL		$16,976,535		$7,489,534		$24,466,069

The Taxable Valuations of the major taxpayers represent 15.21% of the School District's 2010 Taxable Valuation of $111,650,290, and their Total Valuations represent 20.51% of the School District's Total Valuation of $119,307,414.

Source: Respective municipalities

TAX RATES - (Per $1,000 of Valuation)

Each school district, county, township, special authority and city has a geographical definition which constitutes a tax district. Since local school districts and the county overlap either a township or a city, and intermediate school districts overlap local school districts and county boundaries, the result is many different tax rate districts.

Homer Community School District	2011	2010	2009	2008	2007
Operating non-homestead	18.0000	18.0000	18.0000	18.0000	18.0000
Debt	4.8000	4.8000	4.8000	4.5000	4.5000
TOTAL HOMESTEAD	4.8000	4.8000	4.8000	4.5000	4.5000
TOTAL NON-HOMESTEAD	22.8000	22.8000	22.8000	22.5000	22.5000

The School District levies 18 mills for operating purposes on non-homestead property and authorized debt millage on all homestead and non-homestead property located within the School District. The School District's operating millage expires with the December 2011 levy. The School District will seek a renewal of its operating millage at the May 2011 election. See "SOURCES OF SCHOOL OPERATING REVENUE" in this Official Statement.

Other Major Taxing Units	2010	2009
State Education Tax[1]	5.0000	6.0000
Calhoun County	6.3713	6.3713
Township of Albion	1.9379	1.9379
Township of Homer	1.9146	1.9146
Village of Homer	15.9738	15.9738
Branch County	4.7562	4.7562
Hillsdale County	6.8632	6.8632
Jackson County	5.9909	5.9909
Calhoun County I/S/D	6.2057	6.2057
Kellogg Community College	3.7106	3.7106
Marshall District Library	2.0611	2.0611

[1] The State of Michigan levies 6.00 mills for school operating purposes on all homestead and non-homestead property located within the School District.

Source: Respective municipalities

STATE AID PAYMENTS

The School District's primary source of funding for operating costs is the State aid foundation allowance per pupil. The foundation allowance has been set from $7,316 to $8,489 per pupil for the fiscal year 2010/11, with categorical state aid being reduced as described herein. In future years, this allowance may be adjusted by an index based upon the change in revenues to the state school aid fund and the change in the total number of pupils statewide. See "SOURCES OF SCHOOL OPERATING REVENUE" herein for additional information.

The following table shows a history and current estimate of the School District's total State aid revenues, including categoricals and other amounts, the State Amount Received per Pupil and the Foundation Allowance per pupil.

Year	Total	State Amount Received per Pupil	Foundation Allowance per Pupil
2010/11 (February estimate)	$7,520,221*	$6,913	$7,316
2009/10	7,536,392*	6,927	7,316
2008/09	7,397,961	6,612	7,204
2007/08	7,055,580	6,492	7,084
2006/07	7,045,826	6,275	6,875

* Does not include ARRA stabilization funds adjustment.

Source: Michigan Department of Education

TAX LEVIES AND COLLECTIONS

The School District's fiscal year begins July 1 and ends June 30. School District property taxes are due December 1 of each fiscal year and are payable without interest or penalty on or before the following February 14. All real property taxes remaining unpaid on March 1st of the year following the levy are turned over to the County Treasurers for collection. Calhoun, Jackson, Hillsdale and Branch Counties annually pay from their Tax Payment Funds delinquent taxes on real property to all taxing units in the Counties, including the School District, shortly after the date delinquent taxes are returned to the County Treasurers for collection. The payments from these funds has resulted in collections of taxes approaching 100% for all taxing units.

A history of tax levies and collections for the School District is as follows:

Levy Year	Operating Tax Levy	Collections to March 1 of Following Year		Collections Plus Funding To June 30 of Following Year	
2010	$401,903	$351,986	87.58%	N/A	
2009	414,888	358,805	86.48	$410,247	98.88%
2008	515,934	480,293	93.09	510,216	98.89
2007	601,646	553,923	92.07	600,986	99.89
2006	599,547	548,784	91.53	597,971	99.74

The Tax Payment Funds are financed through the issuance of General Obligation Limited Tax Notes (GOLTNs) by the Counties. Although the School District anticipates the continuance of these programs by the Counties, the ability of the Counties to issue such GOLTNs is subject to market conditions at the time of offering. In addition, Act 206, Public Acts of Michigan, 1893, as amended, provides in part that: "The primary obligation to pay to the county the amount of taxes and interest thereon shall rest with the local taxing units, and if the delinquent taxes which are due and payable to the county are not received by the county for any reason, the counties have full right of recourse against the taxing unit to recover the amount thereof and interest thereon..." On the third Tuesday in July in each year, a tax sale is held by the Counties at which lands delinquent for taxes assessed in the third year preceding the sale, or in a prior year, are sold for the total of the unpaid taxes of those years. Act 123, Public Acts of Michigan, 1999, as amended, shortened the amount of time property owners have to pay their delinquent taxes before losing their property. Property owners with taxes that are two years delinquent will be foreclosed and the property will be sold at public auction. For example, property owners who fail to pay their 2010 delinquent property taxes will lose their property in March 2013.

LABOR FORCE

A breakdown of the number of salaried employees of the School District and their affiliations with organized groups are as follows:

Employees	Number	Bargaining Unit	Contract Expiration*
Administrators	6	Non-Affiliated	07/01/2011
Teachers	60	MEA	07/01/2011
Secretaries	7	Individual Contracts	07/01/2011
Aides	30	Local Contract	07/01/2011
Maintenance	3	Non-Affiliated	07/01/2011
Transportation	14	Local Contracts	07/01/2011
Other	17	Non-Affiliated	n/a
TOTAL STAFF	137		

* The School District's administrators anticipate that negotiations regarding the School District's employment contracts will begin in the near future.

The School District has not experienced a strike by any of its bargaining units within the past ten years.

PENSION FUND

For the period October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPSERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. The employer contribution rate for employees who first worked July 1, 2010 or later (Pension Plus members) for the time period July 1, 2010 to September 30, 2010 was 15.44%. For other employees, the rate was 16.94% through September 30, 2010. Effective October 1, 2010, the employer contribution rate for all employees except Pension Plus members increased to 19.41%. For Pension Plus members, the employer contribution rate is 17.91%.

On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retired health care trust at MPSERS. As a result, the State has adjusted the contribution rate due on employees wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus members. The parties are awaiting a decision on the State's motion for summary judgment in support of its claim of authority to require the employee contribution. If the court rules in the State's favor and the court lifts the injunction, the State has indicated that it will reduce the contribution rates.

For the period October 1 through September 30 (except for the current year) the School District paid an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPSERS") which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. The School District's estimated contribution to MPSERS for the 2010/11 fiscal year and the contributions for the previous four years are shown below.

Contribution Period	Contribution Rate	Pension Plus
Nov. 1, 2010-Sept. 30, 2011	20.66%	19.16%
Oct. 1, 2010-Oct. 31, 2010	19.41	17.91
Oct. 1, 2009-Sept. 30, 2010	16.94	N/A
Oct. 1, 2008-Sept. 30, 2009	16.54	N/A
Oct. 1, 2007-Sept. 30, 2008	16.72	N/A
Oct. 1, 2006-Sept. 30, 2007	17.74	N/A

Fiscal Year Ending June 30	Contributions to MPSERS
2011 (estimate)	$1,038,000
2010	922,000
2009	898,000
2008	880,000
2007	919,000

In February 2011, the Governor's budget proposal included a retirement plan contribution rate of 24.46% for the period of October 1, 2011 to September 30, 2012, which will require the School District to contribute an additional approximately $239 per pupil to meet its contribution obligation. See "SOURCES OF SCHOOL OPERATING REVENUE" herein for additional information.

Source: Audited financial statements.

OTHER POST-EMPLOYMENT BENEFITS

MPSERS is a cost-sharing, multi-employer, statewide plan. Pension benefits and retiree health benefits are established by law and funded through employer contributions. The cost of retiree health benefits is funded annually on a pay-as-you-go basis, with retirees paying some of the costs. Current year liability for retiree health benefits is reflected in the figures provided above. Further information regarding MPSERS, including retiree health benefits, can be found at: www.michigan.gov/documents/orsschools/MPSERS_2010_Published_1-10-11_342739_7.pdf

DEBT STATEMENT(As of March 7, 2011 and including the Bonds described herein)

DIRECT DEBT

Dated Date	Purpose	Type	Interest Spread	Maturities	Amount Outstanding
08/01/04	Building & Site	UTQ	3.50 - 4.30%	5/1/11-19	$3,955,000
04/01/09	Energy Conservation	UTNQ	3.50 - 4.40	5/1/11-19	350,000
05/18/11	Building & Site Series A	UTQ	1.65 - 6.25	5/1/12-26	15,000,000
TBD	Building & Site Series B	UTQ	(________)		3,000,000*

NET DIRECT DEBT $22,305,000*

OVERLAPPING DEBT

Percent	Municipality	Amount Outstanding	District Share
2.39%	Fredonia Township	$ 105,000	$ 2,510
100.00	Village of Homer	680,000	680,000
0.05	Branch County	5,970,000	2,985
2.98	Calhoun County	14,485,000	431,653
0.05	Hillsdale County	11,150,000	5,575
0.03	Jackson County	30,760,000	9,228
0.03	Jackson Community College	41,085,000	12,326
3.00	Kellogg Community College	4,300,000	129,000
2.40	Marshall District Library	1,020,000	24,480

NET OVERLAPPING DEBT	$1,297,757
NET DIRECT AND OVERLAPPING DEBT	$23,602,757*

* Preliminary, subject to change.

Source: Municipal Advisory Council of Michigan.

DEBT RATIOS*

Per Capita (3,618)	
Net Direct Debt	$6,165.01
Net Direct and Overlapping Debt	$6,523.70
Ratio to 2010 Taxable Valuation ($111,650,290)	
Net Direct Debt	19.98%
Net Direct and Overlapping Debt	21.14%
Ratio to 2010 State Equalized Valuation ($171,956,427)	
Net Direct Debt	12.97%
Net Direct and Overlapping Debt	13.73%
Ratio to 2010 Estimated True Cash Valuation ($343,912,854)	
Net Direct Debt	6.49%
Net Direct and Overlapping Debt	6.86%

* Preliminary, subject to change.

DEBT HISTORY

The School District has no record of default.

FUTURE FINANCING

The School District does not anticipate additional capital financing in the foreseeable future.

OTHER FINANCING

The School District issued bonds in the amount of $121,874, to the Michigan Municipal Bond Authority ("MMBA") on November 24, 1998, payable solely from state revenues pursuant to section 11g of the State School Aid Act of 1979, as amended. Such bonds do not, by statute, constitute a general obligation of the School District or a debt of the School District within the meaning of any constitutional or statutory debt limitation.

OTHER BORROWING

The School District has the following borrowing outstanding:

Date	Description	Interest Rate	Maturity Date	Balance
4/22/09	Buses IPA	3.79%	9/1/13	$214,647
8/20/10	State Aid Note	.40	8/22/11	650,000
8/20/10	State Aid Note	.80	8/19/11	650,000

LEGAL DEBT MARGIN

2010 State Equalized Valuation		$171,956,427
Debt Limit (15% of 2010 State Equalized Valuation)		$25,793,464
Debt Outstanding, including Bonds described herein	$22,305,000*	
Less Bonds not subject to Debt Limit**	(21,955,000)*	
Total Subject to Debt Limit		350,000
Additional Debt Which Could Be Legally Incurred		$25,443,464*

* Preliminary, subject to change.

** Section 1351(3) of Act 451, Public Acts of Michigan, 1976, as amended, provides that the bonded indebtedness of a school district shall not exceed 15% of the total assessed valuation of the district. Bonds not included in the computation of the legal debt margin are (1) any bond qualified under Article IX, Section 16 of the Michigan Constitution of 1963, and (2) deficit budget bonds as authorized under Section 1356. In addition, Section 605 of Act 34, Public Acts of Michigan, 2001, as amended, provides, in relevant part, that debt evidenced by a refunding security shall not be deemed to be within any statutory or charter limitation of outstanding debt limit.

SCHOOL BOND QUALIFICATION AND LOAN PROGRAM

The School District does not currently have a School Loan Revolving Fund balance under the School Bond Qualification and Loan Program.
Source: State of Michigan Department of Treasury

GENERAL ECONOMIC INFORMATION

LOCATION AND AREA

The School District encompasses 96 square miles and is comprised of all of the Village of Homer and portions of Albion, Claredon, Eckford, Fredonia, Homer and Tekonsha Townships in Calhoun County and small portions of Pulaski, Litchfield and Butler Townships in Jackson, Hillsdale and Branch Counties, respectively.

The School District is located the following distances from these commercial and industrial areas:

11	miles southwest of Albion
25	miles southwest of Battle Creek
25	miles southwest of Jackson
63	miles southwest of Lansing
98	miles southwest of Detroit

POPULATION BY AGE

The 2000 U.S. Census estimate of population by age for Calhoun County are as follows:

	Number	Percent
Total Population	137,985	100.00%
0 through 17 years	39,741	28.80
18 through 64 years	79,387	57.53
65 years and over	18,857	13.67
Median age	36.4 years	

INCOME

The 2000 U.S. Census estimate of household income for Calhoun County are as follows:

	Number	Percent
HOUSEHOLDS BY INCOME	$54,161	100.00%
Less than $10,000	4,851	8.96
$10,000 to $14,999	3,906	7.21
$15,000 to $24,999	7,611	14.05
$25,000 to $34,999	7,829	14.46
$35,000 to $49,999	9,529	17.59
$50,000 to $74,999	11,300	20.86
$75,000 to $99,999	4,973	9.18
$100,000 to $149,999	3,109	5.74
$150,000 to $200,999	571	1.06
$200,000 or more	482	0.89
Median Income	$38,918	

EMPLOYMENT CHARACTERISTICS

The following employers located within the School District's boundaries and surrounding communities offer employment opportunities.

Employer	Product/Service	Approx. No. Employed
Within the School District (21 or more employees)		
Homer Community School District	Education	137
Miller Bros. Mfg.	Machining job shop	135
Brembo North American	Automotive brakes & motors	125
Rennco LLC.	Vertical bagging equipment	70
Calhoun Foundry Co., Inc.	Gray iron castings	48
Trojan Heat Treat Co.	Heat treating	30
Steel Products Inc.	Steel roller ballbearing	25
Nagle Meat Processing	Meat processing	23
DJS Systems, Inc.	Packaging systems	21
Calhoun County (500 or more employees)		
U.S. Government	Government offices	2,000
Denso Mfg. Michigan, Inc.	Auto heating & air conditioning components	2,000
Battle Creek Health System	Health care	2,109
U.S. Dept. of Defense	Government	1,800
U.S. Veterans Administration Hospital	Health care	1,315
Kraft Foods Mfg. Corp.	Cereal	1,000
City of Battle Creek	Government	900
II Stanley Inc.	Auto parts	830
TRMI, Inc.	Automotive switches & control devices	675
Kellogg Community College	Community college	620
Harvard Industries	Iron castings	600
Duncan Aviation	Aircraft	525
Kellogg Company	Cereal	500
Meijer's Inc.	Retail store	500
Hi-Lex Corp.	Push & pull cables	500

*The approximate number of employees listed above are as reported in the sources indicated below. Because of reporting time lags and other factors inherent in collecting and reporting such information, the numbers may not reflect recent changes in employment levels, if any.

Source: 2010 Michigan Manufacturers Directory, 2011 Crain's Book of Lists, Manta Company Intelligence website, the Michigan Economic Development Council ("MEDC"), and individual employers.

EMPLOYMENT BREAKDOWN

The 2000 U. S. Census reports the occupational breakdown of persons 16 years and over for Calhoun County are as follows:

	Number	Percent
PERSONS BY OCCUPATION	62,956	100.00%
Professional Specialty Occupations	16,938	26.90
Service Occupations	10,249	16.28
Sales & Office Occupations	15,248	24.22
Farming, Fishing, & Forestry Occupations	237	0.38
Construction & Maintenance Occupations	5,300	8.42
Transportation & Material Moving Occupations	14,984	23.80

The breakdown by industry for persons 16 years and over in Calhoun County are as follows:

	Number	Percent
PERSONS BY INDUSTRY	62,956	100.00%
Agriculture, Forestry, Fishing, Hunting & Mining	655	1.04
Construction	2,928	4.65
Manufacturing	16,428	26.09
Wholesale Trade	1,461	2.32
Retail Trade	7,180	11.41
Transportation	2,682	4.26
Information	834	1.33
Finance, Insurance, & Real Estate	2,905	4.61
Professional & Management Services	3,591	5.70
Educational, Health & Social Services	12,661	20.11
Arts, Entertainment, Recreation & Food Services	4,934	7.84
Other Professional and Related Services	3,164	5.03
Public Administration	3,533	5.61

UNEMPLOYMENT

The Michigan Department of Labor and Economic Growth, Office of Labor Market Information, reports unemployment averages for Calhoun County (not seasonally adjusted) are as compared to the State of Michigan as follows:

	County of Calhoun	State of Michigan
2011 Year to Date (January)	9.9%	11.3%
2010 Annual Average	11.6	13.1
2009 Annual Average	11.7	13.6
2007 Annual Average	7.5	8.3
2007 Annual Average	6.7	7.1

RETAIL SALES

A breakdown of retail sales (000's omitted) for Calhoun County as compared to the State of Michigan, as reported in the 2006 Editor & Publishers Market Guide, are as follows:

	NUMBER OF STORES		ESTIMATE OF RETAIL SALES (000's omitted)	
Product/Service	County of Calhoun	State of Michigan	County of Calhoun	State of Michigan
Auto	67	4,234	$542,193	$44,214,183
Furniture	26	1,970	43,432	4,554,363
Electrical Appliance	25	1,589	17,977	4,090,927
Lumber & Hardware	55	3,421	195,813	13,641,603
Food	64	5,973	221,255	17,543,450
Drugs	46	2,861	145,955	9,652,260
Gasoline	64	4,201	248,082	14,280,459
Apparel	67	4,792	60,941	7,370,355
General Merchandise	27	1,450	441,676	27,621,916
TOTALS	441	30,491	$1,917,324	$142,969,516

BANKING

The following banks have branches located within the School District's boundaries. Deposits are as reported in the Accuity American Financial Directory, July - December 2010.

Bank	Main Office	Total State-Wide Deposits
Hillsdale County National Bank	Hillsdale	$ 284,820,000
Southern Michigan Bank & Trust	Coldwater	$450,940,000
Fifth Third Bank, Michigan	Cincinnati, OH	N/A

GENERAL SCHOOL INFORMATION

DESCRIPTION

The School District currently operates one elementary school and one middle/high school. The School District's 2010/11 student enrollment is 1,039. A staff of 60 teachers, six administrators and 71 support personnel are employed by the School District.

BOARD OF EDUCATION

The Board of Education consists of seven members who are elected at large for four-year overlapping terms. The Board annually elects a President, Vice President, Treasurer and Secretary. The Board is responsible for the selection and appointment of the Superintendent of Schools. The Board meets as a single body to set or amend policy, develop long range educational goals and act upon recommendations of the Superintendent of Schools. The Board is also responsible for adopting and periodically amending the operating budget and evaluating school programs in accordance with governing laws.

ADMINISTRATIVE STAFF

Robert A. Ridgeway, SUPERINTENDENT

Mr. Ridgeway received his Master of Arts, Educational Leadership from Western Michigan University in June 1997. He also received his Bachelor of Arts, Magna Cum Laude from Albion College in May 1991.

Mr. Ridgeway began his career in education in 1991 as a teacher in Math/Biology at Homer Community Schools from 1991 to 2004. He assumed a position in Administration serving as Curriculum Director, School Improvement Director, Athletic and Recreation Director in 2004. He assumed his present position as Superintendent of Homer Community Schools in 2007.

Mr. Ridgeway is a member of Michigan Association of School Administrators.

Julie A. Waterbury, BUSINESS MANAGER

Ms. Waterbury received her Bachelor of Business Administration from Western Michigan University in December 1984. She became a Certified Public Accountant in September 1986. She worked at Southern Michigan Bank & Trust as Vice President of Accounting and Vice President of Commercial Loans Operations from 1990 to 2004. She assumed the role of Comptroller for Coldwater Community Schools from 2004 to 2010. She assumed her present position as Business Manager of Homer Community Schools in 2010.

Ms. Waterbury professional memberships include Michigan School Business Officials.

SCHOOL ENROLLMENT

Historical Enrollment

The School District's historical enrollment (Fall Pupil Count Day) is as follows:

School Year	Enrollment	School Year	Enrollment
2010/11	1,039	2005/06	1,048
2009/10	1,026	2004/05	1,052
2008/09	1,064	2003/04	1,074
2007/08	1,049	2002/03	1,080
2006/07	1,047	2001/02	1,059

Enrollment by Grade

The enrollment by grade for the school year 2010/11 (Fall Pupil Count Day) are as follows:

Kindergarten	96	Ninth	96
First	71	Tenth	75
Second	79	Eleventh	73
Third	82	Twelfth	61
Fourth	79	*Sub Total*	1,002
Fifth	70	Special Ed.	37
Sixth	77		
Seventh	67		
Eighth	76	TOTAL	1,039

Projected Enrollment

The projected enrollment (2015/16) are as follows:

K-4	416
5-8	354
9-12	310
TOTAL	1,080

EXISTING SCHOOL FACILITIES

School	Grades	Year Completed	Remodeling/ Additions	Type of Construction
Elementary				
Lillian Fletcher	K-4	1957	2004	Masonry
Homer Middle/High School	5-12	1947	1950/76	Masonry
Additional Facilities				
Greenhouse/Bus Garage/ Storage Shed/Press Boxes	---	1987	---	Masonry

OTHER SCHOOLS

There are no other private, charter or parochial schools within the School District's boundaries.

APPENDIX C

Homer Community School District
General Fund Budget Summaries
For Fiscal Year Ending June 30, 2011

	2010/11 Adopted Budget	2010/11 Amended Budget
REVENUE		
Local Sources	$505,091	$521,908
State Sources	7,289,351	7,535,447
Federal Sources	842,161	768,695
TOTAL REVENUE	8,636,603	8,826,050
Incoming Transfers & Other Transactions	708,224	705,955
TOTAL REVENUE	9,344,827	9,532,005
EXPENDITURES		
INSTRUCTION:		
Basic Programs	4,559,897	4,728,539
Added Needs	1,432,122	1,115,548
TOTAL INSTRUCTION	5,992,019	5,844,087
SUPPORTING SERVICES:		
Pupil	219,222	274,872
Instructional	326,286	383,060
General administration	242,836	238,771
School administration	539,234	527,215
Business services	351,460	283,361
Operations/Maintenance	814,301	810,562
Pupil transportation	565,225	506,899
Central	131,150	258,908
Community Services	212,301	43,000
Other Support Serives (Athletics)	0	257,155
TOTAL SERVICES	3,402,015	3,583,803
TOTAL EXPENDITURES	9,394,034	9,427,890
Outgoing Transfers & Other Transactions	137,510	139,615
TOTAL EXPENDITURES	$9,531,544	$9,567,505
REVENUE OVER (UNDER) EXPENDITURES	(186,717)	(35,500)
BEGINNING FUND BALANCE, JULY 1	540,500	540,500
ESTIMATED ENDING FUND BALANCE, JUNE 30	$353,783	$505,000

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Homer Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Community Schools, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Homer 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. Those standards require that we plan and perform our 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.

The financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component unit has not been reported and has not been determined.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the Homer Community Schools, as of June 30, 2010, or the changes in financial position thereof for the year then ended.

In addition, 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 Homer Community Schools, as of June 30, 2010, and the respective changes in financial position thereof 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 information on pages v through xiii and 30, are not a required part of the basic financial statements but are supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

Maner Costerisan PC

August 11, 2010

Figure A-2
Major Features of District-Wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements: Governmental Funds	Fund Financial Statements: Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Homer's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Homer Community Schools (HCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District's general fund financial situation decreased from the 2009 fiscal year to 2010. For the 2009/2010 school year general fund, fund balance was decreased by $83,974. The Board of Education approved a budget with a deficit of $134,219. The decrease was due to increased expenditures.

As expected, the athletic fund had greater expenses for 2010 than revenue; this amount was budgeted in the general fund to cover the shortfall in the athletic fund.

The food service program had more revenues than expenses for 2010 by approximately $26,000.

For the 2009/2010 school year, the capital projects fund paid for a portable classroom. Energy proficiency projects were also finished in the 2010 school year.

Total general fund expenditures and transfers exceeded $9.29 million dollars with revenue approximately $9.21 million dollars; total general fund expenditures and transfers out, exceeded revenue and transfers in by $83,974. The District continues to participate in short-term loans, borrowing $1,300,000 for 2010, against anticipated state aid payments. This amount was increased from the 2009 fiscal by $200,000. The District anticipates to borrow $1,300,000 for the 2010/2011 fiscal year.

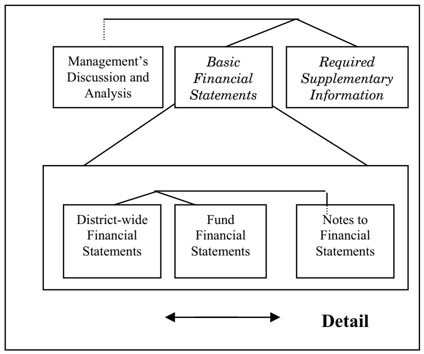
The District blended student membership in the Fall of 2010 decreased by 31 FTE's from 2009. As a result of the decline in students, reductions in staff were implemented for the 2010 school year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

Figure A-1
Organization of Homer Community Schools' Annual Financial Report



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

The two district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets were lower at June 30, 2010 from the year before, decreasing by $112,682 to $3,764,117. The other impact is the District's accumulated depreciation which was $8,017,280 compared to District capital assets of $16,253,341.

Table A-3
Homer Community Schools

	2010	2009
Current assets	$ 3,380,944	$ 3,501,044
Capital assets and other	8,257,267	8,532,130
Total assets	11,638,211	12,033,174
Long-term debt outstanding	4,893,841	5,247,040
Other liabilities	2,980,253	2,909,335
Total liabilities	7,874,094	8,156,375
Net assets:		
Invested in capital assets, net of related debt	3,624,985	3,438,588
Restricted for debt service	239,840	189,465
Unrestricted	(100,708)	248,746
Total net assets	$ 3,764,117	$ 3,876,799

Table A-4
Changes in Homer Community Schools' Net Assets

	2010	2009
Revenues:		
Program revenues:		
Charges for services	$ 208,448	$ 295,722
Federal and state categorical grants	1,731,997	1,411,406
General revenues:		
Property taxes	985,147	918,201
Investment	110	23,271
State aid - unrestricted	6,510,576	6,690,990
Federal ARRA sources - unrestricted	297,103	393,993
ISD	657,742	477,813
Other	26,206	40,709
Total revenues	10,417,329	10,252,105
Expenses:		
Instruction	5,870,662	5,773,448
Support services	3,257,369	2,888,493
Community services	177,481	171,149
Outgoing transfers and other	8,631	27,101
Food services	479,269	500,368
Athletics	185,265	184,863
Interest on long-term debt	181,103	186,960
Unallocated depreciation	370,231	415,520
Total expenses	10,530,011	10,147,902
Change in net assets	$ (112,682)	$ 104,203

District Governmental Activities

The District's financial condition has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has remained consistent at $7,316 per student in 2010.
- Student membership in the District has decreased. In fiscal year 1999 state aid membership was 1,129.72 and in eight years has decreased by 9% to 1,027.69. Homer Community Schools does participate in School of Choice and Open Enrollment to attract new students to the District.
- Many of the District's employees have been part of a total compensation method of determining their wage and benefit package, which has allowed the District's total compensation to generally keep pace with the decrease in District revenues.

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FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District as a whole has a combined fund balance is $1.07 million compared to $1.14 million in 2009. The fund balance decreased by $72,054 for the year primarily due to increased expenditures. There is a debt service fund with a net fund balance of $284,861. The general fund decreased its fund balance by $83,974 and other nonmajor governmental funds decreased by $43,869 (food service, athletics, capital projects and energy bonds).

The general fund's revenues were about 99.29% of expenditures, while athletic spending was nearly 282.14% greater than revenues. The general fund contribution to the athletic fund brought this fund to its expected balance of matching revenues to expenditures. For fiscal 2010, food service ended with a fund balance of $125,218 covering the District for three months of expense obligations.

General Fund and Budget Highlights

During the 2010 fiscal year the original District budget was amended to reflect changes which affected the District. These changes included adjustments for the final student count, adjustments to the State revenue projections and the final determination of grant awards.

The final amended budget was to have expenditures and outgoing transfers greater than $134,219 than revenues. Final results showed that revenues came in less ($134,614) than were anticipated, but expenditures and transfers were less than anticipated by ($184,859). The net result after other financing sources and (uses) was a change in fund balance of ($83,974), decreasing the fund balance to $540,500.

General fund expenditures were less than final budgeted amounts.

Overall the difference between the final District's amended budget and end of the year figures amounted to a $50,245 variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5
Homer Community Schools' Capital Assets

	2010			2009
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 15,000	$ -	$ 15,000	$ 15,000
Construction in process	-	-	-	352,517
Buildings and improvements	11,411,596	3,856,968	7,554,628	7,328,838
Technology	735,815	676,717	59,098	95,929
Furniture and fixtures	1,942,583	1,794,165	148,418	159,041
Machinery	1,028,815	954,369	74,446	88,456
Transportation equipment	1,119,532	735,061	384,471	468,786
Total	$ 16,253,341	$ 8,017,280	$ 8,236,061	$ 8,508,567

The only building and improvement made in 2010 was the purchase of a portable classroom and the finish of energy proficiency projects.

LONG-TERM DEBT

At year end the District had $5,524,136 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 7 to the financial statements.

The District issued $5,600,000 of bonds in September 2004 for a capital project, which has since been reduced as an outstanding debt. Principal and interest payments have been made to decrease the long-term debt.

The District implemented a voluntary severance plan of $318,700 during fiscal year 2010.

Table A-6 Homer Community Schools Outstanding Long-Term Debt	2010	2009
Bus installment purchase	$ 281,036	$ 345,000
General obligation bonds and other debt	4,327,835	4,705,373
Durant - limited obligation bonds	23,411	43,169
Voluntary severance plan	318,700	-
Compensated absences	573,154	667,876
	$ 5,524,136	$ 5,761,418

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of five existing circumstances that could significantly affect its financial health in the future:

- The 2010-2011 foundation allowance is uncertain. The foundation allowance represents 83% of total District revenue.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion aid to the District.
- Student count is projected to increase slowly over the next five years. However, the uncertain economy in the State of Michigan could impact the number of enrolled students.
- Health care costs have increased and retirement contributions increased to a new rate of 19.41%, effective October 1, 2010.
- ARRA funding - The District received approximately $289/student of ARRA funding, ($297,103), during the 2009/2010 school year and future ARRA funding is uncertain.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Homer Community Schools, 403 S. Hillsdale St, Homer, Michigan 49245.

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BASIC FINANCIAL STATEMENTS

HOMER COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 963,331
Investments - restricted state set-aside	810,000
Receivables:	
Accounts receivable	18,531
Due from other governmental units	1,589,082
TOTAL CURRENT ASSETS	3,380,944
NONCURRENT ASSETS:	
Deferred charges, net of amortization	21,206
Capital assets	16,253,341
Less accumulated depreciation	(8,017,280)
TOTAL NONCURRENT ASSETS	8,257,267
TOTAL ASSETS	$ 11,638,211

See notes to financial statements.

LIABILITIES AND NET ASSETS	Governmental activities
CURRENT LIABILITIES:	
Accounts payable	$ 101,666
Accrued salaries and related items	778,543
Accrued interest	58,179
Deferred revenue	111,570
Notes payable	1,300,000
Current portion of long-term obligations	463,832
Current portion of termination benefits	166,463
TOTAL CURRENT LIABILITIES	2,980,253
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	4,168,450
Noncurrent portion of compensated absences and termination benefits	725,391
TOTAL NONCURRENT LIABILITIES	4,893,841
TOTAL LIABILITIES	7,874,094
NET ASSETS:	
Invested in capital assets, net of related debt	3,624,985
Restricted for debt service	239,840
Unrestricted	(100,708)
TOTAL NET ASSETS	3,764,117
TOTAL LIABILITIES AND NET ASSETS	$ 11,638,211

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HOMER COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

		Program revenues		Governmental activities
Functions/programs	Expenses	Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	$ 5,870,662	$ 27	$ 1,203,502	$ (4,667,133)
Support services	3,257,369	-	112,105	(3,145,264)
Community services	177,481	36,853	-	(140,628)
Outgoing transfers and other transactions	8,631	-	-	(8,631)
Food services	479,269	105,903	416,390	43,024
Athletics	185,265	65,665	-	(119,600)
Interest on long-term debt	181,103	-	-	(181,103)
Unallocated depreciation	370,231	-	-	(370,231)
Total governmental activities	$ 10,530,011	$ 208,448	$ 1,731,997	(8,589,566)
General revenues:				
Property taxes, levied for general purposes				414,316
Property taxes, levied for debt service				570,831
Investment earnings				110
State sources				6,510,576
Federal ARRA sources - unrestricted				297,103
Intermediate sources				657,742
Other				26,206
Total general revenues				8,476,884
CHANGE IN NET ASSETS				(112,682)
NET ASSETS, beginning of year				3,876,799
NET ASSETS, end of year				$ 3,764,117

HOMER COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	2004 Debt Service fund	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	$ 427,113	$ 275,733	$ 260,485	$ 963,331
Investments - restricted state set-aside	810,000	-	-	810,000
Receivables:				
Accounts receivable	2,365	-	16,166	18,531
Due from other governmental units	1,589,082	-	-	1,589,082
Due from other funds	17,254	9,128	502	26,884
TOTAL ASSETS	$ 2,845,814	$ 284,861	$ 277,153	$ 3,407,828
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 91,869	$ -	$ 9,797	$ 101,666
Accrued salaries and related items	777,456	-	1,087	778,543
Accrued interest	13,158	-	-	13,158
Due to other funds	9,630	-	17,254	26,884
Deferred revenue	113,201	-	736	113,937
Notes payable	1,300,000	-	-	1,300,000
TOTAL LIABILITIES	2,305,314	-	28,874	2,334,188

See notes to financial statements.

	General Fund	2004 Debt Service fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:				
Reserved for debt service	$ -	$ 284,861	$ -	$ 284,861
Unreserved:				
Designated for severance benefits	353,783	-	-	353,783
Unreserved, undesignated reported in:				
Designated for subsequent years expenditures	186,717			186,717
Special revenue funds			125,720	125,720
Capital projects funds	-	-	122,559	122,559
TOTAL FUND BALANCES	540,500	284,861	248,279	1,073,640
TOTAL LIABILITIES AND FUND BALANCES	$ 2,845,814	$ 284,861	$ 277,153	$ 3,407,828

Total governmental fund balances		$ 1,073,640
Amounts reported for governmental activities in the statement of net assets are different because:		
Value of amortized bond issuance costs	$ 35,348	
Accumulated amortization	(14,142)	
		21,206
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	16,253,341	
Accumulated depreciation is	(8,017,280)	
		8,236,061
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Long-term debt obligations		(4,632,282)
Compensated absences and termination benefits		(891,854)
Accrued interest is not included as a liability in government funds, it is recorded when paid		(45,021)
Deferred revenue at June 30, 2009, expected to be collected after September 1, 2009		2,367
Net assets of governmental activities		$ 3,764,117

See notes to financial statements.

HOMER COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General Fund	2004 Debt Service fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:				
Local sources:				
Property taxes	$ 411,949	$ 570,529	$ -	$ 982,478
Tuition	27	-	-	27
Investment earnings	29	33	48	110
Food sales and admissions	-	-	240,365	240,365
Other	71,592	-	20,200	91,792
Total local sources	483,597	570,562	260,613	1,314,772
State sources	7,292,535	-	56,811	7,349,346
Federal sources	755,526	-	316,456	1,071,982
Incoming transfers and other	678,555	-	-	678,555
Total revenues	9,210,213	570,562	633,880	10,414,655
EXPENDITURES:				
Current:				
Instruction	5,765,384	-	-	5,765,384
Supporting services	3,240,345	-	-	3,240,345
Food service activities	-	-	479,269	479,269
Athletic activities	-	-	185,265	185,265
Community service activities	177,481	-	-	177,481
Outgoing transfers and other transactions	8,631	-	-	8,631
Capital outlay	-	-	89,887	89,887

	General Fund	2004 Debt Service fund	Other nonmajor governmental funds	Total governmental funds
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	$ -	$ 345,000	$ 19,758	$ 364,758
Interest	-	169,550	5,916	175,466
Other	-	223	-	223
Total expenditures	9,191,841	514,773	780,095	10,486,709
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	18,372	55,789	(146,215)	(72,054)
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	17,254	-	119,600	136,854
Transfers to other funds	(119,600)	-	(17,254)	(136,854)
Total other financing sources (uses)	(102,346)	-	102,346	-
NET CHANGE IN FUND BALANCES	(83,974) -	55,789	(43,869)	(72,054)
FUND BALANCES:				
Beginning of year	624,474	229,072	292,148	1,145,694
End of year	$ 540,500	$ 284,861	$ 248,279	$ 1,073,640

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HOMER COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
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	$ (72,054)
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	(370,231)
Capital outlay	97,725
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	39,607
Accrued interest payable, end of the year	(45,021)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:	
Payments on debt	458,722
Amortization of bond issuance costs	(2,357)
Amortization of bond premium	2,538
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred revenue, beginning of the year	-
Deferred revenue, end of the year	2,367
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences and termination benefits, beginning of the year	667,876
Accrued compensated absences and termination benefits, end of the year	(573,154)
Accrued voluntary severance plan, beginning of the year	-
Accrued voluntary severance plan, end of the year	(318,700)
Change in net assets of governmental activities	$ (112,682)

See notes to financial statements.

HOMER COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Agency fund	Private Purpose Trust Fund
ASSETS		
Cash and cash equivalents	$ 198,480	$ 23,053
Accounts receivable	634	-
TOTAL ASSETS	$ 199,114	$ 23,053
LIABILITES AND NET ASSETS		
LIABILITIES:		
Due to student and other groups	$ 199,114	$ -
NET ASSETS:		
Reserved for trust activities	-	23,053
TOTAL LIABILITIES AND NET ASSETS	$ 199,114	$ 23,053

See notes to financial statements.

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HOMER COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2010

	Private Purpose Trust Fund
ADDITIONS:	
Interest earnings	$ 627
DEDUCTIONS:	
Other	1,403
CHANGE IN NET ASSETS	(776)
NET ASSETS:	
Beginning of year	23,829
End of year	$ 23,053

See notes to financial statements.

HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Homer Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as described in Note 1A. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Homer Community Schools (the "District") is governed by the Homer Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

Component unit. The Max and Lucille Cortright Homer Education Foundation is a separate tax exempt not for profit corporation under Internal Revenue Code section 501(c)(3). The purpose is to provide additional funding for the education of the children of Homer. This entity has been excluded from these financial statements and separate audited financial statements have not been prepared.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues.*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

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

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

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

The *2004 debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *capital projects fund* accounts for the receipt of debt proceeds, transfers from the general fund, other revenue and the acquisition of fixed assets or construction of major capital projects.

The *debt service Durant fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. This is maintained for the Durant debt.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust* fund is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where interest payments may be spent for student scholarships. These funds are not included in the District's government-wide financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are 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 revenues in the year for which they are levied. Grants 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 and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 when payment is due.

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

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2010, the foundation allowance was based on pupil membership counts taken in February and September of 2009.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October 2009 to August 2010. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

   The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools and* No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

   State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

   Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

For the year ended June 30, 2010, the District levied the following amounts per $1,000 of assessed valuation:

Fund	Mills
General fund:	
Non-Principal Residence Exemption (PRE)	18.0
Commercial Personal Property	6.0
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	4.8

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

5. Capital Assets (Concluded)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding $5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.

6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2010. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS

At June 30, 2010, the District has no deposits which meet the GASB Statement #40 definition of investments.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2010, $1,970,681 of the District's bank balance of $2,220,681 was exposed to custodial credit risk because it was uninsured. However, $810,000 is collateralized and $1,160,681 is uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the 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 District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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NOTE 3 - DEPOSITS (Concluded)

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of $221,533	$ 1,184,864
Investments - state set-aside	810,000
	$ 1,994,864

The above amounts are reported in the financial statements as follows:

Cash Private Purpose Trust Fund	$ 23,053
Cash Agency Fund	198,480
Cash - district-wide	963,331
Investments - state set-aside	810,000
	$ 1,994,864

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010 from other governmental units consist of the following:

Govermental units:	
State aid	$ 1,315,630
Federal revenue	99,277
Other	174,175
	$ 1,589,082

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District’s capital assets follows:

	Balance July 1, 2009	Additions	Deletions/ reclass	Balance June 30, 2010
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 15,000	$ -	$ -	$ 15,000
Work in process	352,517	-	(352,517)	-
Total capital assets, not being depreciated	367,517	-	(352,517)	15,000
Capital assets, being depreciated:				
Buildings and improvements	10,961,354	450,242	-	11,411,596
Technology	735,815	-	-	735,815
Furniture and fixtures	1,942,583	-	-	1,942,583
Machinery and equipment	1,028,815	-	-	1,028,815
Transportation and equipment	1,119,532	-	-	1,119,532
Total capital assets being depreciated	15,788,099	450,242	-	16,238,341
Accumulated depreciation:				
Buildings and improvements	3,632,516	224,452	-	3,856,968
Technology	639,886	36,831	-	676,717
Furniture and fixtures	1,783,542	10,623	-	1,794,165
Machinery and equipment	940,359	14,010	-	954,369
Transportation and equipment	650,746	84,315	-	735,061
Total accumulated depreciation	7,647,049	370,231	-	8,017,280
Net capital assets being depreciated	8,141,050	80,011	-	8,221,061
Net governmental capital assets	$ 8,508,567	$ 80,011	$ (352,517)	$ 8,236,061

Depreciation for the fiscal year ended June 30, 2010 amounted to $370,231. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 6 - NOTES PAYABLE

At June 30, 2010, the District has notes payable outstanding of $900,000 and $400,000. The notes have an interest rate of 1.40% and 3.19% and mature on August 20, 2010 and October 21, 2010, respectively. The District has $810,000 of funds on deposit with a financial institution, which are included in investments on the general fund balance sheet, to be applied against the $1,300,000 note. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2009	Additions	Payments	Balance June 30, 2010
$ 1,100,000	$ 1,300,000	$ 1,100,000	$ 1,300,000

NOTE 7 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

	Bus installment purchase	General obligation bonds and premium	Termination benefits and compensated absences	Voluntary severance plan	Limited obligation Durant bonds	Total
Balance, July 1 2009	$345,000	$ 4,705,373	$ 667,876	$ -	$ 43,169	$ 5,761,418
Additions	-	-	-	318,700	-	318,700
Deletions	(63,964)	(377,538)	(94,722)	-	(19,758)	(555,982)
Balance, June 30, 2010	281,036	4,327,835	573,154	318,700	23,411	5,524,136
Less current portion	(66,388)	(390,000)	(47,763)	(118,700)	(7,444)	(630,295)
Total due after one year	$214,648	$ 3,937,835	$ 525,391	$ 200,000	$ 15,967	$ 4,893,841

NOTE 7 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2010 is comprised of the following:

Limited obligation (Durant) bond, due in installments of $7,444 to $8,169 through May 15, 2013, with interest of 4.76%. Certain future state aid payments have been pledged as security.	$ 23,411
2004 serial bonds due in annual installments of $360,000 to $515,000 through May 2019 with interest from 3.25% to 4.30%.	3,955,000
Bus installment purchase agreement due in annual installments of $66,388 to $74,227 through September 2014 with interest at 3.79%	281,036
General obligation (Energy bonds) due in annual installments of $30,000 to $45,000 through May 2019 with interest at 6.00%.	350,000
Obligation under contract for compensated absences	573,154
Voluntary severance plan	318,700
Plus: premium on 2004 bond issuance	22,835
Total general long-term debt	$ 5,524,136

Interest expense (all funds) for the year ended June 30, 2010 was approximately $185,200. General fund interest expense is included in support services.

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

NOTE 7 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2010, including interest of $963,651 are as follows:

Year ending June 30,	Principal	Interest	Total
2011	$ 582,532	$ 183,357	$ 765,889
2012	591,703	166,806	758,509
2013	614,686	148,279	762,965
2014	529,226	128,849	658,075
2015	480,000	107,871	587,871
2016 - 2019	2,130,000	228,489	2,358,489
Total	4,928,147	963,651	5,891,798
Premium on bond issuance	22,835	-	22,835
Accumulated compensated absences	573,154	-	573,154
	$ 5,524,136	$ 963,651	$ 6,487,787

The District has entered into voluntary termination benefit arrangements with certain employees. The original agreement provides for a total payment to each individual of $30,000, $10,000 or $8,700. $30,000 is paid over three equal payments of $10,000. $10,000 and 8,700 are paid annually. There are currently ten employees entitled to future payments of $30,000, one for $10,000 and one for $8,700. The liability has been recorded at the face amount as the discounted present value approximates face amount of liability.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2010 are as follows:

Receivable fund		Payable fund	
Special revenue	$ 502	General	$ 9,630
Debt service	9,128	Food service	17,254
General fund	17,254		
	$ 26,884		$ 26,884

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

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, Michigan 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 through 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. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first $5,000, 3.6% of $5,001 through $15,000 and 6.4% of all wages over $15,000.

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

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, 2010 was 16.54% through September 2009 and 16.94% for October 1, 2009 through June 30, 2010. 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, 2010, 2009 and 2008 were approximately $922,000, $898,000 and $880,000, respectively, and were equal to the required contribution for those years.

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

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

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of $500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 11 - TRANSFERS

The general fund transferred $119,600 to the athletic fund during the current fiscal year. The transfer to the athletic fund was to subsidize operations. The school lunch fund transferred $17,254 to the general fund. The transfer from the school lunch fund to the general fund was made to cover indirect cost for the current year paid for by the general fund that relate to the school lunch activities.

NOTE 12 - SUBSEQUENT EVENTS

The District has approved borrowing $1,300,000 for fiscal year 2011 to replace the note payable as described in Note 6.

NOTE 13 - THE AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

During the year ended June 30, 2010 the District recorded revenue of $297,103 of unrestricted ARRA stabilization funds to off-set a shortage in the State of Michigan foundation funding. It is uncertain if the District will receive ARRA stabilization funds in the future.

NOTE 14 – FUTURE ACCOUNTING STANDARDS

Effective for the year ending June 30, 2011, the District will be required to implement new accounting standards that revise the classification of fund balance and the definition of special revenue funds. As a result, athletic activities will be included in the general fund rather than a separate fund.

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REQUIRED SUPPLEMENTARY INFORMATION

HOMER COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2010

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 686,513	505,091	$ 483,597	$ (21,494)
State sources	7,485,817	7,289,351	7,292,535	3,184
Federal sources	416,203	842,161	755,526	(86,635)
Incoming transfers and other	489,355	708,224	678,555	(29,669)
Total revenues	9,077,888	9,344,827	9,210,213	(134,614)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	4,537,454	4,607,734	4,627,640	(19,906)
Added needs	1,425,966	1,318,728	1,131,144	187,584
Adult and continuing education	7,000	6,600	6,600	-
Total instruction	5,970,420	5,933,062	5,765,384	167,678
Supporting services:				
Pupil	149,888	204,711	246,244	(41,533)
Instructional staff	115,000	348,023	331,794	16,229
General administration	222,770	260,680	256,308	4,372
School administration	504,490	505,565	497,103	8,462
Business	299,715	317,559	310,711	6,848
Operation/maintenance	866,560	954,070	1,012,687	(58,617)
Pupil transportation	544,770	555,665	525,364	30,301
Central	60,700	61,077	60,134	943
Total supporting services	2,763,893	3,207,350	3,240,345	(32,995)
Community services	178,280	205,726	177,481	28,245
Outgoing transfers and other transactions	17,000	9,000	8,631	369
Total expenditures	8,929,593	9,355,138	9,191,841	163,297
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	148,295	(10,311)	18,372	28,683
OTHER FINANCING SOURCES (USES):				
Transfers to other funds	(134,010)	(123,908)	(119,600)	4,308
Transfers from other funds	-	-	17,254	17,254
Total other financing sources (uses)	(134,010)	(123,908)	(102,346)	21,562
NET CHANGE IN FUND BALANCE	$ 14,285	$ (134,219)	(83,974)	$ 50,245
FUND BALANCE:				
Beginning of year			624,474	
End of year			$ 540,500	

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THRUN
LAW FIRM, P.C.

U.S. MAIL ADDRESS
P.O. BOX 2575
EAST LANSING, MI 48826-2575
PHONE: (517) 484-8000
FAX: (517) 484-0041
FAX: (517) 484-0081

ALL OTHER SHIPPING
2900 WEST ROAD, SUITE 400
EAST LANSING, MI 48823-1391

DRAFT LEGAL OPINION

Homer Community School District
Counties of Calhoun, Jackson, Hillsdale and Branch
State of Michigan

We have acted as bond counsel in connection with the issuance by Homer Community School District, Counties of Calhoun, Jackson, Hillsdale and Branch, State of Michigan (the "Issuer"), of 2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment) (the "Bonds"), in the aggregate principal amount of $15,000,000.

The Bonds are in fully registered form and issued without coupons.

The Bonds are dated May 18, 2011, are subject to redemption prior to maturity at the option of the Issuer in the manner and at the times as set forth in the Bonds, are of $5,000 denomination or any integral multiple thereof, mature serially on May 1 of each year, bearing interest payable on November 1, 2011, and semiannually thereafter on May 1 and November 1 of each year, in the amount and rate as follows:

Year	Amount	Rate	Year	Amount	Rate
2012	$750,000	1.65%	2019	$ 755,000	5.45%
2013	750,000	2.40	2020	1,280,000	5.55
2014	750,000	3.15	2021	1,280,000	5.75
2015	750,000	3.75	2022	1,280,000	5.95
2016	750,000	4.30	2024	2,565,000	6.15
2017	750,000	4.80	2026	2,590,000	6.25
2018	750,000	5.20			

The Bonds maturing on May 1, 2024 and May 1, 2026, are term Bonds subject to mandatory redemption in part, by lot, on the redemption dates and at the redemption price equal to the principal amount thereof as provided in the Bonds.

We have examined the documents which we deem authentic and pertinent to the validity of the Bonds, including the certified record evidencing the authorization of the Bonds by the board of education of the Issuer, a copy of the approval of the Department of Treasury of the State of Michigan to issue the Bonds, a certified copy of the certificate of the Treasurer of the State of Michigan qualifying the Bonds for purposes of Article IX, Section 16, of the Michigan Constitution, and a specimen of the Bond certificates.

Based upon the foregoing, we are of the opinion that under existing law:

(1) the Bonds have been lawfully authorized and issued and are enforceable obligations of the Issuer in accordance with their terms;

(2) the Bonds are the general obligation of the Issuer for which its full faith, credit and resources have been irrevocably pledged;

(3) the Issuer has the power, and is obligated, to levy taxes on all taxable property now situated within the corporate boundaries of the Issuer, without limitation as to rate or amount, sufficient to pay the principal of and interest on the Bonds;

(4) the Bonds have been qualified pursuant to Act 92, Public Acts of Michigan, 2005, as amended, enacted pursuant to Article IX, Section 16, of the Michigan Constitution of 1963. Under the terms of said constitutional and statutory provisions, if for any reason the Issuer will be or is unable to pay the principal and interest on the Bonds when due, then the Issuer shall borrow, and the State of Michigan shall lend to it, an amount sufficient to enable the Issuer to make the payment;

(5) the Bonds and the interest thereon are exempt from all taxation in the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof; and

(6) the interest on the Bonds is not excluded from gross income for federal income tax purposes. The Issuer has irrevocably elected to apply the provisions of Section 54F of the Internal Revenue Code of 1986, as amended (the "Code") to the Bonds, and further has designated such Bonds as "qualified school construction bonds" thereunder. As a result, the Issuer is entitled to receive refundable credits (the "Refundable Credits") from the United States Department of Treasury under Section 6431 of the Code. The Refundable Credits will be deposited into the debt retirement fund for the Bonds and will be used solely for payment of interest on the Bonds. The opinions set forth in the preceding three sentences are subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the Issuer continue to receive the Refundable Credits. The Issuer has covenanted to comply with such requirements. Failure to comply with certain of such requirements may cause the loss of the Refundable Credits retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds. The advice contained herein cannot be used by any taxpayer, including holders or owners of the Bonds, for the purpose of avoiding penalties related to federal income tax matters that may be imposed on such taxpayer. Taxpayers, including holders or owners of the Bonds, should seek advice based upon such taxpayers' particular circumstances from an independent tax advisor.

The rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement of such rights may also be subject to the exercise of judicial discretion in appropriate cases.

THRUN LAW FIRM, P.C.

TLF/MDG

FORM OF
CONTINUING DISCLOSURE AGREEMENT

$15,000,000
HOMER COMMUNITY SCHOOL DISTRICT
COUNTIES OF CALHOUN, JACKSON, HILLSDALE AND BRANCH
STATE OF MICHIGAN
2011 SCHOOL BUILDING AND SITE BONDS, SERIES A
(GENERAL OBLIGATION - UNLIMITED TAX)
(FEDERALLY TAXABLE-QUALIFIED SCHOOL CONSTRUCTION BONDS-DIRECT PAYMENT)

This Continuing Disclosure Agreement (the "Agreement") is executed and delivered by Homer Community School District, Counties of Calhoun, Jackson, Hillsdale and Branch, State of Michigan (the "Issuer"), in connection with the issuance of $15,000,000 2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment) (the "Bonds"). The Bonds are being issued pursuant to resolutions adopted by the Board of Education of the Issuer on March 7, 2011 and May 16, 2011 (the "Resolutions"). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Agreement is being executed and delivered by the Issuer for the benefit of the Bondholders and in order to assist the Participating Underwriters in complying with the Rule. The Issuer acknowledges that this Agreement does not address the scope of any application of Rule 10b-5 promulgated by the SEC pursuant to the 1934 Act to the Annual Reports or notices of the Listed Events provided or required to be provided by the Issuer pursuant to this Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Agreement.

"Bondholder" means the registered owner of a Bond or any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including any person holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

"Dissemination Agent" means any agent designated as such in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation, and such agent's successors and assigns.

"EMMA" shall mean the MSRB's Electronic Municipal Market Access which provides continuing disclosure services for the receipt and public availability of continuing disclosure documents and related information required by Rule 15c2-12 promulgated by the SEC.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"1934 Act" shall mean the Securities Exchange Act of 1934, as amended.

"Official Statement" shall mean the final Official Statement for the Bonds dated April 5, 2011.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Resolutions" shall mean the Resolutions duly adopted by the Issuer authorizing the issuance, sale and delivery of the Bonds.

"Rule" shall mean Rule 15c2-12 promulgated by the SEC pursuant to the 1934 Act, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of Michigan.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the SEC. Currently, the following is the State Repository:

Municipal Advisory Council of Michigan
Buhl Building
535 Griswold, Suite 1850
Detroit, Michigan 48226
Tel: (313) 963-0420
Fax: (313) 963-0943
E-Mail: mac@macmi.com

SECTION 3. Provision of Annual Reports.

(a) Each year, the Issuer shall provide, or shall cause the Dissemination Agent to provide, on or prior to the 180th day after the end of the fiscal year of the Issuer commencing with the fiscal year ending June 30, 2011, to EMMA and the State Repository an Annual Report for the preceding fiscal year which is consistent with the requirements of Section 4 of this Agreement. Currently, the Issuer's fiscal year ends on June 30. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by specific reference other information as provided in Section 4 of this Agreement; provided, however, that if the audited financial statements of the Issuer are not available by the deadline for filing the Annual Report, they shall be provided when and if available, and unaudited financial statements in a format similar to the financial statements contained in the Official Statement shall be included in the Annual Report.

(b) The Annual Report shall be submitted to EMMA either through a web-based electronic submission interface or through electronic computer-to-computer data connections with EMMA in accordance with the submission process, document format and configuration requirements established by the MSRB. The Annual Report shall also include all related information required by MSRB to accurately identify: (i) the category of information being provided; (ii) the period covered by the Annual Report; (iii) the issues or specific securities to which the Annual Report is related (including CUSIP number, Issuer name, state, issue description/securities name, dated date, maturity date, and/or coupon rate; (iv) the name of any obligated person other than the Issuer; (v) the name and date of the document; and (vi) contact information for the Dissemination Agent or the Issuer's submitter.

(c) If the Issuer is unable to provide to EMMA an Annual Report by the date required in subsection (a), the Issuer shall send a notice in a timely manner to the MSRB and to the State Repository in substantially the form attached as Appendix A.

(d) If the Issuer's fiscal year changes, the Issuer shall send a notice of such change to the MSRB and to the State Repository in substantially the form attached as Appendix B. If such change will result in the Issuer's fiscal year ending on a date later than the ending date prior to such change, the Issuer shall provide notice of such change to the MSRB and to the State Repository on or prior to the deadline for filing the Annual Report in effect when the Issuer operated under its prior fiscal year. Such notice may be provided to the MSRB and to the State Repository along with the Annual Report, provided that it is filed at or prior to the deadline described above.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

(a) audited financial statements of the Issuer prepared pursuant to State laws, administrative rules and guidelines and pursuant to accounting and reporting policies conforming in all material respects to generally accepted accounting principles as applicable to governmental units as such principles are prescribed, in part, by the Financial Accounting Standards Board and modified by the Government Accounting Standards Board and in effect from time to time; and

(b) additional annual financial information and operating data as set forth in the Official Statement under "CONTINUING DISCLOSURE".

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which previously have been provided to each of the Repositories or filed with the SEC. If the document included by specific reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The Issuer covenants to provide, or cause to be provided, notice in a timely manner not in excess of ten business days of the occurrence of any of the following events with respect to the Bonds in accordance with the Rule:

(1) principal and interest payment delinquencies;
(2) non-payment related defaults, if material;
(3) unscheduled draws on debt service reserves reflecting financial difficulties;
(4) unscheduled draws on credit enhancements reflecting financial difficulties;
(5) substitution of credit or liquidity providers, or their failure to perform;
(6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
(7) modifications to rights of security holders, if material;
(8) bond calls, if material, and tender offers;
(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the securities, if material;
(11) rating changes;
(12) bankruptcy, insolvency, receivership or similar event of the obligated person;
(13) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would constitute material information for the Bondholders, provided, that any event other than those listed under Section 5(a)(1), (3), (4), (5), (9), (11) (only with respect to any change in any rating on the Bonds) or (12) above will always be deemed to be material. Events listed under Section 5(a)(6) and (8) above will always be deemed to be material except with respect to that portion of those events which must be determined to be material.

(c) The Issuer shall promptly cause a notice of the occurrence of a Listed Event, determined to be material in accordance with the Rule, to be electronically filed with EMMA and with the State Repository together with a significant event notice cover sheet substantially in the form attached as Appendix C. In connection with providing a notice of the occurrence of a Listed Event described in Section 5(a)(9) above, the Issuer shall include in the notice explicit disclosure as to whether the Bonds have been escrowed to maturity or escrowed to call, as well as appropriate disclosure of the timing of maturity or call.

(d) The Issuer acknowledges that the "rating changes" referred to above in Section 5(a)(11) of this Agreement may include, without limitation, any change in any rating on the Bonds or other indebtedness for which the Issuer is liable, or on any indebtedness for which the State is liable.

(e) The Issuer acknowledges that it is not required to provide a notice of a Listed Event with respect to credit enhancement when the credit enhancement is added after the primary offering of the Bonds, the Issuer does not apply for or participate in obtaining such credit enhancement, and such credit enhancement is not described in the Official Statement.

SECTION 6. Termination of Reporting Obligation.

(a) The Issuer's obligations under this Agreement shall terminate upon the legal defeasance of the Resolutions or the prior redemption or payment in full of all of the Bonds.

(b) This Agreement, or any provision hereof, shall be null and void in the event that the Issuer (i) receives an opinion of nationally recognized bond counsel, addressed to the Issuer, to the effect that those portions of the Rule, which require such provisions of this Agreement, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, amended or modified, or are otherwise deemed to be inapplicable to the Bonds, as shall be specified in such opinion, and (ii) delivers notice to such effect to the MSRB, and to the State Repository, if any.

SECTION 7. Dissemination Agent. The Issuer, from time to time, may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment. Notwithstanding any other provision of this Agreement, this Agreement may be amended, and any provision of this Agreement may be waived to the effect that:

(a) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the Issuer, or the types of business in which the Issuer is engaged;

(b) this Agreement as so amended or taking into account such waiver, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, in the opinion of independent legal counsel; and

(c) such amendment or waiver does not materially impair the interests of the Bondholders, in the opinion of independent legal counsel.

If the amendment or waiver results in a change to the annual financial information required to be included in the Annual Report pursuant to Section 4 of this Agreement, the first Annual Report that contains the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of such change in the type of operating data or financial information being provided. If the amendment or waiver involves a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared based on the new accounting principles and those prepared based on the former accounting principles. The comparison should include a qualitative discussion of such differences and the impact of the changes on the presentation of the financial information. To the extent reasonably feasible, the comparison should also be quantitative. A notice of the change in the accounting principles should be sent by the Issuer to the MSRB and to the State Repository. Further, if the annual financial information required to be provided in the Annual Report can no longer be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be included in the first Annual Report that does not include such information.

SECTION 9. Additional Information. Nothing in this Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Agreement, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the

Resolutions or the Bonds, and the sole remedy under this Agreement in the event of any failure of the Issuer to comply with the Agreement shall be an action to compel performance.

SECTION 11. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Agreement.

SECTION 12. Beneficiaries. This Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters, and the Bondholders and shall create no rights in any other person or entity.

SECTION 13. Governing Law. This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State. Notwithstanding the foregoing, to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed and interpreted in accordance with such federal securities laws and official interpretations thereof.

HOMER COMMUNITY SCHOOL DISTRICT
COUNTIES OF CALHOUN, JACKSON, HILLSDALE
AND BRANCH
STATE OF MICHIGAN

By:____________________________
Its: Superintendent

Dated: May 18, 2011

APPENDIX A

NOTICE TO THE MSRB AND TO THE STATE REPOSITORY
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Homer Community School District, Calhoun, Jackson, Hillsdale and Branch Counties, Michigan
Name of Bond Issue:	2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable-Qualified School Construction Bonds-Direct Payment)
Date of Bonds:	May 18, 2011

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of its Continuing Disclosure Agreement with respect to the Bonds. The Issuer anticipates that the Annual Report will be filed by _____________.

HOMER COMMUNITY SCHOOL DISTRICT
COUNTIES OF CALHOUN, JACKSON, HILLSDALE
AND BRANCH
STATE OF MICHIGAN

By:____________________________
Its: Superintendent

Dated: _____________________

APPENDIX B

NOTICE TO THE MSRB AND THE STATE REPOSITORY
OF CHANGE IN ISSUER'S FISCAL YEAR

Name of Issuer: Homer Community School District, Calhoun, Jackson, Hillsdale and Branch Counties, Michigan

Name of Bond Issue: 2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable-Qualified School Construction Bonds-Direct Payment)

Date of Bonds: May 18, 2011

NOTICE IS HEREBY GIVEN that the Issuer's fiscal year has changed. Previously, the Issuer's fiscal year ended on ______________. It now ends on _________________.

HOMER COMMUNITY SCHOOL DISTRICT
COUNTIES OF CALHOUN, JACKSON, HILLSDALE
AND BRANCH
STATE OF MICHIGAN

By:____________________________
Its: Superintendent

Dated: _____________________

APPENDIX C

SIGNIFICANT EVENT NOTICE COVER SHEET

This cover sheet and significant event notice should be provided in an electronic format to the Municipal Securities Rulemaking Board and the State Repository pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or other Obligated Person's Name: ______________________________

Issuer's Six-Digit CUSIP Number(s): ______________________________

or Nine-Digit CUSIP Number(s) to which this significant event notice relates: ______________________________

Number of pages of attached significant event notice: ______________________________

Description of Significant Events Notice (Check One):

1. _____ Principal and interest payment delinquencies
2. _____ Non-payment related defaults
3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
5. _____ Substitution of credit or liquidity providers, or their failure to perform
6. _____ Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security
7. _____ Modifications to rights of security holders
8. _____ Bond calls
9. _____ Tender offers
10. _____ Defeasances
11. _____ Release, substitution, or sale of property securing repayment of the securities
12. _____ Rating changes
13. _____ Bankruptcy, insolvency, receivership or similar event of the obligated person
14. _____ The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms
15. _____ Appointment of a successor or additional trustee or the change of name of a trustee
16. _____ Other significant event notice (specify) ______________________________

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: ______________________________

Name: ______________________________ Title: ______________________________

Employer: ______________________________

Address: ______________________________

City, State, Zip Code: ______________________________

Voice Telephone Number: (__________) ______________________________

The MSRB Gateway is www.msrb.org or through the EMMA portal at emma.msrb.org/submission/Submission_Portal.aspx. Contact the MSRB at (703) 797-6600 with questions regarding this form or the dissemination of this notice. The cover sheet and notice may also be faxed to the MAC at (313) 963-0943.

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