

North Muskegon Public Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2014



North Muskegon Public Schools

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 15, 2014

Board of Education
North Muskegon Public Schools
North Muskegon, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Muskegon Public Schools (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

BRICKLEY DELONG

Board of Education
North Muskegon Public Schools
October 15, 2014
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Muskegon Public Schools as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 3 through 9 and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014, on our consideration of North Muskegon Public Schools’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Muskegon Public Schools’ internal control over financial reporting and compliance.



Muskegon, Michigan

North Muskegon Public Schools

Management's Discussion and Analysis

This section of the North Muskegon Public School's annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand North Muskegon Public Schools financially as a whole. The District-wide financial statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the District-wide financial statements by providing information about the District's most significant funds. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's larger individual funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A)

(Required Supplementary Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Budgetary Information for Major Funds

(Required Supplementary Information)

Reporting the District as a Whole—District-wide Financial Statements

The District-wide financial statements are designed to provide readers with a broad overview of North Muskegon Public School's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of North Muskegon Public School's assets/deferred outflow of resources and liabilities/deferred inflow of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the District, to assess the overall health of the District.

North Muskegon Public Schools

Management's Discussion and Analysis

The Statement of Net Position and Statement of Activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, food services and athletics. Property taxes, unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds—Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds, not the District as a whole. The governmental funds of the District use the following accounting approach:

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

The District as a Whole

The following table provides a summary of the District's net position as of June 30, 2014 and 2013:

Statement of Net Position

	<u>2014</u>	<u>2013</u>
Assets		
Current and Other Assets	\$ 3,545,818	\$ 3,641,127
Capital Assets	<u>13,647,029</u>	<u>14,323,318</u>
Total Assets	17,192,847	17,964,445
Deferred charges on refunding	<u>66,420</u>	<u>87,306</u>
Total Assets and Deferred Outflow of Resources	17,259,267	18,051,751
Liabilities		
Current Liabilities	2,476,612	2,937,840
Long-term Liabilities	<u>20,484,005</u>	<u>20,619,724</u>
Total Liabilities	<u>22,960,617</u>	<u>23,557,564</u>
Net Position		
Net investment in capital assets	(1,039,782)	(1,344,200)
Restricted for debt service	855,739	646,023
Restricted for food service	67,342	44,469
Unrestricted	<u>(5,584,649)</u>	<u>(4,852,105)</u>
Total Net Position	<u>\$ (5,701,350)</u>	<u>\$ (5,505,813)</u>

North Muskegon Public Schools

Management's Discussion and Analysis

Recall that the Statement of Net Position provides the perspective of the District as a whole. The significant changes from last year to this year were as follows:

- Current assets decreased due to a drop in Due From Other Governmental Units related to fewer grants, a decrease in restricted cash related to the State aid note below and a decrease in prepaid expenses.
- Capital assets decreased due to normal depreciation.
- Current liabilities decreased due to a change of how State Aid Note was structured.

The previous table focuses on the net position. The change in the net position of the District's governmental activities is discussed below. The District's net position was \$(5,701,350) at June 30, 2014. Net investment in capital assets of \$(1,039,782) which compares the original cost (less depreciation) of the District's capital assets to long-term debt used to finance the acquisition of those assets. The deficit improved due to repayment of outstanding debt being greater than current year depreciation. Restricted for debt service increased due to continued funding of the technology bond sinking fund. The remaining net position of \$(5,584,649) was unrestricted. The unrestricted deficit increased primarily due to current year borrowings from the School Bond loan fund to cover current year required debt payments.

The \$(5,584,649) deficit in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund (the District's largest fund) will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal years 2014 and 2013. Operating Grants revenue decreased due to a reduction in IDEA funding. Operating Grants and Contributions not restricted increased due to an increase in the Section 147C payment for pension costs and a Section 22c Foundation Equity Payment from the State of Michigan. Miscellaneous revenue increased due to a donation for the security system. Support Services decreased due to a reduction in testing supplies and a decrease in tax abatements.

North Muskegon Public Schools

Management's Discussion and Analysis

Statement of Activities

	<u>2014</u>	<u>2013</u>
Program Revenues		
Charges for Services	\$ 276,023	\$ 280,421
Operating Grants	1,007,477	1,107,799
General Revenues		
Property taxes	1,645,116	1,621,949
Grants and Contributions Not Restricted to Specific Programs	6,945,496	6,673,357
Investment Earnings	1,320	1,595
Miscellaneous	<u>58,065</u>	<u>23,493</u>
Total Program Revenues and General Revenues	9,933,497	9,708,614
Expenses		
Instruction	6,521,849	6,538,772
Support Services	2,280,160	2,329,433
Food Services	361,819	368,855
Athletics	229,320	223,134
Interest on long-term debt	<u>735,886</u>	<u>764,641</u>
Total Expenses	<u>10,129,034</u>	<u>10,224,835</u>
Change in Net Position	(195,537)	(516,221)
Net Position at Beginning of Year	<u>(5,505,813)</u>	<u>(4,989,592)</u>
Net Position at End of Year	<u>\$ (5,701,350)</u>	<u>\$ (5,505,813)</u>

The District's Funds

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

In the General Fund, our principal operating fund, the fund balance increased by \$165,130 to \$1,182,925. The principal reasons were:

- Increase in ACT18 revenues
- Decrease in Adult Education costs
- Decrease in substitute teacher costs
- Decrease in site improvement costs from prior years
- Deferral of Technology Grant funds to 2014/15
- Reduction in Special Education costs

North Muskegon Public Schools

Management's Discussion and Analysis

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements).

The major revisions made to the 2013/2014 General Fund's original budget were:

Revenues:

- Local sources increased due to an increase in property tax revenues and donations.
- State sources were revised upward due to increase in student count and receiving a Technology Infrastructure Grant.
- Federal sources decreased due to reduction in IDEA funds.

Expenditures:

- Basic Program decreased due to only expensing 10 months of insurance benefits due to a change in a union contract.
- Added Needs increased due to a prior year Medicaid payment being reimbursed and an increase in pension costs related to the 147C funding.
- Business Support Services was increased to cover additional tax abatements.
- Capital expenditures was increased for the purchase of a security system and renovations to the Flex Center.

Final budget to Actual variances

Revenues:

- Local Sources was over budget due to unexpected ACT18 funds received.

Expenditures:

- Basic Instruction was under budget due to reduction in contracted services accounts.
- Business Support Services was under budget due to a decrease in taxes abated.
- Operations and Maintenance was under budget due to a reduction in repair costs.
- Central Services was under budget due to not utilizing the entire technology grant in the current year and carrying it forward to 2014/15 budget.
- Athletics was under budget due to reduced coaching expenses.
- Capital Outlay was over budget due to expenditures related to the new track project budgeted for 2014/15.

North Muskegon Public Schools

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At June 30, 2014, the District had \$13,647,029 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$676,289 from last year. This year's decrease was the result of the normal depreciation exceeding current year additions. We present more detailed information about our capital assets in the notes to the financial statements.

	<u>2014</u>	<u>2013</u>
Buildings and Land	\$ 18,345,178	\$ 18,345,178
Furniture and Equipment	3,092,979	3,053,367
Vehicles	<u>413,929</u>	<u>413,929</u>
Total Capital Assets	21,852,086	21,812,474
Less Accumulated Depreciation	<u>8,205,057</u>	<u>7,489,156</u>
Total Capital Assets, Net	<u>\$ 13,647,029</u>	<u>\$ 14,323,318</u>

Long-term Debt

At June 30, 2014, North Muskegon School District had \$21,520,805 in outstanding long-term debt. During the year, the outstanding bond balance decreased due to normal scheduled bond payments. The District borrowed additional funds from state aid revolving loan fund to assist with the bond payments noted above.

	<u>2014</u>	<u>2013</u>
Bonds	\$ 14,686,811	\$ 15,508,257
Other obligations	6,486,438	5,652,146
Compensated absences	85,800	99,200
Early retirement obligations	<u>261,756</u>	<u>205,860</u>
Total long-term debt	<u>\$ 21,520,805</u>	<u>\$ 21,465,463</u>

North Muskegon Public Schools

Management's Discussion and Analysis

Economic Factors and Next Year's Budget

Our appointed officials and administration considered many factors when setting the District's 2015 fiscal year budget. One of the most important factors affecting the budget is our student count. The State of Michigan foundation allowance is determined by multiplying the blended student count by the per pupil foundation allowance. The blended count for the 2015 fiscal year is 10 percent and 90 percent of the February 2015 and September 2014 student counts, respectively. The original 2015 budget was adopted in June 2014, anticipating a decrease of 3.15 fte in student enrollment. The budget adopted for the 2014-2015 District year is projecting no use of fund balance.

The District anticipates spending approximately \$265,000 on new capital assets. Please see Note K for more information.

The District obtained a state aid anticipation note in the amount of \$600,000 for the 2014-2015 school year.

Request for Information

This financial report is designed to provide a general overview of North Muskegon Public School's finances for those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to North Muskegon Public Schools, 1600 Mills Avenue, Muskegon, MI 49445, and (231) 719-4100.

North Muskegon Public Schools
STATEMENT OF NET POSITION
June 30, 2014

	Governmental activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,130,735
Receivables	6,559
Due from other governmental units	1,524,821
Inventories	3,976
Prepaid items	7,418
Total current assets	2,673,509
Noncurrent assets	
Restricted cash and investments	872,309
Capital assets, net	
Nondepreciable	420,000
Depreciable	13,227,029
Total noncurrent assets	14,519,338
Total assets	17,192,847
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	66,420
Total assets and deferred outflows of resources	17,259,267
LIABILITIES	
Current liabilities	
State aid loan	60,000
Accounts payable and accrued liabilities	986,379
Due to other governmental units	362,321
Unearned revenue	31,112
Bonds and other obligations, due within one year	1,036,800
Total current liabilities	2,476,612
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	20,484,005
Total liabilities	22,960,617
NET POSITION	
Net investment in capital assets	(1,039,782)
Restricted	
Debt service	855,739
Food service	67,342
Unrestricted	
Total net position	\$ (5,701,350)

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

<i>Functions/Programs</i>	Program Revenue			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 6,521,849	\$ -	\$ 698,050	\$ (5,823,799)
Support services	2,280,160	-	113,326	(2,166,834)
Food services	361,819	200,939	194,601	33,721
Athletics	229,320	75,084	1,500	(152,736)
Interest on long-term debt	735,886	-	-	(735,886)
Total governmental activities	\$ 10,129,034	\$ 276,023	\$ 1,007,477	(8,845,534)
General revenues				
Property taxes				1,645,116
Grants and contributions not restricted to specific programs				6,945,496
Investment earnings				1,320
Miscellaneous				58,065
Total general revenues				8,649,997
Change in net position				(195,537)
Net position at beginning of year				(5,505,813)
Net position at end of year				\$ (5,701,350)

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
BALANCE SHEET
 Governmental Funds
 June 30, 2014

	<u>General Fund</u>	<u>2010 Technology Debt Fund</u>	<u>2003 Bond Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
ASSETS					
Cash and cash equivalents	\$ 992,801	\$ 36,411	\$ 33,019	\$ 68,504	\$ 1,130,735
Receivables	6,556	-	-	3	6,559
Due from other governmental units	1,521,572	-	-	3,249	1,524,821
Due from other funds	238	-	-	-	238
Inventories	-	-	-	3,976	3,976
Prepaid items	7,180	-	-	238	7,418
Restricted cash and investments	-	872,309	-	-	872,309
Total assets	\$ 2,528,347	\$ 908,720	\$ 33,019	\$ 75,970	\$ 3,546,056
LIABILITIES					
State aid loan	\$ 60,000	\$ -	\$ -	\$ -	\$ 60,000
Accounts payable	49,447	-	-	44	49,491
Accrued liabilities	847,558	-	-	3,330	850,888
Due to other governmental units	362,150	-	-	171	362,321
Due to other funds	-	-	-	238	238
Unearned revenue	26,267	-	-	4,845	31,112
Total liabilities	1,345,422	-	-	8,628	1,354,050
FUND BALANCES					
Nonspendable					
Inventories	-	-	-	3,976	3,976
Prepaid items	7,180	-	-	238	7,418
Restricted					
Debt service	-	908,720	33,019	-	941,739
Food service	-	-	-	63,128	63,128
Unassigned	1,175,745	-	-	-	1,175,745
Total fund balances	1,182,925	908,720	33,019	67,342	2,192,006
Total liabilities and fund balances	\$ 2,528,347	\$ 908,720	\$ 33,019	\$ 75,970	\$ 3,546,056

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 June 30, 2014

Total fund balance—governmental funds		\$ 2,192,006
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 21,852,086	
Accumulated depreciation	<u>(8,205,057)</u>	13,647,029
Deferred charges on refunding are not capitalized and amortized in the governmental funds.		
Deferred charges on refunding	100,853	
Accumulated amortization	<u>(34,433)</u>	66,420
Accrued interest in governmental activities is not reported in the governmental funds.		
		(86,000)
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
		<u>(21,520,805)</u>
Net position of governmental activities		<u>\$ (5,701,350)</u>

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2014

	<u>General Fund</u>	<u>2010 Technology Debt Fund</u>	<u>2003 Bond Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
REVENUES					
Local sources					
Property taxes	\$ 574,246	\$ 256,285	\$ 814,585	\$ -	\$ 1,645,116
Investment earnings	1,059	-	261	-	1,320
Fees and charges	75,084	-	-	200,939	276,023
Other	266,340	-	-	7,805	274,145
Total local sources	916,729	256,285	814,846	208,744	2,196,604
State sources	7,418,016	-	-	23,816	7,441,832
Federal sources	132,081	-	-	162,980	295,061
Total revenues	8,466,826	256,285	814,846	395,540	9,933,497
EXPENDITURES					
Current					
Instruction	5,826,247	-	-	-	5,826,247
Supporting services	2,418,027	-	-	-	2,418,027
Food services	-	-	-	359,667	359,667
Debt service					
Principal repayment	-	-	950,000	-	950,000
Interest and other charges	-	31,050	511,477	-	542,527
Capital outlay	70,422	-	-	-	70,422
Total expenditures	8,314,696	31,050	1,461,477	359,667	10,166,890
Excess (deficiency) of revenues over (under) expenditures	152,130	225,235	(646,631)	35,873	(233,393)
OTHER FINANCING SOURCES (USES)					
Transfers in	13,000	-	-	-	13,000
Transfers out	-	-	-	(13,000)	(13,000)
Loan proceeds	-	-	627,112	-	627,112
Total other financing sources (uses)	13,000	-	627,112	(13,000)	627,112
Net change in fund balances	165,130	225,235	(19,519)	22,873	393,719
Fund balances at beginning of year	1,017,795	683,485	52,538	44,469	1,798,287
Fund balances at end of year	\$ 1,182,925	\$ 908,720	\$ 33,019	\$ 67,342	\$ 2,192,006

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2014

Net change in fund balances—total governmental funds \$ 393,719

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

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (732,714)	
Capital outlay	<u>56,425</u>	(676,289)

Governmental funds report outflows for deferred charges on refunding as expenditures; in the Statement of Activities these costs are amortized over the life of the bond period.		(20,886)
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Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Position.		(969,096)
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Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position.		1,059,615
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Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		4,000
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Compensated absences and early retirement incentives reported in the Statement of Activities do not require the use of current financial resources. They are reported as expenditures when financial resources are used in the governmental funds.		<u>13,400</u>
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Change in net position of governmental activities		<u><u>\$ (195,537)</u></u>
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The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2014

	<u>Agency funds</u>
ASSETS	
Cash and cash equivalents	<u><u>\$ 229,251</u></u>
LIABILITIES	
Deposits held for others	<u><u>\$ 229,251</u></u>

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of North Muskegon Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. 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 School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities.

Generally accepted accounting principles require that if the School District is considered to be financially accountable for other organizations, those organizations should be included as component units in the School District's financial statements. Since no organizations met this criterion, none are included in the financial statements.

Basis of Presentation—Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the School District. All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

The fund financial statements provide information about the School District's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The School District reports the following major governmental funds:

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

The 2010 Technology Debt Fund accounts for the resources accumulated and payments made for the 2010 Technology Bonds.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements —Continued

The 2003 Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the 2003 bonds and related refinancing bonds.

Additionally, the School District reports the following fund types:

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 School District accounts for its food service activities in the school service special revenue funds.

The agency fund is custodial in nature and used to account for assets held by the School District as an agent for another organization or individual.

During the course of operations the School District has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

The 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 School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

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 school districts. For the current fiscal year ended, the foundation allowance was based on pupil membership counts taken in October and February.

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 which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Investments

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the School District are reported at fair value (generally based on quoted market prices). 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 School District intends to hold the investment until maturity.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Cash and Investments—Continued

State statutes authorize the School 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 School 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. The School District's deposits and investments are in accordance with statutory authority.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out method. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes.

As the School District constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, and equipment, of the School District are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	15-50
Furniture and equipment	5-20
Vehicles	8-10

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year in which they are incurred.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

In the computation of net investment in capital assets, School Bond Loan Fund and School Loan Revolving Fund debt is not considered to be capital related debt.

Fund Balance Flow Assumptions

Sometimes the School District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the School District that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided 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. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of 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 date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

Compensated Absences

The liability for compensated absences reported in the government-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

Compensated Absences—Continued

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Early Retirement Obligations

For government-wide financial statements, the liability for early retirement obligations is reported when legally enforceable. For fund financial statements, the liability for early retirement obligations is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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 Fund and special revenue funds. All annual appropriations lapse at year end.

The School 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 Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). 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, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within 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 Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2014.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2014, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
Money Market Mutual Funds	<u>\$ 33,960</u>	30	not rated	<u>100%</u>

Interest rate risk

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk

The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District 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 School District's deposits may not be returned to it. As of June 30, 2014, \$1,965,368 of the School's bank balance of \$2,215,368 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments

The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk

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

Restricted cash and investments

Restrictions are placed on assets by bond agreements. At June 30, 2014, cash and investments were restricted as follows:

2010 Technology Debt Fund	
Sinking fund	\$ 872,309

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Restricted cash and investments—Continued

The 2010 technology general obligation bond requires funds to be deposited into a sinking fund to build funds for the ultimate payment of the bonds.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 420,000	\$ -	\$ -	\$ 420,000
Capital assets, being depreciated:				
Buildings and improvements	17,925,178	-	-	17,925,178
Furniture and equipment	3,053,366	56,425	16,812	3,092,979
Vehicles	413,929	-	-	413,929
Total capital assets, being depreciated	21,392,473	56,425	16,812	21,432,086
Less accumulated depreciation:				
Buildings and improvements	5,209,781	426,279	-	5,636,060
Furniture and equipment	1,959,535	287,618	16,812	2,230,341
Vehicles	319,839	18,817	-	338,656
Total accumulated depreciation	7,489,155	732,714	16,812	8,205,057
Total capital assets, being depreciated, net	13,903,318	(676,289)	-	13,227,029
Capital assets, net	\$ 14,323,318	\$ (676,289)	\$ -	\$ 13,647,029

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 639,109
Support services	62,045
Athletics	29,408
Food services	2,152
	<u>\$ 732,714</u>

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	<u>\$ 238</u>

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 system, and (3) payments between funds are made.

Interfund Transfers

The Food Service Fund transferred \$13,000 to the General Fund for indirect costs.

NOTE F—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2014 follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>
State aid anticipation note				
2012/2013 0.4% due August 2013	\$ 400,000	\$ -	\$ 400,000	\$ -
2013/2014 0.4% due August 2014	-	300,000	240,000	60,000
	<u>\$ 400,000</u>	<u>\$ 300,000</u>	<u>\$ 640,000</u>	<u>\$ 60,000</u>

NOTE G—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include the School Bond Loan Fund and School Loan Revolving Fund.

The School District was in compliance in all material respects with all 2010 School Technology General obligation bond requirements.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE G—LONG-TERM OBLIGATIONS—Continued

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>one year</u>
Governmental activities					
Bonds	\$ 15,395,000	\$ -	\$ 950,000	\$ 14,445,000	\$ 965,000
Premiums	302,879	-	32,264	270,615	-
Discounts	(30,361)	-	(1,557)	(28,804)	-
Other obligations	5,652,146	834,292	-	6,486,438	-
Compensated absences	99,200	499	13,899	85,800	4,300
Early retirement incentives	205,860	134,804	78,908	261,756	67,500
	<u>\$ 21,624,724</u>	<u>\$ 969,595</u>	<u>\$ 1,073,514</u>	<u>\$ 21,520,805</u>	<u>\$ 1,036,800</u>

In the previous schedule, the additions for other obligations represent \$39,084 of accrued interest on the School Bond Loan Fund, \$168,096 of accrued interest and \$627,112 of additional draws on the School Loan Revolving Fund.

Long-term obligations consist of the following:

	<u>Interest Rate</u>	<u>Date of</u> <u>Maturity</u>	<u>Balance</u>
General obligation bonds			
2005 Refunding General Obligation Bond	3.7-4.10%	May 2020	\$ 2,780,000
2006 Refunding General Obligation Bond	4-4.40%	May 2033	8,110,000
2010 School Technology General Obligation Bond	2.00%	May 2017	1,545,000
2012 Refunding General Obligation Bond	1-2.00%	May 2018	2,010,000
			<u>\$ 14,445,000</u>
Other obligations			
School Bond Loan Fund	3.53%	May 2039	\$ 1,148,784
School Loan Revolving Fund	3.53%	May 2039	5,337,654
			<u>\$ 6,486,438</u>

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE G—LONG-TERM OBLIGATIONS—Continued

The annual requirements of principal and interest to amortize the bonded debt outstanding as of June 30, 2014 follow:

Year ending June 30,	Principal	Interest	Total
2015	\$ 965,000	\$ 513,000	\$ 1,478,000
2016	995,000	491,000	1,486,000
2017	2,580,000	462,000	3,042,000
2018	1,015,000	400,000	1,415,000
2019	1,020,000	369,000	1,389,000
2020-2024	3,200,000	1,346,000	4,546,000
2025-2029	2,635,000	779,000	3,414,000
2030-2033	2,035,000	222,000	2,257,000
	\$ 14,445,000	\$ 4,582,000	\$ 19,027,000

NOTE H—EMPLOYEE BENEFITS

Employee Retirement System

Plan description

The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. 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 or calling:

Office of Retirement Services
 Michigan Public School Employees Retirement System
 P.O. Box 30171
 Lansing Michigan 48909-7671
 1-800-381-5111

Funding policy-defined benefit plan

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired between January 1, 1990 and June 30, 2008 and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000, 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE H—EMPLOYEE BENEFITS—Continued

Employee Retirement System—Continued

Funding policy-defined benefit plan—Continued

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 percent of gross wages begin at enrollment. Actuarial rate of 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 contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4 percent (Basic Plan) or 7 percent (MIP); by doing so they maintain a 1.5 percent pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25 percent pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits. The rates for the year ended June 30, 2014 ranged from 22.56 percent to 29.35 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the years ended June 30, 2014, 2013 and 2012 were approximately \$1,165,000, \$1,164,000, and \$1,080,000 respectively, and were equal to the required contribution for those years.

Funding policy-defined contribution plan

Public Act 75 of 2010 established the Pension Plus Plan which provides all individuals hired on or after July 1, 2010, with a combined Defined Benefit and Defined Contribution benefit structure. Any member of MPSERS who became a member of MPSERS on or after July 1, 2010 is a Pension Plus member.

Employees under the Pension Plus Plan are automatically enrolled in the defined contribution component of the plan with a default employee contribution rate of 2 percent of the employee's pay. Employees may increase their personal contribution up to the annual IRS limit or can elect out of contributing. The School District is required to match 50 percent of the employee contribution up to 1 percent of the employee's pay. For the year ended June 30, 2014, School District and employee contributions were approximately \$9,266 and \$8,166, respectively.

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

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE H—EMPLOYEE BENEFITS—Continued

Other Post-employment Benefits

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, is currently funded on a cash disbursement basis. Beginning fiscal year 2013, it will be funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80 percent beginning January 1, 2013; 90 percent for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3 percent of their compensation to offset employer contributions for health care benefits of current retirees.

Other Information

Supplemental payments

The 2014 contribution to MPSERS above includes state aid received by the School District for the sole purpose of making supplemental payments to MPSERS. The School District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2014.

Pending litigation against MPSERS

Three cases have been consolidated and are pending in the Michigan Supreme Court (MSC). Plaintiffs are contesting the 3 percent contribution required by Public Act 75 of 2010 to be made by members of the Michigan Public School Employees' Retirement System. Plaintiffs allege a violation of Defendants' contractual obligations and impairment of their contracts as prohibited under both the Michigan and U.S. Constitutions. The trial court ruled in Plaintiffs' favor and entered a preliminary injunction requiring that the Plaintiffs' contributions not be used and be placed in an interest bearing account. The trial court ruling was affirmed by the Michigan Court of Appeals and an application for leave to the MSC remains pending.

NOTE I—COMMITMENTS AND CONTINGENCIES

Grant Programs

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE I—COMMITMENTS AND CONTINGENCIES—Continued

Operating leases

The School District has a lease agreement for the use of copiers expiring in March 2017. Expense for the year ended June 30, 2014 was approximately \$65,000. The following is a schedule of future minimum rental payments required under the lease.

Year ending June 30,	Amount
2015	\$ 58,212
2016	58,212
2017	43,659
	\$ 160,083

NOTE J—OTHER INFORMATION

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a 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 workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2014 or any of the prior three years.

NOTE K—SUBSEQUENT EVENTS

In August 2014, the School District received the proceeds of a \$600,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2015 and bears interest at the rate of 0.42 percent per annum. The School District pledged for payment of the notes payable, the amount of State school aid to be received plus the full faith, credit, and resources of the School District.

In August 2014, the School District entered into a contract for a new track at a cost of approximately \$225,000 and new security cameras at a cost of \$40,000. The track will be paid for with available fund balance in the General Fund, and the security cameras will be paid for with available fund balance in the Technology Fund.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE L—UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement 68—*Accounting and Financial Reporting for Pensions* was issued by the GASB in June 2012 and will be effective for the School District's 2015 fiscal year. The statement requires governments that participate in defined benefit pension plans to report in their Statement of Net Position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Cost-sharing employers will be required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The net pension liability recorded in the Statement of Net Position on July 1, 2014 will be very significant.

REQUIRED SUPPLEMENTARY INFORMATION

North Muskegon Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2014

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 862,361	\$ 909,777	\$ 916,729	\$ 6,952
State sources	7,304,883	7,437,346	7,418,016	(19,330)
Federal sources	225,885	135,966	132,081	(3,885)
Incoming transfers and other transactions	10,000	13,000	13,000	-
Total revenues	8,403,129	8,496,089	8,479,826	(16,263)
EXPENDITURES				
Current				
Instruction				
Basic programs	4,847,505	4,787,937	4,754,542	33,395
Added needs	781,592	808,837	794,398	14,439
Adult and continuing education	260,190	281,165	277,307	3,858
Support services				
Pupil	486,183	487,366	476,447	10,919
Instructional staff	161,837	155,619	144,316	11,303
General administration	293,543	309,006	301,135	7,871
School administration	336,294	342,632	335,692	6,940
Business	136,050	146,500	137,202	9,298
Operations and maintenance	624,066	634,407	596,237	38,170
Pupil transportation services	111,298	110,327	99,657	10,670
Central	156,080	149,244	127,429	21,815
Athletics	206,891	216,522	199,912	16,610
Debt service	1,600	-	-	-
Capital outlay	-	66,527	70,422	(3,895)
Total expenditures	8,403,129	8,496,089	8,314,696	181,393
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	165,130	<u>\$ 165,130</u>
Fund balance at beginning of year			<u>1,017,795</u>	
Fund balance at end of year			<u>\$ 1,182,925</u>	

STATISTICAL DATA (UNAUDITED)

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2014

HISTORICAL PROPERTY VALUATIONS

In accordance with Act No. 539, Public Acts of Michigan, 1982, 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 No. 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.

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

<u>Year</u>	<u>Homestead</u>	<u>Non-homestead</u>	<u>Taxable value</u>
2014	\$ 106,310,690	\$ 33,330,634	\$ 139,641,324
2013	107,443,856	32,234,758	139,678,614
2012	102,520,088	36,806,336	139,326,424
2011	104,857,918	34,791,806	139,649,724
2010	105,863,975	36,050,618	141,914,593
2009	112,526,926	33,962,757	146,489,683
2008	112,148,267	33,766,455	145,914,722
2007	109,248,677	35,257,211	144,505,888
2006	104,928,454	33,142,008	138,070,462
2005	100,300,658	31,752,512	132,053,170
2004	95,840,566	29,676,337	125,516,903
2003	93,678,598	26,313,763	119,992,361
2002	90,024,640	26,294,951	116,319,591
2001	85,628,523	24,421,945	110,050,468
2000	80,971,381	21,851,753	102,823,134

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2014

MAJOR TAXPAYERS

The top ten taxpayers in the School District and their 2013 Taxable Valuation and Industrial Facilities Tax Valuation are as follows:

<u>Taxpayer</u>	<u>Product/service</u>	<u>Taxable value</u>
Marathon Oil	Oil Refinery	\$ 2,389,300
Beverly Hills Apartments	Apartments	1,829,900
Consumer's Energy	Utility	1,420,477
Jestco Properties LLC	Consultation	1,265,300
Newcorp Inc.	Heavy Eqpt/trucking	973,361
Witham, Christopher & Stephanie	Residential	915,441
Snodgrass, Michael & Linda	Residential	833,221
Pointe Marine Assoc.	Marina	826,940
Moulton, Mark & Mary	Residential	678,193
Johnson, Charles III and Nina	Residential	656,617
		<u><u>\$ 11,788,750</u></u>

The taxable values of the above taxpayers represent 8.44 percent of the School District's 2013 taxable value of \$139,641,324.

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2014

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.

North Muskegon Public Schools

	2014	2013	2012	2011	2010
Voted (non-homestead)	18.0000	18.0000	18.0000	17.8524	17.8524
Debt	7.8200	7.7300	7.7300	7.7300	7.7300
TOTAL HOMESTEAD	7.8200	7.7300	7.7300	7.7300	7.7300
TOTAL NON-HOMESTEAD	25.8200	25.7300	25.7300	25.5824	25.5824

The School District's voted non-homestead millage expires with the December 1, 2015 levy.

Other Major Taxing Units

	2013	2012	2011	2010	2009
State Education Fund ¹	6.0000	6.0000	6.0000	6.0000	6.0000
Muskegon County	8.8994	8.8994	8.8994	6.6957	7.4447
City of North Muskegon	12.1849	12.1849	12.9339	12.9339	12.1849
Muskegon County I/S/D	3.7580	3.7580	3.7580	3.7580	3.7580
Muskegon Community College	2.2037	2.2037	2.2037	2.2037	2.2037

¹Pursuant to school finance reform legislation which became effective in March 1994, the State of Michigan levies 6.00 mills for school operating purposes on all homestead and non-homestead property located within the School District. The School District levies 18 mills of voted operating millage on non-homestead property and authorized debt millage on all homestead and non-homestead property located within the School District.

Source: Muskegon County

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2014

STATE AID PAYMENTS

The School District's primary source of funding for operating costs is the State aid foundation allowance per pupil. The foundation guarantee was set at \$7,026 per pupil for the fiscal year 2013/2014. 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.

The following table shows a ten year history of the School District's total state aid revenues, including categorical and other amounts, and the per pupil state aid foundation allowance, which reflects the changes in sources of school operating revenue described herein:

<u>Year</u>	<u>Total</u>	<u>State Amount Received per Pupil</u>	<u>Foundation Allowance per Pupil</u>
2013/14 ⁶	\$ 7,453,068	\$ 6,450.20	\$ 7,026.00
2012/13 ⁵	7,197,887	6,400.53	6,966.00
2011/12	6,864,583	6,319.01	6,965.00
2010/11 ⁴	6,552,281	6,795.48	7,435.00
2009/10 ³	6,236,052	6,771.80	7,435.00
2008/09 ¹	6,220,922	6,747.25	7,435.00
2007/08	6,303,666	6,624.75	7,326.00
2006/07 ²	6,031,057	6,480.67	7,210.00
2005/06	5,716,009	6,349.16	7,000.00
2004/05	5,607,054	6,203.38	6,825.00

¹In 2008/09 all schools in Michigan was subject to a negative discretionary payment mandated by the State of Michigan due to budget cuts. Federal Stimulus payments were received to off-set this entire amount. The amount the school district received from Federal Stimulus funds to replace the decreased in State funding was \$340,230.

²2006/2007 was the first year NMPS offered an Adult Education program which generated \$201,922 in new money, in addition a credit adjustment of \$106,868 that was made to the foundation allowance and offset with a MSPERS credit.

³2009/2010, the school received a LEA Pupil Deduct in the amount of \$142,720. All schools in the State of Michigan received this reduction on a per pupil basis. ARRA Federal Stimulus contributed \$256,561 to our budget by making up a direct deduction from the State of \$256,561.

⁴2010/2011, the school received a LEA Pupil Deduct in the amount of \$161,075. All schools in the State of Michigan received this reduction on a per pupil basis. ARRA Federal Stimulus contributed \$107,633 to our budget by making up a direct deduction from the State of \$107,633.

⁵2012/2013, the school received \$86,782 in section 147c funds for the MSPERS UAAL Rate Stability, \$91,622 in MSPERS cost offset, \$51,822 in Best Practice funds, and \$39,863 in Performance based funding.

⁶2013/2014, the school received \$230,004 in section 147C funds for the MPSERS UAAL Rate stability, \$62,163 in MPSERS cost offset, \$55,445 in Best Practice fund, and \$50,542 in foundation equity.

Source: Michigan Department of Education and School District

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2014

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 Treasurer for collection. Muskegon County annually pays from its Tax Payment Fund delinquent taxes on real property to all taxing units in the County, including the School District, shortly after the date delinquent taxes are returned to the County Treasurer for collection. The payment from this fund has resulted in collections of taxes approaching 100% for all taxing units. Delinquent personal property taxes are negligible.

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

<u>Levy Year</u>	<u>Operating tax levy</u>	<u>Collections to March 1 of Following Year</u>		<u>Collections plus funding to June 30 each year</u>	
2013	\$ 573,983	\$ 550,690	95.94 %	\$ 573,101	99.85 %
2012	553,311	553,299	100.00	553,303	100.00
2011	628,326	588,472	93.66	624,459	99.38
2010	600,623	562,846	93.71	600,075	99.91
2009	606,881	578,413	95.31	597,832	98.51
2008	606,881	569,881	93.90	606,881	100.00
2007	619,657	583,632	94.19	619,657	100.00
2006	586,400	545,212	92.98	586,400	100.00
2005	557,377	529,414	94.98	557,377	100.00
2004	535,101	510,499	95.40	535,101	100.00

The Tax Payment Fund is financed through the issuance of General Obligation Limited Tax Notes (GOLTNs) by the County. Although the School District anticipates the continuance of this program by the County, the ability of the County to issue such GOLTNs is subject to market conditions at the time of offering. In addition, Act 206 of 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 county has full right of recourse against the taxing unit to recover the amount thereof and interest thereon...” On the first Tuesday in May in each year, a tax sale is held by the County 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.

Source: *School District*

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2014

PENSION FUND

For the period from 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 School District's estimated contribution to MPSERS for the 2013/14 fiscal year and the contributions for the previous eight years are shown below.

Contribution Period	Contribution Rate
October 1, 2013—September 30, 2014	25.52-29.35 %
October 1, 2012—September 30, 2013	26.96-27.37
October 1, 2011—September 30, 2012	19.16-24.66
October 1, 2010—September 30, 2011	19.41-20.66
October 1, 2009—September 30, 2010	16.94
October 1, 2008—September 30, 2009	16.54
October 1, 2007—September 30, 2008	16.72
October 1, 2006—September 30, 2007	17.74

Fiscal year ending June 30	Contributions to MPSERS
2014	\$ 1,164,953
2013	1,164,003
2012	1,079,986
2011	793,376
2010	728,578
2009	688,462
2008	675,092
2007	680,120

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2014

DEBT STATEMENT

Direct Debt

<u>Dated</u>	<u>Purpose/Type</u>	<u>Interest spread</u>	<u>Maturities</u>	<u>Amount outstanding</u>
1/4/2005	Building & Site/Refunding	3.7-4.1%	5/1/05-20	\$ 2,780,000
2/9/2006	Building & Site/Refunding	4-4.4%	5/1/17-33	8,110,000
3/18/2010	Technology Bonds (QSCB)	2%	5/1/2017	1,545,000
9/18/2012	Building & Site/Refunding	1-2%	5/1/14-18	2,010,000
				<u><u>\$ 14,445,000</u></u>

Source: *Municipal Advisory Council of Michigan*

School Bond Loan Fund

As of June 30, 2014, the School District has a School Bond Loan Fund borrowing balance of \$6,486,438.

School Bond Loan Fund-SBLF	\$ 1,148,784
School Loan Revolving Fund-SLRF	4,911,143
School Loan Revolving Fund-GOSLRF	426,511
	<u><u>\$ 6,486,438</u></u>

Source: *State of Michigan Department of Treasury*

North Muskegon Public Schools
STATISTICAL DATA
June 30, 2014

SCHOOL ENROLLMENT - HISTORICAL ENROLLMENT

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

<u>School Year</u>	<u>Enrollment</u>
2013/14	1,012
2012/13	996
2011/12	997
2010/11	947
2009/10	931
2008/09	920
2007/08	901
2006/07	893
2005/06	880
2004/05	876
2003/04	907
2002/03	919