

North Muskegon Public Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2016



North Muskegon Public Schools

TABLE OF CONTENTS

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis..... 3

Basic Financial Statements

 District-wide Financial Statements

 Statement of Net Position..... 10

 Statement of Activities 11

 Fund Financial Statements

 Governmental Funds

 Balance Sheet 12

 Reconciliation of the Governmental Funds Balance

 Sheet to the Statement of Net Position..... 13

 Statement of Revenues, Expenditures and Changes

 in Fund Balances..... 14

 Reconciliation of the Governmental Funds Statement

 of Revenues, Expenditures and Changes in Fund

 Balances to the Statement of Activities 15

 Statement of Fiduciary Assets and Liabilities 16

 Notes to Financial Statements 17

Required Supplementary Information

 Budgetary Comparison Schedule—General Fund..... 37

 Schedule of the School District’s Proportionate Share of the Net Pension Liability 38

 Schedule of the School District’s Contributions..... 39

 Notes to Required Supplementary Information. 40

Statistical Data (unaudited)..... 42

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

October 10, 2016

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, 2016, 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.

Auditor's 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 from 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.

Board of Education
North Muskegon Public Schools
October 10, 2016
Page 2

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, 2016, 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, budgetary comparison information, and pension information on pages 3 through 9 and 37 through 40 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 data 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 10, 2016, 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, 2016. 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, 2016 and 2015:

| | Statement of Net Position | |
|---|----------------------------------|------------------------|
| | <u>2016</u> | <u>2015</u> |
| Assets | | |
| Current and Other Assets | \$ 3,786,516 | \$ 3,716,724 |
| Capital Assets | <u>12,691,335</u> | <u>13,219,670</u> |
| Total Assets | 16,477,851 | 16,936,394 |
| Deferred outflows of resources | <u>1,831,921</u> | <u>1,415,705</u> |
| Total assets and deferred outflow of resources | 18,309,772 | 18,352,099 |
| Liabilities | | |
| Current liabilities | 5,029,031 | 2,539,032 |
| Long-term liabilities | <u>30,843,092</u> | <u>31,841,679</u> |
| Total liabilities | 35,872,123 | 34,380,711 |
| Deferred inflows of resources | <u>403,558</u> | <u>1,285,612</u> |
| Total liabilities and deferred inflows of resources | <u>36,275,681</u> | <u>35,666,323</u> |
| Net Position | | |
| Net investment in capital assets | (379,116) | (471,434) |
| Restricted for debt service | 1,333,672 | 1,041,914 |
| Restricted for technology | 4,284 | - |
| Unrestricted | <u>(18,924,749)</u> | <u>(17,884,704)</u> |
| Total Net Position | <u>\$ (17,965,909)</u> | <u>\$ (17,314,224)</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:

- Capital assets decreased due to normal depreciation exceeding current year capital asset additions.
- Deferred outflow of resources increase is related to pension costs.
- Current liabilities increased due to an increase in bonds and other obligations, due within one year. This is the result of the district refinancing the 2005 and 2006 debt.
- Noncurrent liabilities decreased due to the increase in current liabilities.
- Deferred inflows of resources related to pensions decreased based on actual pension experienced rate.
- Net position changed primarily as a result of the debt refinancing noted above.

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 \$(17,965,909) at June 30, 2016. Net investment in capital assets of \$(379,116) 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 current year principal payment and capital asset additions exceeding current year depreciation. Restricted for debt service increased due to continued funding of the technology bond sinking fund. The remaining net position of \$(18,924,749) 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 \$(18,924,749) 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 2016 and 2015. Charges for services increased due to the district sharing a psychologist with another local District. Operating grants revenues decreased due to the adult education grant being removed from the district. Miscellaneous revenue decreased due to less donations being received. Instruction increased due to salaries/benefits increasing. Support services increased due to hiring a shared school psychologist, an increase in legal fees, and an increase in utility costs. Community services is a new category and this includes the cost of the Student Public Performance musical production. Athletics decreased due to a drop in depreciation. Last year's statement included a loss on the disposal of the old track. Interest on long-term debt increased due to approximately \$270,000 of bond issuance costs associated with the bonds issued during the year.

North Muskegon Public Schools

Management's Discussion and Analysis

Statement of Activities

| | <u>2016</u> | <u>2015</u> |
|---|------------------------|------------------------|
| Program Revenues | | |
| Charges for Services | \$ 324,979 | \$ 267,600 |
| Operating Grants | 943,299 | 1,100,880 |
| General Revenues | | |
| Property taxes | 1,723,493 | 1,673,146 |
| Grants and Contributions Not Restricted to Specific Programs | 7,324,959 | 7,403,704 |
| Investment Earnings | 5,831 | 11,129 |
| Miscellaneous | <u>29,963</u> | <u>40,154</u> |
| Total Program Revenues and General Revenues | 10,352,524 | 10,496,613 |
| Expenses | | |
| Instruction | 6,580,432 | 6,506,098 |
| Support Services | 2,834,562 | 2,627,019 |
| Community Services | 23,432 | - |
| Food Services | 375,044 | 347,603 |
| Athletics | 233,399 | 271,909 |
| Interest on long-term debt | <u>957,340</u> | <u>730,811</u> |
| Total Expenses | <u>11,004,209</u> | <u>10,483,440</u> |
| Change in Net Position | (651,685) | 13,173 |
| Net Position at Beginning of Year | <u>(17,314,224)</u> | <u>(17,327,397)</u> |
| Net Position at End of Year | <u>\$ (17,965,909)</u> | <u>\$ (17,314,224)</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 decreased \$(44,374) to \$1,046,765. The principal reasons were:

- Increase in salaries/benefits
- Increase in health benefits
- Increase in contracted service costs
- Increase in electric costs
- Increase in special ed consortium 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 2015/2016 General Fund's original budget were:

Revenues:

- Local sources increased due to an increase in revenue from property taxes and revenues from the Student Public Performance.
- State sources were revised downward for the removal of adult education revenues.

Expenditures:

- Basic program costs increased due to a negotiated increase of salaries and an increase in dual enrollment costs.
- Added needs costs increased due to a negotiated increase of salaries and added para-pro staff.
- Adult & continuing education costs decreased due to the removal of North Muskegon Public Schools as the fiscal agent for this program.
- Pupil support service was increased due to a negotiated increase in salaries.
- General administration was increased for additional professional fees.
- Business support service was increased to cover additional tax abatements.
- Operations & maintenance was increased for utilities.
- Transportation support service was increased for the purchase of two used vans.
- Central administration was increased for technology purchases.
- Athletics was reduced due to lower athletic trainer costs.
- Community services was increased for costs associated with the Student Public Performance.

Final budget to Actual variances

Revenues:

- Local Sources was under budget due to less than expected miscellaneous revenue

Expenditures:

- Added needs was over budget due to higher MAISD centralized special education costs and higher North Service Unit costs.
- Operations and maintenance was under budget due to purchased services being less than estimated.

North Muskegon Public Schools

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At June 30, 2016, the District had \$12,691,335 (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 \$528,335 from last year. This year's decrease was the result of the normal depreciation exceeding current year additions. The largest purchase this year was for Chromebooks for student instruction. We present more detailed information about our capital assets in the notes to the financial statements.

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|----------------------|----------------------|
| Buildings and Land | \$ 18,359,653 | \$ 18,345,178 |
| Furniture and Equipment | 2,812,769 | 3,279,431 |
| Vehicles | <u>254,013</u> | <u>257,299</u> |
| Total Capital Assets | 21,426,435 | 21,881,908 |
| Less Accumulated Depreciation | <u>8,735,100</u> | <u>8,662,238</u> |
| Total Capital Assets, Net | <u>\$ 12,691,335</u> | <u>\$ 13,219,670</u> |

Long-term Debt

At June 30, 2016, North Muskegon School District had \$21,335,838 in outstanding long-term debt. During the year, the outstanding bond balance increased due to refunding of the 2005 and 2006 debt. The District borrowed additional funds from state aid revolving loan fund to assist with the bond payments noted below.

| | <u>2016</u> | <u>2015</u> |
|------------------------------|----------------------|----------------------|
| Bonds | \$ 20,800,451 | \$ 13,691,104 |
| Other obligations | 279,358 | 7,302,543 |
| Compensated absences | 88,012 | 86,540 |
| Early retirement obligations | <u>168,017</u> | <u>214,300</u> |
| Total long-term debt | <u>\$ 21,335,838</u> | <u>\$ 21,294,487</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 2017 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 2017 fiscal year is 10 percent and 90 percent of the February 2016 and September 2016 student counts, respectively. The original 2017 budget was adopted in June 2016, anticipating a flat student enrollment. The budget adopted for the 2016-2017 District year is projecting a use of fund balance in the amount of (\$39,323).

The District obtained a state aid anticipation notes in the amount of \$850,000 for the 2016-2017 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, 2016

| | Governmental activities |
|---|------------------------------------|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | \$ 807,781 |
| Receivables | 4,910 |
| Due from other governmental units | 1,627,231 |
| Inventories | 4,865 |
| Prepaid items | 19,188 |
| Total current assets | 2,463,975 |
| Noncurrent assets | |
| Restricted cash and investments | 1,322,541 |
| Capital assets, net | |
| Nondepreciable | 420,000 |
| Depreciable | 12,271,335 |
| Total noncurrent assets | 14,013,876 |
| Total assets | 16,477,851 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred charges on refunding | 24,708 |
| Related to pensions | 1,807,213 |
| Total deferred outflows of resources | 1,831,921 |
| Total assets and deferred outflows of resources | 18,309,772 |
| LIABILITIES | |
| Current liabilities | |
| State aid loan | 100,000 |
| Accounts payable and accrued liabilities | 1,049,251 |
| Due to other governmental units | 153,238 |
| Unearned revenue | 9,542 |
| Bonds and other obligations, due within one year | 3,717,000 |
| Total current liabilities | 5,029,031 |
| Noncurrent liabilities | |
| Bonds and other obligations, less amounts due within one year | 17,618,838 |
| Net pension liability | 13,224,254 |
| Total noncurrent liabilities | 30,843,092 |
| Total liabilities | 35,872,123 |
| DEFERRED INFLOWS OF RESOURCES | |
| Related to pensions | 403,558 |
| Total liabilities and deferred inflows of resources | 36,275,681 |
| NET POSITION | |
| Net investment in capital assets | (379,116) |
| Restricted | |
| Debt service | 1,333,672 |
| Technology | 4,284 |
| Unrestricted | (18,924,749) |
| Total net position | \$ (17,965,909) |

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

| <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 | \$ 6,580,432 | \$ - | \$ 423,027 | \$ (6,157,405) |
| Support services | 2,834,562 | 29,416 | 324,138 | (2,481,008) |
| Community services | 23,432 | 23,334 | 350 | 252 |
| Food services | 375,044 | 200,699 | 195,784 | 21,439 |
| Athletics | 233,399 | 71,530 | - | (161,869) |
| Interest on long-term debt | 957,340 | - | - | (957,340) |
| Total governmental activities | \$ 11,004,209 | \$ 324,979 | \$ 943,299 | (9,735,931) |
| General revenues | | | | |
| Property taxes | | | | 1,723,493 |
| Grants and contributions not restricted to specific programs | | | | 7,324,959 |
| Investment earnings | | | | 5,831 |
| Miscellaneous | | | | 29,963 |
| Total general revenues | | | | 9,084,246 |
| Change in net position | | | | (651,685) |
| Net position at beginning of year | | | | (17,314,224) |
| Net position at end of year | | | | \$ (17,965,909) |

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
BALANCE SHEET
 Governmental Funds
 June 30, 2016

| | <u>General Fund</u> | <u>2010 Technology Debt Fund</u> | <u>Debt Service Fund</u> | <u>Other governmental funds</u> | <u>Total governmental funds</u> |
|-------------------------------------|---------------------|--------------------------------------|------------------------------|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 585,918 | \$ 21,094 | \$ 110,037 | \$ 90,732 | \$ 807,781 |
| Receivables | 4,247 | - | - | 663 | 4,910 |
| Due from other governmental units | 1,620,609 | - | - | 6,622 | 1,627,231 |
| Due from other funds | - | - | - | 161 | 161 |
| Inventories | - | - | - | 4,865 | 4,865 |
| Prepaid items | 18,804 | - | - | 384 | 19,188 |
| Restricted cash and investments | - | 1,322,541 | - | - | 1,322,541 |
| Total assets | \$ 2,229,578 | \$ 1,343,635 | \$ 110,037 | \$ 103,427 | \$ 3,786,677 |
| LIABILITIES | | | | | |
| State aid loan | \$ 100,000 | \$ - | \$ - | \$ - | \$ 100,000 |
| Accounts payable | 39,150 | - | - | - | 39,150 |
| Accrued liabilities | 885,989 | - | - | 4,112 | 890,101 |
| Due to other governmental units | 153,013 | - | - | 225 | 153,238 |
| Due to other funds | 161 | - | - | - | 161 |
| Unearned revenue | 4,500 | - | - | 5,042 | 9,542 |
| Total liabilities | 1,182,813 | - | - | 9,379 | 1,192,192 |
| FUND BALANCES | | | | | |
| Nonspendable | | | | | |
| Inventories | - | - | - | 4,865 | 4,865 |
| Prepaid items | 18,804 | - | - | 384 | 19,188 |
| Restricted | | | | | |
| Debt service | - | 1,343,635 | 110,037 | - | 1,453,672 |
| Food service | - | - | - | 84,515 | 84,515 |
| Technology | - | - | - | 4,284 | 4,284 |
| Unassigned | 1,027,961 | - | - | - | 1,027,961 |
| Total fund balances | 1,046,765 | 1,343,635 | 110,037 | 94,048 | 2,594,485 |
| Total liabilities and fund balances | \$ 2,229,578 | \$ 1,343,635 | \$ 110,037 | \$ 103,427 | \$ 3,786,677 |

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, 2016

| | | |
|--|--------------------|-----------------------------------|
| Total fund balance—governmental funds | \$ | 2,594,485 |
| 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 | \$ 21,426,435 | |
| Accumulated depreciation | <u>(8,735,100)</u> | 12,691,335 |
| Deferred charges on refunding are not capitalized and amortized in the governmental funds. | | |
| Deferred charges on refunding | 100,853 | |
| Accumulated amortization | <u>(76,145)</u> | 24,708 |
| Deferred inflows and outflows of resources related to pensions are not reported in the governmental funds. | | |
| Deferred outflows of resources - related to pensions | 1,807,213 | |
| Deferred inflows of resources - related to pensions | <u>(403,558)</u> | 1,403,655 |
| Accrued interest in governmental activities is not reported in the governmental funds. | | |
| | | (120,000) |
| Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds. | | |
| | | <u>(34,560,092)</u> |
| Net position of governmental activities | \$ | <u><u>(17,965,909)</u></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, 2016

| | <u>General Fund</u> | <u>2010 Technology Debt Fund</u> | <u>Debt Service Fund</u> | <u>Other governmental funds</u> | <u>Total governmental funds</u> |
|---|---------------------|--------------------------------------|------------------------------|---|---|
| REVENUES | | | | | |
| Local sources | | | | | |
| Property taxes | \$ 608,964 | \$ 246,207 | \$ 868,322 | \$ - | \$ 1,723,493 |
| Investment earnings | 920 | 4,564 | 347 | - | 5,831 |
| Fees and charges | 94,864 | - | - | 200,699 | 295,563 |
| Other | 232,055 | - | - | 180,801 | 412,856 |
| Total local sources | 936,803 | 250,771 | 868,669 | 381,500 | 2,437,743 |
| State sources | 7,949,507 | - | - | 25,247 | 7,974,754 |
| Federal sources | 136,648 | - | - | 163,134 | 299,782 |
| Total revenues | 9,022,958 | 250,771 | 868,669 | 569,881 | 10,712,279 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Instruction | 6,178,698 | - | - | - | 6,178,698 |
| Supporting services | 2,858,225 | - | - | 186,927 | 3,045,152 |
| Community services | 23,432 | - | - | - | 23,432 |
| Food services | - | - | - | 374,915 | 374,915 |
| Debt service | | | | | |
| Principal repayment | - | - | 18,957,000 | - | 18,957,000 |
| Interest and other charges | - | 31,050 | 795,457 | - | 826,507 |
| Capital outlay | 24,977 | - | - | - | 24,977 |
| Total expenditures | 9,085,332 | 31,050 | 19,752,457 | 561,842 | 29,430,681 |
| Excess (deficiency) of revenues over (under) expenditures | (62,374) | 219,721 | (18,883,788) | 8,039 | (18,718,402) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 18,000 | - | - | - | 18,000 |
| Transfers out | - | - | - | (18,000) | (18,000) |
| Proceeds of refunding bonds | - | - | 17,360,000 | - | 17,360,000 |
| Premium proceeds of refunding bonds | - | - | 1,129,074 | - | 1,129,074 |
| Loan proceeds | - | - | 482,121 | - | 482,121 |
| Total other financing sources (uses) | 18,000 | - | 18,971,195 | (18,000) | 18,971,195 |
| Net change in fund balances | (44,374) | 219,721 | 87,407 | (9,961) | 252,793 |
| Fund balances at beginning of year | 1,091,139 | 1,123,914 | 22,630 | 104,009 | 2,341,692 |
| Fund balances at end of year | \$ 1,046,765 | \$ 1,343,635 | \$ 110,037 | \$ 94,048 | \$ 2,594,485 |

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, 2016

| | | |
|--|----------------|----------------------------|
| Net change in fund balances—total governmental funds | | \$ 252,793 |
| 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 | \$ (723,352) | |
| Capital outlay | <u>205,677</u> | (517,675) |
| Governmental funds report the entire proceeds from the sale of capital assets but the Statement of Activities reports only the gain or loss on the sale of capital assets. | | |
| | | (10,660) |
| 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. | | |
| | | (20,866) |
| Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Position. | | |
| | | (19,087,889) |
| 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. | | |
| | | 19,001,727 |
| Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid. | | |
| | | (38,000) |
| 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. | | |
| | | 44,811 |
| Some pension related expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. | | |
| | | <u>(275,926)</u> |
| Change in net position of governmental activities | | <u><u>\$ (651,685)</u></u> |

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2016

| | <u>Agency funds</u> |
|---------------------------|-------------------------|
| ASSETS | |
| Cash and cash equivalents | <u>\$ 238,186</u> |
| | |
| LIABILITIES | |
| Deposits held for others | <u>\$ 238,186</u> |

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 governmental 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, 2016

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 and technology millage activities in the 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, 2016

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, 2016

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, 2016

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.

Defined Benefit Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 that time.

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.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

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.

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.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

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.

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, in the General Fund 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, 2016.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE C—DEPOSITS AND INVESTMENTS

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, 2016, \$1,883,955 of the School's bank balance of \$2,383,955 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, 2016, cash and investments were restricted as follows:

| | |
|---------------------------|--------------|
| 2010 Technology Debt Fund | |
| Sinking fund | \$ 1,322,541 |

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.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

| | Balance July 1, 2015 | Additions | Deductions | Balance June 30, 2016 |
|---|---------------------------------|---------------------|-------------------|----------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 420,000 | \$ - | \$ - | \$ 420,000 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 17,925,178 | 14,475 | - | 17,939,653 |
| Furniture and equipment | 3,279,431 | 171,387 | 638,049 | 2,812,769 |
| Vehicles | 257,299 | 19,815 | 23,101 | 254,013 |
| Total capital assets, being depreciated | 21,461,908 | 205,677 | 661,150 | 21,006,435 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 6,062,339 | 426,700 | - | 6,489,039 |
| Furniture and equipment | 2,399,055 | 277,322 | 627,389 | 2,048,988 |
| Vehicles | 200,844 | 19,330 | 23,101 | 197,073 |
| Total accumulated depreciation | 8,662,238 | 723,352 | 650,490 | 8,735,100 |
| Total capital assets, being depreciated, net | 12,799,670 | (517,675) | 10,660 | 12,271,335 |
| Capital assets, net | \$ 13,219,670 | \$ (517,675) | \$ 10,660 | \$ 12,691,335 |

Depreciation

Depreciation expense has been charged to functions as follows:

| | |
|------------------|-------------------|
| Instruction | \$ 616,915 |
| Support services | 69,950 |
| Athletics | 34,435 |
| Food services | 2,052 |
| | \$ 723,352 |

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016 is as follows:

Due to/from other funds:

| <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amount</u> |
|--------------------------|---------------------|---------------|
| Other governmental funds | General Fund | <u>\$ 161</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 \$18,000 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, 2016 follows:

| | <u>Balance</u> <u>July 1, 2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2016</u> |
|-------------------------------------|---------------------------------------|-------------------|-------------------|--|
| State aid anticipation note | | | | |
| 2014/2015 0.42% due August 2015 | \$ 120,000 | \$ - | \$ 120,000 | \$ - |
| 2015/2016 0.64-.76% due August 2016 | - | 500,000 | 400,000 | 100,000 |
| | <u>\$ 120,000</u> | <u>\$ 500,000</u> | <u>\$ 520,000</u> | <u>\$ 100,000</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.

On December 16, 2015, the School District issued \$7,730,000 of 2015 Refunding Bonds with an interest rates ranging from 1.19-2.5%. The Proceeds were used to advance refund \$7,622,000 of outstanding School Bond Loan Fund which had interest rate of 3.53%.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE G—LONG-TERM OBLIGATIONS—Continued

On December 16, 2015, the School District issued \$2,230,000 of 2015 Refunding Bonds with an interest rate of 4%. The Proceeds were used to advance refund \$2,300,000 of outstanding 2005 Refunding Bonds which had interest rates ranging from 3.7-4.1%.

The School District advance refunded the 2005 Refunding Bonds to reduce its total debt service payment over the next 5 years by approximately \$84,105 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$83,635.

On March 30, 2016, the School District issued \$7,400,000 of 2015 Refunding Bonds with an interest rate of 4%. The Proceeds were used to advance refund \$8,110,000 of outstanding 2006 Refunding Bonds which had interest rates ranging from 4-4.4%.

The School District advance refunded the 2006 Refunding Bonds to reduce its total debt service payment over the next 18 years by approximately \$780,264 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$927,084.

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2016:

| | Balance July 1, 2015 | Additions | Reductions | Balance June 30, 2016 | Due within one year |
|--------------------------------|---------------------------------------|----------------------|----------------------|--|--------------------------------------|
| Governmental activities | | | | | |
| Bonds | \$ 13,480,000 | \$ 17,360,000 | \$ 11,335,000 | \$ 19,505,000 | \$ 3,650,000 |
| Premiums | 238,351 | 1,129,074 | 46,284 | 1,321,141 | - |
| Discounts | (27,247) | - | (1,557) | (25,690) | - |
| Other obligations | 7,302,543 | 598,815 | 7,622,000 | 279,358 | - |
| Compensated absences | 86,540 | 8,796 | 7,324 | 88,012 | 7,000 |
| Early retirement incentives | 214,300 | 22,050 | 68,333 | 168,017 | 60,000 |
| | \$ 21,294,487 | \$ 19,118,735 | \$ 19,077,384 | \$ 21,335,838 | \$ 3,717,000 |

In the previous schedule, the additions for other obligations represent \$18,577 of accrued interest on the School Bond Loan Fund, \$98,117 of accrued interest and \$482,121 of additional draws on the School Loan Revolving Fund.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE G—LONG-TERM OBLIGATIONS—Continued

Long-term obligations consist of the following:

| | <u>Interest Rate</u> | <u>Date of Maturity</u> | <u>Balance</u> |
|--|----------------------|-------------------------|-----------------------------|
| General obligation bonds | | | |
| 2010 School Technology General Obligation Bond | 2.00% | May 2017 | \$ 1,545,000 |
| 2012 Refunding General Obligation Bond | 2.00% | May 2018 | 1,000,000 |
| 2015A Refunding General Obligation Bond | 4.00% | May 2020 | 1,830,000 |
| 2015B Refunding General Obligation Bond | 1.19-2.5% | May 2021 | 7,730,000 |
| 2016 Refunding General Obligation Bond | 4.00% | May 2033 | 7,400,000 |
| | | | <u>\$ 19,505,000</u> |
| Other obligations | | | |
| School Bond Loan Fund | 3.34% | May 2039 | \$ 3,601 |
| School Loan Revolving Fund | 3.34% | May 2039 | 275,757 |
| | | | <u>\$ 279,358</u> |

The annual requirements of principal and interest to amortize the bonded debt outstanding as of June 30, 2016 follow:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|-----------------------------|----------------------------|-----------------------------|
| 2017 | \$ 3,650,000 | \$ 939,800 | \$ 4,589,800 |
| 2018 | 2,380,000 | 838,741 | 3,218,741 |
| 2019 | 1,945,000 | 784,274 | 2,729,274 |
| 2020 | 2,030,000 | 713,317 | 2,743,317 |
| 2021 | 2,100,000 | 637,304 | 2,737,304 |
| 2022-2026 | 3,075,000 | 2,342,051 | 5,417,051 |
| 2027-2031 | 3,085,000 | 1,175,554 | 4,260,554 |
| 2032-2033 | 1,240,000 | 141,060 | 1,381,060 |
| | <u>\$ 19,505,000</u> | <u>\$ 7,572,101</u> | <u>\$ 27,077,101</u> |

NOTE H—EMPLOYEE BENEFITS

Employee Retirement System

Plan Description

The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE H—EMPLOYEE BENEFITS—Continued

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System who became a member after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a DC plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Employees in the Pension Plus and DC plans are immediately vested in their own contributions and earnings on those contributions. The employee becomes vested in the employer match contribution at the following rates: 50% after two years of service, 75% after three years of service, and 100% after four years of service. Non-vested contributions are forfeited upon termination of employment. Forfeitures during a plan year are credited to a forfeitures account. Forfeitures are first applied to restore any forfeited amounts that are required to be restored. The remaining amounts in the forfeitures account may be maintained in reserve, used to cover a portion of the plan's administrative expenses or offset future employer contributions, as determined by the plan administrator.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE H—EMPLOYEE BENEFITS—Continued

Regular Retirement

The pension benefit for DB and Pension Plus plan members is based on a member’s years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member’s highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member’s pension is determined by their pension election under PA 300 of 2012

Post-Retirement Adjustments

A retiree who became a Member Investment Plan member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

Contributions

The majority of the members currently participate on a contributory basis. School Districts are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

The schedule below summarizes pension contribution rates in effect for the System’s fiscal year ended September 30, 2015.

Pension Contribution Rates

| <u>Benefit Structure</u> | <u>Member</u> | <u>Employer</u> |
|--------------------------|---------------|-----------------|
| Basic | 0.0 - 4.0 % | 22.52-23.07 % |
| Member Investment Plan | 3.0 - 7.0 | 22.52-23.07 |
| Pension Plus | 3.0 - 6.4 | 21.99 |
| Defined Contribution | 0.0 | 17.72-18.76 |

The School District’s pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$1,250,000, including Section 147c contributions.

For the year ended June 30, 2016, the School District and employee defined contribution plan contributions were approximately \$14,000 and \$20,000, respectively

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE H—EMPLOYEE BENEFITS—Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the School District reported a liability of \$13,224,254 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014, and rolled-forward using generally accepted actuarial procedures. The School District's proportionate share of the net pension liability was based on its statutorily required contributions in relation to all participating school districts' statutorily required contributions for the measurement period. At September 30, 2015, the School District's proportion was .05414 percent.

For the year ended June 30, 2016, the School District recognized pension expense of \$1,256,423.

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 43,803 |
| Changes of assumptions | 325,609 | - |
| Net difference between projected and actual earnings on pension plan investments | 67,499 | - |
| Changes in proportion and differences between School District contributions and proportionate share of contributions | 250,802 | - |
| State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date | - | 359,755 |
| School District contributions subsequent to the measurement date | 1,163,303 | - |
| Total | <u>\$ 1,807,213</u> | <u>\$ 403,558</u> |

The School District contributions subsequent to the measurement date of \$1,163,303, reported as deferred outflows of resources related to pensions above, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date of \$359,755 reported as deferred inflows of resources related to pensions above, will be recognized as revenue in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ending June 30,</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2017 | \$ 104,606 |
| 2018 | 104,606 |
| 2019 | 86,951 |
| 2020 | 303,944 |

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE H—EMPLOYEE BENEFITS—Continued

Actuarial assumptions

Valuation Assumptions

| | |
|------------------------------|--|
| Investment rate of return – | 8% a year for the MIP and Basic plans and 7% a year for the Pension Plus plan, both rates are compounded annually net of investment and administrative expenses. |
| Salary increases – | 3.5% |
| Inflation – | 2.1% |
| Cost-of-living adjustments – | 3% annual non-compounded for MIP members |

Mortality Assumptions

The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA.

Experience Study

The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Investment Category</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return*</u> |
|--------------------------------------|--------------------------|--|
| Domestic Equity Pools | 28.0 % | 5.9 % |
| Alternative Investment Pools | 18.0 | 9.2 |
| International Equity | 16.0 | 7.2 |
| Fixed Income Pools | 10.5 | 0.9 |
| Real Estate and Infrastructure Pools | 10.0 | 4.3 |
| Absolute Return Pools | 15.5 | 6.0 |
| Short Term Investment Pools | 2.0 | 0.0 |
| Total | 100.0 % | |

*Long term rates of return are net of administrative expenses and 2.1% inflation.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE H—EMPLOYEE BENEFITS—Continued

Discount rate

The discount rate used to measure the total pension liability was 8 percent (7 percent for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the School District’s proportionate share of the net pension liability calculated using the discount rate of 8 percent (7 percent for Pension Plus Plan), as well as what the School District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

| | 1% Lower (7%) | Discount Rate (8%) | 1% Higher (9%) |
|--|--------------------------|-------------------------------|---------------------------|
| School District’s proportionate share of the net pension liability | \$ 17,049,454 | \$ 13,224,254 | \$ 9,999,454 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

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, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, 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 Post-employment 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 annually contribute 3 percent of their compensation to offset employer contributions for health care benefits of current retirees.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE H—EMPLOYEE BENEFITS—Continued

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Employer Contributions

The School District is required to contribute the full actuarial funding contribution amount to fund retiree health care benefits. The contribution requirements of the School District are established and may be amended by the MPSERS Board of Trustees. The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% - 2.71% of covered payroll for the period March 10, 2015 to September 30, 2015, and from 6.4% - 6.83% of covered payroll for the period October 1, 2015 to June 30, 2016. The School District post-employment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately \$302,000, \$136,000 and \$268,000 respectively, and were equal to the required contribution for those years.

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.

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, 2016 was approximately \$65,000. The following is a schedule of future minimum rental payments required under the lease.

| Year ending June 30, | Amount |
|-------------------------|-----------|
| 2017 | \$ 43,659 |

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016 or any of the prior three years.

NOTE K—SUBSEQUENT EVENTS

In August 2016, the School District received the proceeds of \$340,000 and \$510,000 from the State of Michigan (State) school aid anticipation notes payable. The notes payable are not subject to redemption prior to their maturity in August 2017 and bear interest at the rates of 1 and .76 percent per annum, respectively. 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.

NOTE L—UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement 75—Accounting and Financial Reporting for Postemployment Benefits other than Pensions was issued by the GASB in June 2015 and will be effective for the School District's 2018 fiscal year. The statement requires governments that participate in postemployment benefits other than pensions (OPEB) to report in their Statement of Net Position a net OPEB liability. The net OPEB liability is the difference between the total OPEB 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 OPEB liability and expense for the cost-sharing plan. The net OPEB liability recorded in the Statement of Net Position on July 1, 2017 will be very significant.

GASB Statement 77—Tax Abatement Disclosures was issued by the GASB in August 2015 and will be effective for the School District's 2017 fiscal year. This Statement requires School Districts to disclose the following information about tax abatement agreements entered into by other governments that reduce the School District's tax revenues: the names of the governments that entered into the agreements, the specific taxes being abated, and the gross dollar amount of taxes abated during the period.

REQUIRED SUPPLEMENTARY INFORMATION

North Muskegon Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2016

| | <u>Budgeted amounts</u> | | <u>Actual</u> | <u>Variance with final budget- positive (negative)</u> |
|---|-------------------------|--------------------|---------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local sources | \$ 915,848 | \$ 945,980 | \$ 936,803 | \$ (9,177) |
| State sources | 7,999,690 | 7,951,424 | 7,949,507 | (1,917) |
| Federal sources | 130,343 | 135,612 | 136,648 | 1,036 |
| Incoming transfers and other transactions | 16,000 | 18,000 | 18,000 | - |
| Total revenues | 9,061,881 | 9,051,016 | 9,040,958 | (10,058) |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | | | | |
| Basic programs | 5,173,226 | 5,336,297 | 5,323,547 | 12,750 |
| Added needs | 776,422 | 797,499 | 825,587 | (28,088) |
| Adult and continuing education | 280,000 | 29,564 | 29,564 | - |
| Support services | | | | |
| Pupil | 620,735 | 635,980 | 631,507 | 4,473 |
| Instructional staff | 174,442 | 167,495 | 161,545 | 5,950 |
| General administration | 330,135 | 362,644 | 355,273 | 7,371 |
| School administration | 369,231 | 373,021 | 369,558 | 3,463 |
| Business | 146,885 | 157,306 | 155,221 | 2,085 |
| Operations and maintenance | 642,605 | 671,723 | 645,680 | 26,043 |
| Pupil transportation services | 121,674 | 137,859 | 134,066 | 3,793 |
| Central | 162,445 | 180,784 | 179,145 | 1,639 |
| Athletics | 239,081 | 226,589 | 226,230 | 359 |
| Community services | - | 23,500 | 23,432 | 68 |
| Capital outlay | 19,500 | 24,700 | 24,977 | (277) |
| Total expenditures | 9,056,381 | 9,124,961 | 9,085,332 | 39,629 |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ 5,500</u> | <u>\$ (73,945)</u> | (44,374) | <u>\$ 29,571</u> |
| Fund balance at beginning of year | | | <u>1,091,139</u> | |
| Fund balance at end of year | | | <u>\$ 1,046,765</u> | |

North Muskegon Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employee Retirement System
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|---------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| School District's proportion of the net pension liability (%) | 0.05414% | 0.05280% | - | - | - | - | - | - | - | - |
| School District's proportionate share of the net pension liability | \$ 13,224,254 | \$ 11,629,192 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| School District's covered-employee payroll | \$ 4,508,615 | \$ 4,494,154 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 293.31% | 258.76% | - | - | - | - | - | - | - | - |
| Plan fiduciary net position as a percentage of the total pension liability | 63.17% | 66.20% | - | - | - | - | - | - | - | - |

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

North Muskegon Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's Contributions
Michigan Public School Employee Retirement System
Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Statutorily required contributions | \$ 1,044,474 | \$ 1,104,841 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the statutorily required contributions | \$ 1,044,474 | 1,104,841 | - | - | - | - | - | - | - | - |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| School District's covered-employee payroll | \$ 4,658,940 | \$ 4,504,273 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions as a percentage of covered-employee payroll | 22.42% | 24.53% | - | - | - | - | - | - | - | - |

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

North Muskegon Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
Notes to Required Supplementary Information
For the year ended June 30, 2016

Changes of benefit terms: There were no changes of benefit terms in 2016.

Changes of assumptions: There were no changes of benefit assumptions in 2016.

STATISTICAL DATA (UNAUDITED)

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2016

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> |
|-------------|------------------|----------------------|----------------------|
| 2016 | \$ 108,956,852 | \$ 34,214,142 | \$ 143,170,994 |
| 2015 | 108,164,728 | 34,536,641 | 142,701,369 |
| 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, 2016

MAJOR TAXPAYERS

The top ten taxpayers in the School District and their 2015 Taxable Valuation and Industrial Facilities Tax Valuation are as follows:

| <u>Taxpayer</u> | <u>Product/service</u> | <u>Taxable value</u> |
|---------------------------------|------------------------|-----------------------------|
| Beverly Hills Apartments | Apartments | \$ 1,836,000 |
| Consumer's Energy | Utility | 1,593,137 |
| Marathon Oil | Oil Refinery | 1,582,041 |
| Peterson, Aaron & Jenny | Residential | 1,094,600 |
| DTE Gas Co. | Utility | 1,044,100 |
| Newcorp Inc. | Heavy Eqpt/trucking | 935,329 |
| Witham, Christopher & Stephanie | Residential | 932,875 |
| Pointe Marine Assoc. | Marina | 831,789 |
| Jestco Properties LLC | Consultation | 763,200 |
| Moulton, Mark & Mary | Residential | 691,111 |
| | | <u><u>\$ 11,304,182</u></u> |

The taxable values of the above taxpayers represent 7.9 percent of the School District's 2015 taxable value of \$143,170,994.

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2016

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

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Voted (non-homestead) | 18.0000 | 18.0000 | 18.0000 | 18.0000 | 18.0000 | 17.8524 | 17.8524 |
| Debt | 7.8200 | 7.8200 | 7.8200 | 7.7300 | 7.7300 | 7.7300 | 7.7300 |
| Sinking Fund | 1.5000 | - | - | - | - | - | - |
| TOTAL HOMESTEAD | 9.3200 | 7.8200 | 7.8200 | 7.7300 | 7.7300 | 7.7300 | 7.7300 |
| TOTAL NON-HOMESTEAD | 27.3200 | 25.8200 | 25.8200 | 25.7300 | 25.7300 | 25.5824 | 25.5824 |

The School District's voted non-homestead millage expires with the December 1, 2020 levy.

Other Major Taxing Units

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| State Education Fund ¹ | 6.0000 | 6.0000 | 6.0000 | 6.0000 | 6.0000 | 6.0000 | 6.0000 |
| Muskegon County | 9.1794 | 9.1994 | 8.8994 | 8.8994 | 8.8994 | 6.6957 | 7.4447 |
| City of North Muskegon | 12.1380 | 12.1849 | 12.1849 | 12.1849 | 12.9339 | 12.9339 | 12.1849 |
| Muskegon County I/S/D | 4.7580 | 4.7580 | 3.7580 | 3.7580 | 3.7580 | 3.7580 | 3.7580 |
| Muskegon Community College | 2.5437 | 2.5437 | 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, 2016

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 \$7,391 per pupil for the fiscal year 2015/2016. 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> |
|----------------------|--------------|--|---|
| 2015/16 ⁸ | \$ 7,945,890 | \$ 6,798.17 | \$ 7,391.00 |
| 2014/15 ⁷ | 7,627,781 | 6,541.90 | 7,126.00 |
| 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 funds, and \$50,542 in foundation equity.

⁷2014/2015, the school received \$381,989 in section 147C and \$11,104 in section 147D funds for the MPSERS UAAL Rate stability, \$62,204 in MPSERS cost offset, \$50,555 in Best Practice funds, \$126,380 in foundation equity and \$60,524 in Performance based funding.

⁸2015/2016, the school received \$518,005 in section 147C funds for the MPSERS UAAL Rate stability, \$64,135 in MPSERS cost offset.

Source: Michigan Department of Education and School District

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2016

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> | |
|----------------------|-------------------------------|---|---------|--|----------|
| 2015 | \$ 608,944 | \$ 589,014 | 96.73 % | \$ 608,944 | 100.00 % |
| 2014 | 584,474 | 554,288 | 94.84 | 584,414 | 99.99 |
| 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 |

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, 2016

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 ("MPERS") 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 MPERS for the 2015/16 fiscal year and the contributions for the previous eight years are shown below.

| <u>Contribution Period</u> | <u>Contribution Rate</u> |
|------------------------------------|--------------------------|
| October 1, 2015—September 30, 2016 | 31.49-36.31 % |
| October 1, 2014—September 30, 2015 | 29.72-34.54 |
| 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 |

| <u>Fiscal year ending June 30</u> | <u>Contributions to MPERS</u> |
|---------------------------------------|-----------------------------------|
| 2016 | \$ 1,697,348 |
| 2015 | 1,588,279 |
| 2014 | 1,332,286 |
| 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, 2016

DEBT STATEMENT

Direct Debt

| <u>Dated</u> | <u>Purpose/Type</u> | <u>Interest spread</u> | <u>Maturities</u> | <u>Amount outstanding</u> |
|--------------|---------------------------|------------------------|-------------------|------------------------------------|
| 12/16/2015 | Building & Site/Refunding | 4% | 5/1/16-20 | \$ 1,830,000 |
| 12/16/2015 | Building & Site/Refunding | 1.19-2.5% | 5/1/16-21 | 7,730,000 |
| 3/30/2016 | Building & Site/Refunding | 4% | 5/1/17-33 | 7,400,000 |
| 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 | 1,000,000 |
| | | | | <u><u>\$ 19,505,000</u></u> |

Source: *Municipal Advisory Council of Michigan*

School Bond Loan Fund

As of June 30, 2016, the School District has a School Bond Loan Fund borrowing balance of \$1,279,358

| | |
|-----------------------------------|---------------------------------|
| School Bond Loan Fund-SBLF | \$ 3,601 |
| School Loan Revolving Fund-GOSLRF | <u>275,757</u> |
| | <u><u>\$ 279,358</u></u> |

Source: *State of Michigan Department of Treasury*

North Muskegon Public Schools
STATISTICAL DATA
June 30, 2016

SCHOOL ENROLLMENT - HISTORICAL ENROLLMENT

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

| <u>School Year</u> | <u>Enrollment</u> |
|------------------------|-------------------|
| 2015/16 | 1,037 |
| 2014/15 | 1,012 |
| 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 |