



Muskegon Heights Public Schools

2603 Leahy Street • Muskegon Heights, MI 49444 • Phone 231-830-3221 Fax 231-830-3560

AGENDA

REGULAR BOARD MEETING

BOARD OF EDUCATION
2603 LEAHY STREET
MUSKEGON HEIGHTS, MICHIGAN

MUSKEGON HEIGHTS BOARD OF EDUCATION

MONDAY, NOVEMBER 2, 2015
6:00 PM

- 1) Call to Order
- 2) Roll Call
- 3) Secretary's Report and Approval of Minutes
- 4) Action Items
- 5) Report from the Emergency Manager
- 6) From the Board
- 7) Concerns of Parents/Citizens and Recognition of Guests
- 8) Adjournment

BOARD OF EDUCATION
of the
SCHOOL DISTRICT
of the
CITY OF MUSKEGON HEIGHTS, MICHIGAN
REGULAR BOARD MEETING
NOVEMBER 2, 2015
6:00 PM

OFFICIAL PROCEEDINGS

1. **The Regular Board Meeting, Muskegon Heights Board of Education, 2603 Leahy Street, Muskegon Heights, Michigan, was called to order by President Scott at 6:00 p.m.**
2. **President Scott, instructed Secretary Brewer, to call the roll and note Board Members and Administrative Staff present/absent.**

BOARD MEMBERS: Mrs. Trinell Scott, President; Mr. Mark Glover, Vice-President; Mr. Franklin Brewer, Secretary; Mrs. Estelita Rankin, Treasurer; Mrs. Peggy Selmon, Trustee; Mrs. Marianne Darnell, Trustee; Mrs. Marjorie Cook, Trustee

BOARD MEMBERS ABSENT: Mr. Franklin Brewer and Mrs. Marianne Darnell

ADMINISTRATIVE STAFF: Mr. Steve Schiller, Emergency Manager, Mr. John Lewis and Mr. Brian McFarren, Brickley Delong

ADMINISTRATIVE STAFF ABSENT:

Roll Call:

P Scott P Glover ABS Brewer P Rankin P Selmon ABS Darnell P Cook

3. **SECRETARY'S REPORT AND APPROVAL OF MINUTES**

BE IT RESOLVED, that the minutes for the Regular Board Meeting of September 14, 2015 be approved and placed on file.

M Mark Glover MOVED and m Estelita Rankin SECONDED the adoption of the resolution

Roll Call:

Y Scott Y Glover AB Brewer Y Rankin Y Selmon AB Darnell Y Cook

4. ACTION ITEMS

NONE

5. REPORT FROM THE EMERGENCY MANAGER

The Fall 2015 Pupil Accounting Count for the academy is still being finalized our numbers indicate the enrollment is higher than the End of the Year (EOY 2015) enrollment. The Muskegon Heights Public School Academy (MHPSA) had a goal of 900 but we are somewhere in the 830's which is higher than the EOY 2015.

The academy has completed their audit for last year and we are pleased to announce that they are out of deficit.

The MHPS audit has just been completed. Brian McFarren, of Brickley DeLong reported on the 2015 Audit. Please see attachment. Mrs. Rankin asked if the payment of \$853,000.00 transferred to the Academy was necessary. John stated that due to the financial stress caused by Mosaica (MEI) the District used Emergency Loan proceeds and tax revenues to lessen the financial burden placed upon the PSA by MEI's exit. Mr. Glover asked if this was something that we were obligated to do, something we did out of a sense of need, or was it required by law. John Lewis stated that it was something we felt obligated to do as both Treasury and the Emergency Manager did not want the Academy to take funds away from the education of its students to pay off MEI. Mr. Schiller and Mr. Lewis both stated that they did not anticipate any other obligations of that sort in the future. Mrs. Selmon asked for past invoices on the cost of the audit from Brickley DeLong. Brian stated that he would get that information and forward it to MHPS.

6. FROM THE BOARD

Estelita Rankin noted a conversation she heard regarding "College Day" and the difficulties encountered when attempting to contact anyone at the Muskegon Heights Public School Academy. Trinell Scott stated that different programs/organizations are trying to reach out to the MHPSA and wanted to know why they cannot be reached. Mr. Schiller instructed them to contact his office when they encounter these situations.

7. CONCERNS OF PARENTS/CITIZENS AND RECOGNITION OF GUESTS

NONE

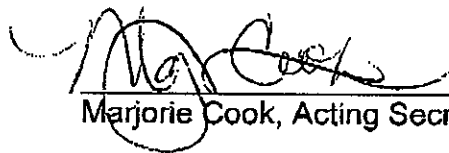
8. ADJOURNMENT

RESOLVED, that the Regular Board Meeting for Monday, November 2, 2015, adjourned at 6:28 p.m.

M Mark Glover MOVED and m Estelita Rankin SECONDED the adoption of the resolution.

5 YEAS 0 NAYS

Respectfully submitted,



Marjorie Cook, Acting Secretary

RECEIVED

By Gloria Suggitt at 9:36 am, Nov 02, 2015

School District of the City of Muskegon Heights

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2015

School District of the City of Muskegon Heights

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 29, 2015

Emergency Manager and Board of Education
School District of the City of Muskegon Heights
Muskegon Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

BRICKLEY DELONG

Emergency Manager and Board of Education
School District of the City of Muskegon Heights
October 29, 2015
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights as of June 30, 2015, 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.

Emphasis of Matter – Change in Accounting Principle

As described in Note J to the financial statements, the School District of the City of Muskegon Heights implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

Emphasis of Matter – Deficit

As discussed in Note B, the School District has a deficit in the General Fund and has filed a deficit elimination plan with the Michigan Department of Education.

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 4 through 11 and 38 through 41 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.

BRICKLEY DELONG

Emergency Manager and Board of Education
School District of the City of Muskegon Heights
October 29, 2015
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015, on our consideration of the School District of the City of Muskegon Heights' 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 the School District of the City of Muskegon Heights' internal control over financial reporting and compliance.

Brickley De Long, P.C.

Muskegon, Michigan

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2015

This section of Muskegon Heights Public Schools' annual report represents an overall review of the school district's financial activities for the fiscal year ended June 30, 2015. Please review in conjunction with the financial statements and notes to the financial statements to enhance an understanding of the district's financial performance.

The Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements adopted this reporting model – and Management Discussion and Analysis (MD&A) – for State and Local Governments. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Overview of the Financial Statements

This annual report consists of four parts: (1) management's discussion and analysis, (2) independent auditors' report, (3) the basic financial statements, and (4) required supplementary information. The financial statements include notes that explain information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the district's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the district.

District-wide Financial Statements

The district-wide financial statements are full accrual basis statements that provide information about the district's *overall* financial status. They are used to help determine whether or not the district is better off, or worse off, as the result of the year's activities. The *Statement of Net Position* reports all of the district's assets, deferred inflows and outflows of resources and liabilities, both short-term and long-term, whether they are "currently available" or not. Capital assets and long-term obligations of the district are reported in this statement. All of the current year's revenues and expenses are accounted for in the *Statement of Activities*, regardless of when cash is received or paid.

The two district-wide statements report the district's *net position* and how they have changed. Net position – the difference between the district's assets, deferred inflows and outflows of resources, and liabilities – are used to measure the district's financial position.

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

In district-wide statements, the district's activities are classified as *governmental activities*. This includes most of the district's basic services. Property taxes finance most of these services.

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Fund Financial Statements

The fund financial statements focus on individual parts of the district, while reporting the district's operations in more detail than the district-wide statements. The fund level statements are reported on a ***modified accrual basis***. Only those assets that are "***measurable***" and "***currently available***" are reported. Liabilities are recognized to the extent that they are paid with current financial resources.

Fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the district's major instructional and instructional support activities are reported in the ***General Fund***. Additional activities are reported in their relevant funds including: ***Food Service, Debt Service, and Fiduciary Funds***.

In fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Financial Analysis of the District as a Whole

Figure A-1 shows a condensed breakdown of the net position. The decrease in current assets stems primarily from reduced cash and governmental receivables when compared to the 2013/14 school year. The decrease in capital assets can be attributed to depreciation and reductions in the value of assets held by the district.

The current liabilities of the district remained relatively unchanged during this period. This is primarily due to accruing penalties and interest on amounts due to the Office of Retirement Services (ORS) and Unemployment Insurance Agency (UIA).

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Figure A-1
Condensed Statement of Net Position

| | Governmental Activities | |
|---|--------------------------------|---|
| | <u>June 30, 2015</u> | <u>As restated June 30, 2014</u> |
| Current Assets | \$ 1,974,510 | \$ 2,476,524 |
| Capital Assets, net | 19,239,054 | 20,497,960 |
| Other Non Current Assets | 1,369,316 | 1,162,242 |
| Deferred Outflows of Resources | 225,164 | 230,062 |
| Total Assets and Deferred Outflows | <u>22,808,044</u> | <u>24,366,788</u> |
| Current Liabilities | 4,657,720 | 4,390,014 |
| Non Current Liabilities | 36,495,460 | 37,090,065 |
| Deferred Inflows of Resources | 23,308 | - |
| Total Liabilities and Deferred Inflows | <u>41,176,488</u> | <u>41,480,079</u> |
| Net Position | | |
| Net Investment in Capital Assets | (781,541) | (392,509) |
| Restricted for: | | |
| Debt Service | 1,546,472 | 1,292,914 |
| Food Service | 41,857 | 41,857 |
| Unrestricted | <u>(19,175,232)</u> | <u>(18,055,553)</u> |
| Total Net Position | <u>\$ (18,368,444)</u> | <u>\$ (17,113,291)</u> |

The district's net position reflects investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The district uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the district's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Figure A-2 details the changes in the district's net position. Revenues classified under "charges for services" include amounts received for 3% Charter authorization fee and other receipts from those who have benefited from the related programs. Program revenues decreased due to a one-time recalculation of the district's authorizer fees. The district continues to levy 18 mills on non-homestead properties within the City of Muskegon Heights. This levy is used to pay current and long-term liabilities of the district.

Total operating expenses of the district continue to decrease due to lower support service costs. Ongoing interest and fees expense related to outstanding ORS and UIA balances continue to be an area of concern for the district, however.

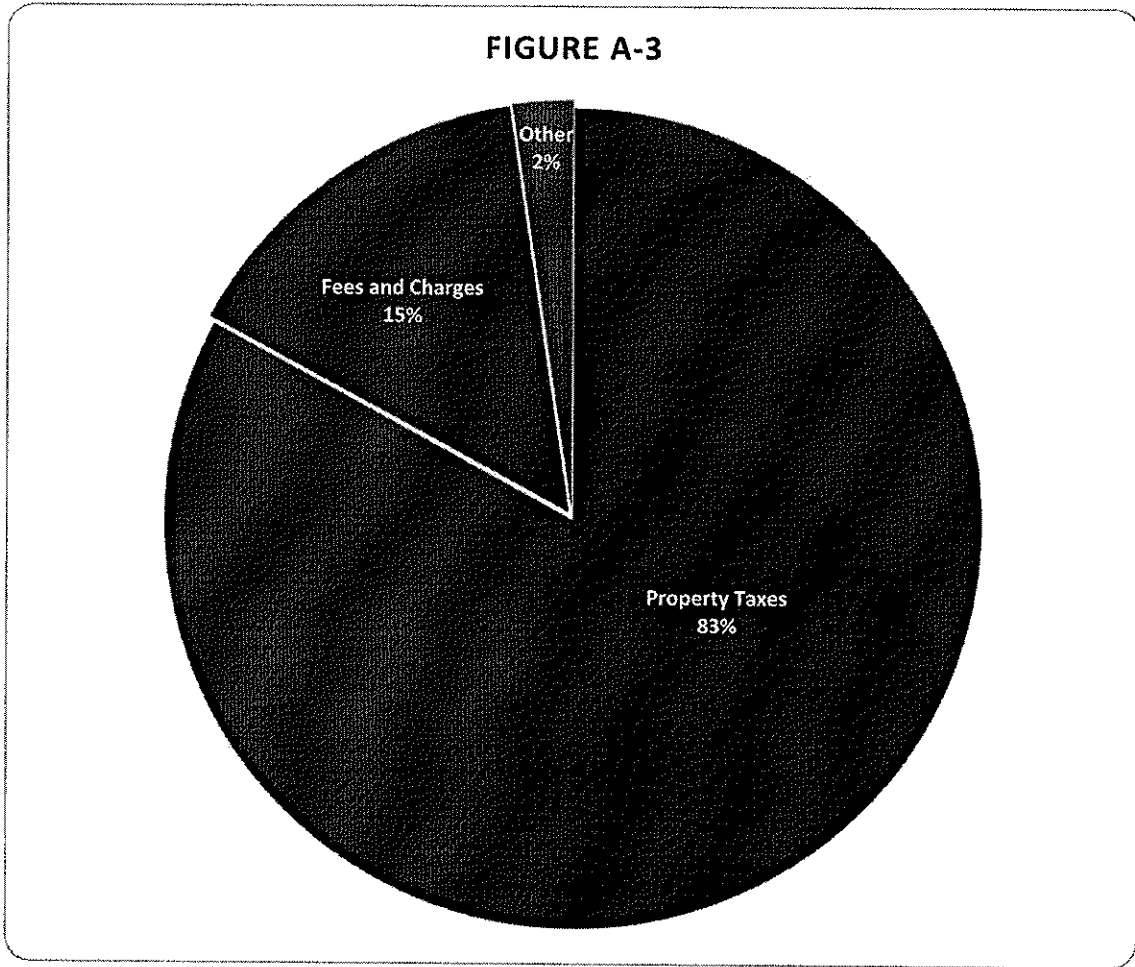
Figure A-2
Statement of Net Position from Operating Results

| For the Period Ending: June 30, | <u>2015</u> | <u>2014</u> |
|--|-------------------------------|-------------------------------|
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$ 194,215 | \$ 315,634 |
| Operating Grants and contributions | 301 | 37,248 |
| General Revenues | | |
| Property taxes | 2,648,177 | 2,687,136 |
| Investment Earnings | 25,003 | |
| Unrestricted grants and contributions | - | 10,042 |
| Other | 24,244 | 31,876 |
| Total revenues | <u>2,891,940</u> | <u>3,081,936</u> |
| Expenses | | |
| Support services | 1,631,361 | 2,456,646 |
| Community services | 200 | 900 |
| Interest on long-term debt | 1,256,626 | 1,250,381 |
| Depreciation and amortization | 845,684 | 932,731 |
| Total expenses | <u>3,733,871</u> | <u>4,640,658</u> |
| Special Item | | |
| Loss on impairment of building | <u>(413,222)</u> | <u>-</u> |
| Increase (decrease) in net position | (1,255,153) | (1,558,722) |
| Beginning net position (restated) | <u>(17,113,291)</u> | <u>(15,340,787)</u> |
| Ending net position | <u>\$ (18,368,444)</u> | <u>\$ (16,899,509)</u> |

Note: 2014 was not restated for the effects of GASB 68 as the information is not available.

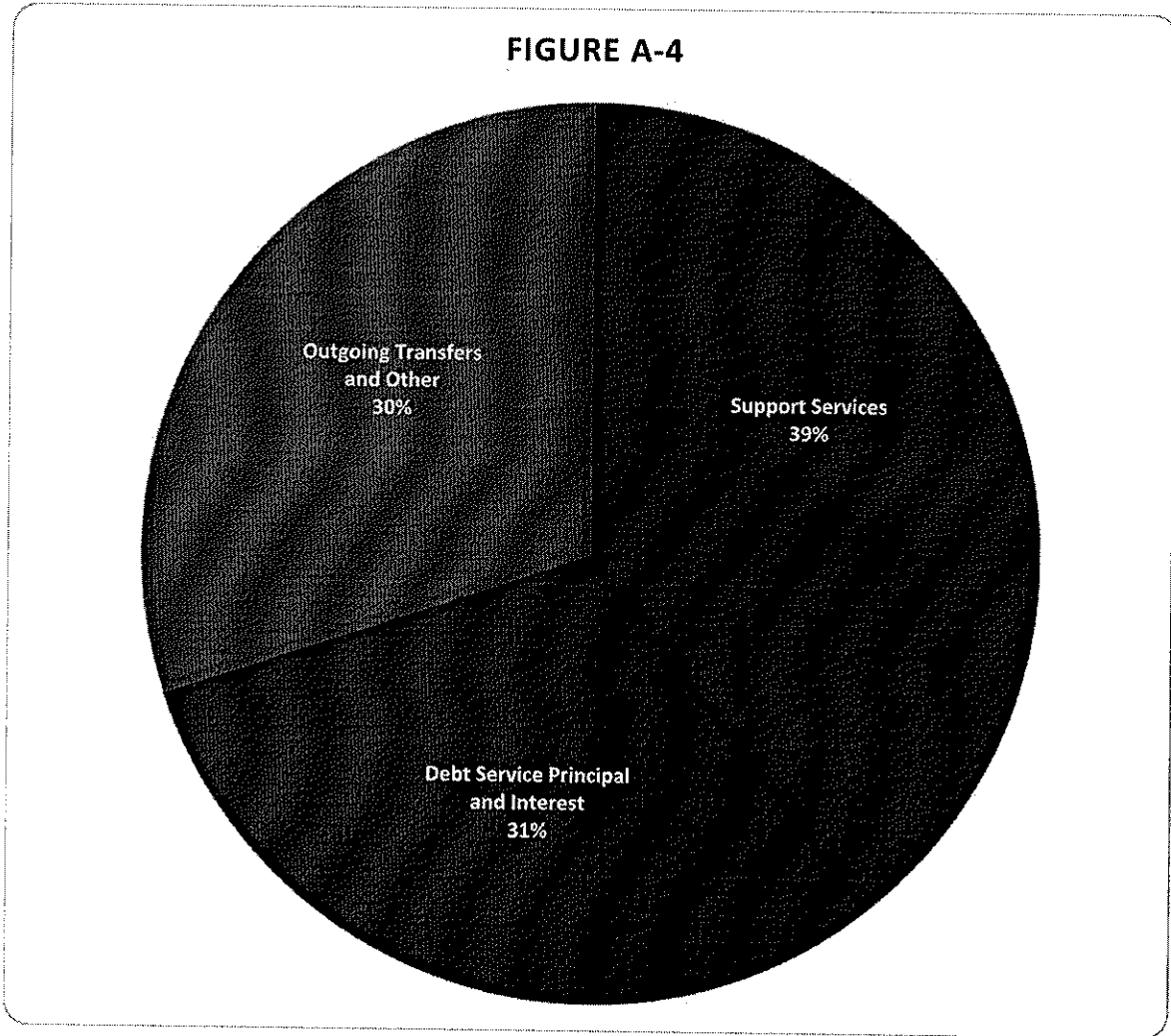
Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2015

83% of the district's general fund revenue is received from property taxes. This means that the financial stability of the district rests primarily with the economic health of the City of Muskegon Heights. Figure A-3 depicts the general fund breakdown of the sources of revenue for the district.



Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Figure A-4 depicts 39% of the district's general fund resources were spent on district support services, 31% was spent on debt service principal and interest, and 30% was spent on outgoing transfers.



Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Financial Analysis of the District's Funds

The General Fund deficit increased by \$734,539 during the 2014/15 fiscal year, resulting in a fund deficit of \$1,779,530 at year-end. The primary reasons for this deficit increase is detailed in the final amended budget v. actual results section below.

General Fund Budgetary Highlights

In accordance with Section 11 of Public Act 436 (MCL 141.1541), the School District is operated under a written financial and operating plan prepared by the emergency manager. Although this is not a budget adopted in accordance with the Uniform Budgeting and Accounting Act of 1968 (Budget Act), the information presented in the required supplementary information is based on the written financial and operating plan prepared by the emergency manager and is presented in the format prescribed by the Budget Act.

Original Budget v. Final Amended Budget

Revenues

- Increased revenue slightly to adjust for prior year delinquent taxes received in 2014/15

Expenditures

- Increased general administration allocation for greater than anticipated legal fees
- Increased business service allocation to account for additional contracted labor costs, ORS and UIA interest and fees expense, and other business related legacy obligations
- Increased operations and maintenance allocation due to higher than anticipated insurance costs, as well as building repairs
- Increased debt service allocation to account for repayment of interest and principal on emergency loans
- Increased transfer allocation to account for transfers used to address district legacy obligations

Final Amended Budget v. Actual Results

Revenues

- Local source revenue was slightly lower than projected

Expenditures

- General administration costs were greater than projected due to higher than anticipated legal and audit costs
- Business service costs were greater than projected due to higher than anticipated ORS and UIA interest and penalty fees
- Operations and maintenance expenditures were greater than anticipated due to unforeseen building maintenance issues
- Outgoing transfer expenditures were greater than anticipated due to transfers that were completed in the 2015/16 fiscal year, but accrued in the 2014/15 fiscal year

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Capital Assets and Debt Administration

Capital Assets – At June 30, 2015, the district had over \$19 million in net capital assets, including land, buildings, furniture and equipment as shown below. The primary reasons for the decrease in capital asset value is attributable to depreciation and an impairment charge for a building no longer in service.

| | 2015 | 2014 |
|----------------------------|----------------------|----------------------|
| Land | \$ 1,285,120 | \$ 1,311,677 |
| Land Improvements | 66,491 | 86,863 |
| Buildings and Improvements | 17,772,404 | 18,851,249 |
| Equipment | 115,039 | 248,171 |
| Total | \$ 19,239,054 | \$ 20,497,960 |

More detailed information about capital assets can be found in Note D of these financial statements.

Debt Administration – At June 30, 2015, the district had \$37.5 million in general obligation bonds and other long-term debt outstanding as shown below.

| | 2015 | 2014 |
|--|----------------------|----------------------|
| 2006 Building General Obligation Bonds | \$ 17,150,000 | \$ 18,040,000 |
| 2007 Energy Conservation Improvement Bonds | 3,149,000 | 3,149,000 |
| Emergency Loans | 12,170,000 | 12,360,000 |
| School Bond Loan Fund | 3,020,723 | 2,920,059 |
| School Loan Revolving Fund | 1,994,161 | 1,555,693 |
| Total | \$ 37,483,884 | \$ 38,024,752 |

More detailed information about long-term debt can be found in Note F of these financial statements.

Currently Known Facts, Decisions, and Conditions
Affecting the 2015/16 Fiscal Year

- The district continues to be managed by an Emergency Manager appointed by the State of Michigan. This appointment occurred at the request of the local school board in December 2011 in order to manage the district's financial crisis.
- The district intends to refinance its 2005 Refunding Bonds in the 2015/16 fiscal year.

Requests for Information

This financial report is designed to provide the district's citizens, taxpayers, parents, students, investors and creditors with a general overview of the district's finances, and to show how the district is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Muskegon Heights Public Schools, 2603 Leahy Street, Muskegon Heights, MI 49444, telephone number (231) 830-3221.

School District of the City of Muskegon Heights
STATEMENT OF NET POSITION
June 30, 2015

| | Governmental activities |
|---|------------------------------------|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | \$ 1,840,532 |
| Due from other governmental units | 133,978 |
| Total current assets | 1,974,510 |
| Noncurrent assets | |
| Restricted cash and cash equivalents | 1,369,316 |
| Capital assets, net | |
| Nondepreciable | 1,285,120 |
| Depreciable | 17,953,934 |
| Total noncurrent assets | 20,608,370 |
| Total assets | 22,582,880 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred charges on refunding | 204,141 |
| Related to pensions | 21,023 |
| Total deferred outflows of resources | 225,164 |
| Total assets and deferred outflows of resources | 22,808,044 |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable and accrued liabilities | 2,856,662 |
| Due to other governmental units | 676,058 |
| Bonds and other obligations, due within one year | 1,125,000 |
| Total current liabilities | 4,657,720 |
| Noncurrent liabilities | |
| Bonds and other obligations, less amounts due within one year | 36,284,620 |
| Net pension liability | 210,840 |
| Total noncurrent liabilities | 36,495,460 |
| Total liabilities | 41,153,180 |
| DEFERRED INFLOWS OF RESOURCES | |
| Related to pensions | 23,308 |
| Total liabilities and deferred inflows of resources | 41,176,488 |
| NET POSITION | |
| Net investment in capital assets | (781,541) |
| Restricted for debt service | 1,546,472 |
| Restricted for food service | 41,857 |
| Unrestricted | (19,175,232) |
| Total net position | \$ (18,368,444) |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
STATEMENT OF ACTIVITIES
 For the year ended June 30, 2015

| | <u>Program Revenue</u> | | Net (Expense) Revenue and Changes in Net Position |
|--|---------------------------------|---|--|
| | <u>Charges for services</u> | <u>Operating grants and contributions</u> | |
| <i>Functions/Programs</i> | <u>Expenses</u> | | |
| Governmental activities | | | |
| Support services | \$ 1,631,361 | \$ 194,215 | \$ (1,437,146) |
| Community services | 200 | 301 | 101 |
| Interest on long-term debt | 1,256,626 | - | (1,256,626) |
| Unallocated depreciation | 845,684 | - | (845,684) |
| Total governmental activities | \$ 3,733,871 | \$ 194,215 | (3,539,355) |
| General revenues | | | |
| Property taxes | | | 2,648,177 |
| Investment earnings | | | 25,003 |
| Miscellaneous | | | 24,244 |
| Special item - loss on impairment of building | | | <u>(413,222)</u> |
| Total general revenues and special item | | | <u>2,284,202</u> |
| Change in net position | | | (1,255,153) |
| Net position at beginning of year, as restated | | | <u>(17,113,291)</u> |
| Net position at end of year | | | <u>\$ (18,368,444)</u> |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
BALANCE SHEET
 Governmental Funds
 June 30, 2015

| | General Fund | 2006 Debt Service Fund | 2007 Energy Conservation Bond Retirement Fund | | Other governmental funds | Total governmental funds |
|--|---------------------|------------------------|---|------------------|--------------------------|--------------------------|
| | | | | | | |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 1,840,532 | \$ - | \$ - | \$ - | \$ - | \$ 1,840,532 |
| Due from other governmental units | 133,978 | - | - | - | - | 133,978 |
| Due from other funds | - | 351,905 | - | - | 84,026 | 435,931 |
| Restricted cash and cash equivalents | - | - | 1,369,316 | - | - | 1,369,316 |
| Total assets | \$ 1,974,510 | \$ 351,905 | \$ 1,369,316 | \$ 84,026 | \$ 84,026 | \$ 3,779,757 |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 108,389 | \$ - | \$ - | \$ - | \$ - | \$ 108,389 |
| Accrued liabilities | 2,573,524 | - | - | - | - | 2,573,524 |
| Due to other governmental units | 633,889 | - | - | 42,169 | - | 676,058 |
| Due to other funds | 435,931 | - | - | - | - | 435,931 |
| Total liabilities | 3,751,733 | - | - | 42,169 | - | 3,793,902 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unavailable revenues | 2,307 | - | - | - | - | 2,307 |
| FUND BALANCES (DEFICIT) | | | | | | |
| Restricted | | | | | | |
| Debt service | - | 351,905 | 1,369,316 | - | - | 1,721,221 |
| Food service | - | - | - | 41,857 | - | 41,857 |
| Unassigned | (1,779,530) | - | - | - | - | (1,779,530) |
| Total fund balances (deficit) | (1,779,530) | 351,905 | 1,369,316 | 41,857 | | (16,452) |
| Total liabilities, deferred inflows of resources and fund balances | \$ 1,974,510 | \$ 351,905 | \$ 1,369,316 | \$ 84,026 | \$ 84,026 | \$ 3,779,757 |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 June 30, 2015

| | | |
|--|---------------------|----------------------------|
| Total fund balances (deficit)—governmental funds | \$ | (16,452) |
| 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 | \$36,947,604 | |
| Accumulated depreciation | <u>(17,708,550)</u> | 19,239,054 |
| Deferred charges on refunding are not capitalized and amortized in the governmental funds. | | |
| Deferred charges on refunding | 342,491 | |
| Accumulated amortization | <u>(138,350)</u> | 204,141 |
| Deferred inflows and outflows of resources related to pensions are not reported in the governmental funds. | | |
| Deferred outflows of resources - related to pensions | 21,023 | |
| Deferred inflows of resources - related to pensions | <u>(23,308)</u> | (2,285) |
| Accrued interest in governmental activities is not reported in the governmental funds. | | |
| | | (174,749) |
| Other assets that are not available to pay for current period expenditures and are reported as unavailable revenue in the governmental funds. | | |
| | | 2,307 |
| Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds. | | |
| | | <u>(37,620,460)</u> |
| Net position of governmental activities | \$ | <u><u>(18,368,444)</u></u> |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
 Governmental Funds
 For the year ended June 30, 2015

| | General Fund | 2006 Debt Service Fund | 2007 Energy Conservation Bond Retirement Fund | Other governmental funds | Total governmental funds |
|---|----------------|------------------------|---|--------------------------|--------------------------|
| REVENUES | | | | | |
| Local sources | | | | | |
| Property taxes | \$ 1,236,194 | \$ 1,411,983 | \$ - | \$ - | \$ 2,648,177 |
| Investment earnings | 21 | - | 24,982 | - | 25,003 |
| Fees and charges | 219,670 | - | - | - | 219,670 |
| Other | 35,755 | - | - | - | 35,755 |
| Total local sources | 1,491,640 | 1,411,983 | 24,982 | - | 2,928,605 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Support services | 871,720 | - | - | - | 871,720 |
| Community services | 200 | - | - | - | 200 |
| Outgoing transfers and other | 671,077 | - | - | - | 671,077 |
| Debt service | | | | | |
| Principal | 190,000 | 890,000 | - | - | 1,080,000 |
| Interest and other charges | 311,090 | 864,516 | - | - | 1,175,606 |
| Total expenditures | 2,044,087 | 1,754,516 | - | - | 3,798,603 |
| Excess (deficiency) of revenues over (under) expenditures | (552,447) | (342,533) | 24,982 | - | (869,998) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | - | 182,092 | - | 182,092 |
| Transfers out | (182,092) | - | - | - | (182,092) |
| Loan proceeds | - | 382,319 | - | - | 382,319 |
| Total other financing sources (uses) | (182,092) | 382,319 | 182,092 | - | 382,319 |
| Net change in fund balances | (734,539) | 39,786 | 207,074 | - | (487,679) |
| Fund balances (deficit) at beginning of year | (1,044,991) | 312,119 | 1,162,242 | 41,857 | 471,227 |
| Fund balances (deficit) at end of year | \$ (1,779,530) | \$ 351,905 | \$ 1,369,316 | \$ 41,857 | \$ (16,452) |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2015

Net change in fund balances (deficit)—total governmental funds \$ (487,679)

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 (845,684)

Impairments of capital assets are reported in the Statement of Activities, but impairments of capital assets are not reported in the governmental funds. (413,222)

Governmental funds report outlays for deferred charges on refunding as expenditures; in the Statement of Activities these costs are amortized over the bond period. (14,758)

Debt proceeds are other financing sources in the governmental funds, but debt proceeds and accumulated interest increase long-term debt in the Statement of Net Position. (539,132)

Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds. (36,665)

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position. 1,074,632

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid. 6,698

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. 657

Change in net position of governmental activities \$ (1,255,153)

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2015

| | <u>Agency funds</u> |
|---------------------------|-------------------------|
| ASSETS | |
| Cash and cash equivalents | <u>\$ 31,981</u> |
| LIABILITIES | |
| Accounts payable | \$ 13,549 |
| Deposits held for others | <u>18,432</u> |
| | <u>\$ 31,981</u> |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District of the City of Muskegon Heights (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District, except for the authority provided to the emergency manager. 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. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

In April 2012, pursuant to Public Act 4 of 2011, *Local Government and School District Fiscal Responsibility Act*, the State of Michigan determined that a financial emergency exists within the School District and appointed an emergency financial manager. Public Act 4 was suspended due to a public referendum in August 2012. In response, the State of Michigan appointed an emergency manager pursuant to Public Act 72 of 1990, *Local Government Fiscal Responsibility Act*. Effective March 28, 2013, Public Act 436 of 2012, *Local Financial Stability and Choice Act* replaced Public Act 72 of 1990 and the State of Michigan reappointed an emergency manager under this act.

In July 2012, the emergency manager issued an order approving and authorizing the issuance of a charter contract to the Muskegon Heights Public School Academy System (System). All future State School Aid Payments will be made to the School District as fiscal agent and then forwarded to the System. The School District will continue to assess and collect property taxes in order to service its debt obligations. The System agrees to pay the School District an administrative fee of 3 percent of the State School Aid Payments.

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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

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 *2006 Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest of the 2006 Refunding bonds.

The *2007 Energy Conservation Bond Retirement Fund* accounts for the resources accumulated and payments made for principal and interest of the 2007 Energy Conservation bonds.

Additionally, the School District reports the following fund types:

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

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

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

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

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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

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.

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, 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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

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.

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, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Capital Assets—Continued

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> |
|------------------------------|--------------|
| Land improvements | 10-15 |
| Buildings and improvements | 15-40 |
| Equipment | 5-10 |

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 then.

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

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Net Position Flow Assumption

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

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

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

Fund Balance Flow Assumptions

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

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 Emergency Manager 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 emergency manager may assign fund balance, such as, 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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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 July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

In accordance with Section 11 of Public Act 436 (MCL 141.1541), the School District is operated under a written financial and operating plan prepared by the emergency manager. Although this is not a budget adopted in accordance with the Uniform Budgeting and Accounting Act of 1968 (Budget Act), the information presented in the required supplementary information is based on the written financial and operating plan prepared by the emergency manager and is presented in the format prescribed by the Budget Act.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2015, expenditures in the General Fund exceeded appropriations in general administration by \$19,540, business by \$128,277, operations and maintenance by \$35,846, and outgoing transfers and other transactions by \$248,643.

Fund Deficits

The Michigan State School Aid act states a district receiving money under this act shall not adopt or operate under a deficit budget, and shall not incur an operating deficit in a fund during a school fiscal year. A district having an existing deficit or which incurs a deficit shall not be allotted or paid further sums under this act until the district submits to the Michigan Department of Education for approval a budget for the current fiscal year and a plan to eliminate the deficit not later than the end of the second fiscal year after the deficit was incurred. At June 30, 2015 the General Fund of the District had a deficit of \$1,779,530. The District continues to work with the Michigan Department of Education and received approval of its June 2015 deficit elimination plan on October 8, 2015.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2015, the School District had no 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, 2015, \$2,658,862 of the School District's bank balance of \$3,241,829 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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

| | <u>Balance</u> <u>July 1, 2014</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2015</u> |
|---|---------------------------------------|---------------------|-------------------|--|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,311,677 | \$ - | \$ 26,557 | \$ 1,285,120 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 494,276 | - | 54,117 | 440,159 |
| Buildings and improvements | 33,705,949 | - | 892,519 | 32,813,430 |
| Equipment | 2,499,547 | - | 90,652 | 2,408,895 |
| Total capital assets, being depreciated | 36,699,772 | - | 1,037,288 | 35,662,484 |
| Less accumulated depreciation: | | | | |
| Land improvements | 407,413 | 11,452 | 45,197 | 373,668 |
| Buildings and improvements | 14,854,700 | 716,954 | 530,628 | 15,041,026 |
| Equipment | 2,251,376 | 117,278 | 74,798 | 2,293,856 |
| Total accumulated depreciation | 17,513,489 | 845,684 | 650,623 | 17,708,550 |
| Total capital assets, being depreciated, net | 19,186,283 | (845,684) | 386,665 | 17,953,934 |
| Capital assets, net | <u>\$ 20,497,960</u> | <u>\$ (845,684)</u> | <u>\$ 413,222</u> | <u>\$ 19,239,054</u> |

Depreciation

Depreciation expense has not been allocated to functions as its assets impact multiple activities and allocation is not practical.

As of June 30, 2015, the School District had approximately \$50,000 of impaired and idle real estate. The real estate is primarily a school building that is no longer in use by the district.

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2015 is as follows:

| <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amount</u> |
|--------------------------|---------------------|-------------------|
| 2006 Debt Service Fund | General Fund | \$ 351,905 |
| Other governmental funds | General Fund | 84,026 |
| | | <u>\$ 435,931</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 General Fund transferred \$182,092 to the 2007 Energy Conservation Bond Retirement Fund for debt service.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE F—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 following is a summary of long-term obligations activity for the School District for the year ended June 30, 2015:

| | <u>Balance</u> <u>July 1, 2014</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2015</u> | <u>Due within</u> <u>one year</u> |
|--------------------------------|---------------------------------------|-------------------|---------------------|--|--------------------------------------|
| Governmental activities | | | | | |
| Bonds | \$ 21,189,000 | \$ - | \$ 890,000 | \$ 20,299,000 | \$ 925,000 |
| Discount | (79,632) | - | (5,368) | (74,264) | - |
| Emergency loans | 12,360,000 | - | 190,000 | 12,170,000 | 200,000 |
| Other obligations | 4,475,752 | 539,132 | - | 5,014,884 | - |
| | <u>\$ 37,945,120</u> | <u>\$ 539,132</u> | <u>\$ 1,074,632</u> | <u>\$ 37,409,620</u> | <u>\$ 1,125,000</u> |

In the previous schedule, the addition for other obligations represents \$382,319 of proceeds from the School Loan Revolving Fund, \$100,664 of accumulated interest on the School Bond Loan Fund, and \$56,149 of accumulated interest on the School Loan Revolving Fund.

Long-term obligations consist of the following:

| | <u>Interest</u> <u>Rate</u> | <u>Date of Maturity</u> | <u>Balance</u> |
|--|--------------------------------|-------------------------|----------------------|
| Governmental activities: | | | |
| Bonds | | | |
| 2006 General Obligation Refunding Bond | 4%-5% | May 2029 | \$ 17,150,000 |
| 2007 Energy Conservation Improvement Bonds | 0% | December 2022 | 3,149,000 |
| | | | <u>\$ 20,299,000</u> |
| Emergency loans | | | |
| Emergency Loan Payable #1 | 2.45% | November 2041 | \$ 7,400,000 |
| Emergency Loan Payable #2 | 2.35% | November 2041 | 3,370,000 |
| Emergency Loan Payable #3 | 3.45% | June 2044 | 1,400,000 |
| | | | <u>\$ 12,170,000</u> |
| Other obligations | | | |
| School Bond Loan Fund | 3.41% | May 2035 | \$ 3,020,723 |
| School Loan Revolving Fund | 3.41% | May 2035 | 1,994,161 |
| | | | <u>\$ 5,014,884</u> |

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE F—LONG-TERM OBLIGATIONS—Continued

The annual requirements of principal and interest to amortize the bonded debt and emergency loans outstanding as of June 30, 2015 follow:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------|---------------------|----------------------|
| 2016 | \$ 1,125,000 | \$ 919,341 | \$ 2,044,341 |
| 2017 | 1,165,000 | 879,034 | 2,044,034 |
| 2018 | 1,210,000 | 837,265 | 2,047,265 |
| 2019 | 1,265,000 | 783,835 | 2,048,835 |
| 2020 | 1,310,000 | 738,344 | 2,048,344 |
| 2021-2025 | 10,809,000 | 2,904,392 | 13,713,392 |
| 2026-2030 | 8,215,000 | 1,292,525 | 9,507,525 |
| 2031-2035 | 2,575,000 | 426,851 | 3,001,851 |
| 2036-2040 | 2,915,000 | 213,456 | 3,128,456 |
| 2041-2044 | 1,880,000 | 19,784 | 1,899,784 |
| | <u>\$ 32,469,000</u> | <u>\$ 9,014,827</u> | <u>\$ 41,483,827</u> |

NOTE G—EMPLOYEE BENEFITS

Employee Retirement System

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) 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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE G—EMPLOYEE BENEFITS—Continued

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.

Regular Retirement

The retirement 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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE G—EMPLOYEE BENEFITS—Continued

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 postretirement 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, as described above under “Benefits Provided.” 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, 2014.

| <u>Benefit Structure</u> | <u>Member</u> | <u>Employer</u> |
|--------------------------|---------------|-----------------|
| Basic | 0.0 - 4.0 % | 18.34 - 19.61 % |
| Member Investment Plan | 3.0 - 7.0 | 18.34 - 19.61 |
| Pension Plus | 3.0 - 6.4 | 18.11 |
| Defined Contribution | 0.0 | 15.44 - 16.61 |

The School District’s pension contributions for the year ended June 30, 2015 were equal to the required contribution total. Pension contributions were approximately \$18,100, including the Section 147 contributions.

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

At June 30, 2015, the School District reported a liability of \$210,840 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2013, 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, 2014, the School District’s proportion was 0.00096 percent.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE G—EMPLOYEE BENEFITS—Continued

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

For the year ended June 30, 2015, the School District recognized pension expense of \$17,079. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Changes of assumptions | \$ 7,780 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | (23,308) |
| School District contributions subsequent to the measurement date | 13,243 | - |
| Total | \$ 21,023 | \$ (23,308) |

The School District contributions subsequent to the measurement date of \$13,243, 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ending June 30, | Amount |
|---------------------------------|---------------|
| 2016 | \$ (3,804) |
| 2017 | (3,804) |
| 2018 | (3,804) |
| 2019 | (4,116) |

Actuarial assumptions

Valuation Assumptions

| | |
|------------------------------|---|
| Investment rate of return – | 8% a year for the Non-Hybrid groups and 7% a year for the Hybrid group (Pension Plus plan), both rates are compounded annually net of investment and administrative expenses. |
| Salary increases – | 3.5% |
| Inflation – | 2.5% |
| Cost-of-living adjustments – | 3% annual non-compounded for MIP members |

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE G—EMPLOYEE BENEFITS—Continued

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 2025 using projection scale BB. The final rates used include no margin for future mortality improvement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

Experience Study

The annual actuarial valuation report of the System used for these statements is dated September 30, 2013. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a 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 % | 4.8 % |
| Alternative Investment Pools | 18.0 | 8.5 |
| International Equity | 16.0 | 6.1 |
| Fixed Income Pools | 10.5 | 1.5 |
| Real Estate and Infrastructure Pools | 10.0 | 5.3 |
| Absolute Return Pools | 15.5 | 6.3 |
| Short Term Investment Pools | 2.0 | (0.2) |
| Total | 100.0 % | |

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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE G—EMPLOYEE BENEFITS—Continued

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 percent) or 1 percentage point higher (9 percent) than the current rate:

| | 1% Lower (7%) | Discount Rate (8%) | 1% Higher (9%) |
|--|------------------|-----------------------|-------------------|
| School District's proportionate share of the net pension liability | \$ 277,974 | \$ 210,840 | \$ 154,278 |

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 2014 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

Payables to the Pension Plan

At June 30, 2015 the School District reported payables to the defined benefit pension plan of \$1,909,000. The payable is a statutorily required contribution to the pension plan and must be submitted by the seventh State of Michigan business day after the compensation was paid or deductions were withheld.

Other Post-employment Benefits

Introduction

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, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80 percent beginning January 1, 2013; 90 percent for those Medicare eligible and enrolled in the insurances as of that date.

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

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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE G—EMPLOYEE BENEFITS—Continued

Retiree Healthcare Reform of 2012—Continued

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's postemployment healthcare contributions to MPSERS for the year ended June 30, 2015 were approximately \$1,900.

NOTE H—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 additional 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.

Michigan Unemployment Insurance Agency

During the fiscal year, the Michigan Unemployment Insurance Agency (UIA) assessed the School District approximately \$115,000 in unknown charges. The School District is working with UIA in trying to determine the nature of the assessments. The School District does not believe they owe these amounts and therefore no liability has been recorded in the financial statements as of June 30, 2015.

NOTE I—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, 2015 or any of the prior three years.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE J—CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2015, the School District adopted the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 68—*Accounting and Financial Reporting for Pensions* and GASB Statement No. 71—*Pension Transition for Contributions Made Subsequent to the Measurement Date*

GASB Statement No. 68 requires governments that participate in cost-sharing defined benefit pension plans to report their proportionate share of the plan’s net pension liability in their statement of net position.

GASB Statement No. 71 addressed the issue of contributions made to the cost-sharing defined benefit plans after the measurement date for the year in which GASB Statement No. 68 is implemented.

The restatement of the beginning of the year net position is as follows:

| | Governmental activities |
|--|------------------------------------|
| Beginning net position | \$ (16,899,509) |
| Deferred outflows of resources - related to pensions | 11,163 |
| Net pension liability | (224,945) |
| Beginning net position, as restated | \$ (17,113,291) |

The effect on the change in net position of the prior year is undeterminable.

NOTE K—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 2017 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.

REQUIRED SUPPLEMENTARY INFORMATION

School District of the City of Muskegon Heights
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended June 30, 2015

| | Budgeted amounts | | Actual | Variance with final budget- positive (negative) |
|---|---------------------|---------------------|-----------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Local sources | \$ 1,447,971 | \$ 1,493,319 | \$ 1,491,640 | \$ (1,679) |
| EXPENDITURES | | | | |
| Support services | | | | |
| General administration | 110,680 | 169,500 | 189,040 | (19,540) |
| Business | 30,000 | 374,216 | 502,493 | (128,277) |
| Operations and maintenance | 50,000 | 110,100 | 145,946 | (35,846) |
| Central | - | 34,000 | 34,241 | (241) |
| Community services | - | - | 200 | (200) |
| Debt service | - | - | - | - |
| Principal | - | 190,000 | 190,000 | - |
| Interest and other charges | - | 311,090 | 311,090 | - |
| Outgoing transfers and other transactions | 182,092 | 604,526 | 853,169 | (248,643) |
| Total expenditures | 372,772 | 1,793,432 | 2,226,179 | (432,747) |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ 1,075,199</u> | <u>\$ (300,113)</u> | <u>(734,539)</u> | <u>\$ (434,426)</u> |
| Fund balance (deficit) at beginning of year | | | <u>(1,044,991)</u> | |
| Fund balance (deficit) at end of year | | | <u>\$ (1,779,530)</u> | |

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

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|------------|------|------|------|------|------|------|------|------|------|
| School District's proportion of the net pension liability (%) | 0.09600% | - | - | - | - | - | - | - | - | - |
| School District's proportionate share of the net pension liability | \$ 210,840 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| School District's covered-employee payroll | \$ 81,058 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 260.11% | - | - | - | - | - | - | - | - | - |
| Plan fiduciary net position as a percentage of the total pension liability | 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.

School District of the City of Muskegon Heights
REQUIRED SUPPLEMENTARY INFORMATION
 Schedule of School District's Contributions

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each year)

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|-----------|------|------|------|------|------|------|------|------|------|
| Statutorily required contributions | \$ 18,057 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the statutorily required contributions | 18,057 | - | - | - | - | - | - | - | - | - |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| School District's covered-employee payroll | \$ 81,058 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions as a percentage of covered-employee payroll | 22.28% | - | - | - | - | - | - | - | - | - |

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.

School District of the City of Muskegon Heights
REQUIRED SUPPLEMENTARY INFORMATION
Notes to Required Supplementary Information
General Fund
For the year ended June 30, 2015

Changes of benefit terms: There were no changes of benefit terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 29, 2015

Emergency Manager and Board of Education
School District of the City of Muskegon Heights
Muskegon Heights, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District of the City of Muskegon Heights' basic financial statements, and have issued our report thereon dated October 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District of the City of Muskegon Heights' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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BRICKLEY DELONG

Emergency Manager and Board of Education
October 29, 2015
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of the City of Muskegon Heights' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brickley De Long, P.C.

Muskegon, Michigan

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 29, 2015

To the Emergency Manager and Board of Education
School District of the City of Muskegon Heights

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standard and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you during our conference on August 10, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District of the City of Muskegon Heights are described in Note A to the financial statements. During the year ended June 30, 2015, the School District adopted the following new accounting standards: GASB Statement No. 68 – Accounting and Financial Reporting for Pensions and GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date. We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District of the City of Muskegon Heights' financial statements were:

Estimates have been used to calculate the net pension liability and related deferred inflows/outflows of resources which were provided by the Office of Retirement Services.

Management's estimate of depreciation is based on the estimated useful lives of capital assets.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the General Fund deficit in Note B to the financial statements.

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The disclosure of the implementation of GASB Statement No. 68 – Accounting and Financial Reporting for Pensions and GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date and the effect on the restatement of the beginning net position.

The disclosure of the upcoming effective date for GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits other than Pensions in Note K to the financial statement is important to School District of the City of Muskegon Heights as it could have significant impact on future financial statements.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 29, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express any opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Emergency Manager and Board of Education and management of the School District of the City of Muskegon Heights and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Brickley De Long, P.C.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 29, 2015

Emergency Manager and Board of Education
School District of the City of Muskegon Heights
Muskegon Heights, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District of the City of Muskegon Heights' basic financial statements, and have issued our report thereon dated October 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District of the City of Muskegon Heights' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of the City of Muskegon Heights' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brickley De Long, P.C.

Muskegon, Michigan