

**Muskegon Heights Public Schools**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011

**Financial Analysis of the District's Funds**

The General Fund fund balance decreased by \$4,276,679 during the 2010/11 fiscal year, resulting in a fund deficit of \$8,472,543 at year-end. The primary operational reasons for the deficit increase are detailed in the aforementioned "Financial Analysis of the District as a Whole" section of this document.

**General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the district can amend its budget during the school year. These revisions are designed to address unexpected changes in revenues and expenditures that may or may not occur during the school year. During fiscal year 2011, a budget amendment was approved by the board of education in March of 2011.

**Original Budget v. Amended Budget**

***Revenues***

- State source revenue was downward adjusted for lower than expected pupil count and reduced At-Risk funding.
- Federal source revenue was adjusted upward for the Edujobs grant, State Stabilization grant, and unspent federal carry-over from FY 2009-10.

***Expenditures***

- Basic program expenditures were adjusted downward for mid-year employee lay-offs and retirements.
- Added needs expenditures were adjusted downward for mid-year employee lay-offs and reduced supplemental education related teaching expenses.
- Adult and continuing education expenditures were upward adjusted for additional adult education staff.
- Pupil support expenditures downward adjusted for a reduction in behavior specialist positions.
- Instructional staff expenditures were reduced for lower projected Title I-A and II-A expenditures.
- School administration expenditures were upward adjusted for higher potential principal transition costs.

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- Business expenditures were downward adjusted for lower projected State Aid Note interest costs.
- Central support expenses were adjusted downward for reductions in Title II-A staff training.
- Outgoing transfers and other transactions were upward adjusted for greater projected food service transfers.

**Amended Budget v. Actual Results**

***Revenues***

- Local source revenue was lower than anticipated due to prior period revenue adjustments.
- Federal source revenue was lower than projected due to disallowed federal costs, deferred revenue, and unused federal award allocations.

***Expenditures***

- Basic program expenditures were higher than projected due to greater basic program teacher costs.
- Added needs expenditures were lower due to lower actual added needs teacher costs.
- Adult and continuing education teaching costs were lower than projected.
- Instructional staff costs were higher because of greater than expected program director costs.
- General administration costs were greater than expected because of higher legal and audit fees.
- School administration transition costs were lower than projected.
- Business service costs were greater than projected due to higher contracted service, equipment, and interest costs.
- Operations and maintenance costs exceeded budget due to higher utility costs.
- Pupil transportation costs were less than projected due to lower actual bus driver costs.
- Athletic program costs were higher than projected due to greater coaching costs.
- Community service costs were lower than projected due to reductions in Workfirst and Head Start expenditures
- Outgoing food service transfers were lower than projected due to greater operational efficiencies within the food service program.

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**Capital Assets and Debt Administration**

*Capital Assets* – At June 30, 2011, the district had over \$25 million in net capital assets, including land, buildings, furniture and equipment as shown below. The primary reason for the decrease in capital asset value is contributable to depreciation.

	<b>2011</b>	<b>2010</b>
Land	\$ 1,475,734	\$ 1,475,734
Land Improvements	169,829	147,685
Buildings and Improvements	22,993,965	23,933,837
Equipment	678,219	780,233
Vehicles	37,783	21,565
<b>Total</b>	<b>\$ 25,355,530</b>	<b>\$ 26,359,054</b>

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

*Debt Administration* – At June 30, 2011, the district had \$26.9 million in general obligation bonds and other long-term debt outstanding as shown below.

	<b>2011</b>	<b>2010</b>
2006 Building General Obligation Bonds	20,126,093	20,865,968
0% 2007 Energy Conservation Improvement Bonds	3,149,000	3,149,000
Durant Bond Obligations	109,105	159,971
School Bond Loan Fund	2,577,624	2,450,880
School Loan Revolving Fund	639,805	616,459
Education Interconnection and Consortium Financing	8,784	13,175
Early Retirement Incentives and Compensated Absences	326,898	366,985
<b>Total</b>	<b>\$ 26,937,309</b>	<b>\$ 27,622,438</b>

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

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**Currently Known Facts, Decisions, and Conditions**  
**Affecting the 2011/12 Fiscal Year**

- The district continues to experience declining enrollment
- Muskegon Heights Public Schools (MHPS) is currently in the process of renegotiating its major labor contracts. In addition, the district has sent out requests for proposals for clerical, custodial/maintenance, and transportation services
- The district is working with the Michigan Department of Education (MDE) and Muskegon Area Intermediate School District (MAISD) to eliminate its budget deficit
- The Office of Retirement Services (ORS) mandated employer contribution rate continues to increase at a substantial rate. In October 2011, the rate increases from 20% to 24.46% for employees hired before July 1, 2010 and 23.23% for employees hired after July 1, 2010. For fiscal year 2011/12, the State of Michigan has funded an estimated \$132 per pupil to assist MHPS in offsetting this additional cost
- Health insurance premium rates continue to substantially increase

**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 Dr. Dana M. Bryant, Superintendent, Muskegon Heights Public Schools, 2603 Leahy Street, Muskegon Heights, MI 49444, telephone number (231) 830-3221.