

North Muskegon Public Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2018



North Muskegon Public Schools

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INDEPENDENT AUDITOR'S REPORT

Board of Education
North Muskegon Public Schools
North Muskegon, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Muskegon Public Schools (the School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Muskegon Public Schools as of June 30, 2018, 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.

Board of Education
North Muskegon Public Schools
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Emphasis of Matter – Change in Accounting Principle

As described in Note L to the financial statements, North Muskegon Public Schools implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Our opinion is not modified with respect to this matter.

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 and OPEB information on pages 3 through 9 and 38 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Muskegon Public Schools’ basic financial statements. The statistical section, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2018, on our consideration of North Muskegon Public Schools’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of North Muskegon Public Schools’ internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Muskegon Public Schools’ internal control over financial reporting and compliance.



Muskegon, Michigan

October 10, 2018

North Muskegon Public Schools

Management's Discussion and Analysis

This section of the North Muskegon Public School's annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Using this Annual Report

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

Management's Discussion and Analysis (MD&A)

(Required Supplementary Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Budgetary Information for Major Funds

(Required Supplementary Information)

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

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

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

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

North Muskegon Public Schools

Management's Discussion and Analysis

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

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

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

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

The District as a Whole

The following table provides a summary of the District's net position as of June 30, 2018 and 2017:

	Statement of Net Position	
	<u>2018</u>	<u>2017</u>
Assets		
Current and Other Assets	\$ 3,344,286	\$ 2,267,664
Capital Assets	<u>11,844,921</u>	<u>12,254,315</u>
Total Assets	15,189,207	14,521,979
Deferred outflows of resources	<u>4,058,228</u>	<u>2,569,280</u>
Total assets and deferred outflow of resources	19,247,435	17,091,259
Liabilities		
Current liabilities	4,174,188	3,772,633
Long-term liabilities	<u>36,395,379</u>	<u>30,957,871</u>
Total liabilities	40,569,567	34,730,504
Deferred inflows of resources	<u>1,681,234</u>	<u>515,926</u>
Total liabilities and deferred inflows of resources	<u>42,250,801</u>	<u>35,246,430</u>
Net Position		
Net investment in capital assets	2,477,018	1,820,779
Restricted for technology	50,707	5,753
Restricted for capital outlay/maintenance	38,036	8,609
Unrestricted	<u>(25,569,127)</u>	<u>(19,990,312)</u>
Total Net Position	<u>\$ (23,003,366)</u>	<u>\$ (18,155,171)</u>

North Muskegon Public Schools

Management's Discussion and Analysis

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

- Current and Other Assets increased primarily due to the no set aside payments for the State Aid Note borrowing.
- Capital assets decreased due to normal depreciation exceeding current year capital asset additions.
- Deferred outflow of resources increase is related to pension costs.
- Current liabilities increased due to no set aside payments for the State Aid Note borrowing.
- Noncurrent liabilities increased due to the new OPEB reporting requirements.
- Deferred inflows of resources increased due to an increase in pension and OPEB items.

The previous table focuses on the net position. The change in the net position of the District's governmental activities is discussed below. The District's net position was \$(23,003,366) at June 30, 2018. Net investment in capital assets of \$2,477,018 which compares the original cost (less depreciation) of the District's capital assets to long-term debt used to finance the acquisition of those assets. Net investment in capital assets improved due to repayment of related long-term debt. The remaining net position of \$(25,569,127) was unrestricted. The unrestricted deficit increased primarily due to the implementation of a new accounting standard which required the recording of a significant new liability.

The \$(25,569,127) deficit in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund (the District's largest fund) will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal years 2018 and 2017. Charges for services decreased due to declining food sales. Operating grants revenue decreased due to the allocations to non-restricted grants. Grants and contributions Not Restricted to Specific Programs increased due to allocating operating grants differently. At Risk, Section 147c, and Special Ed revenue increased. Miscellaneous revenue increased due to additional rental income and FIRST Robotics income. Instruction decreased due to lower dual enrollment and reallocating a portion of the Athletic Director's salary and benefits. Support services increased due to business services increasing, 147c retirement increasing and an increase in contracted custodial/maintenance costs. Athletics increased due to reallocating a portion of the Athletic Director's salary and benefits. Interest on long-term debt decreased due to prior year's refunding.

North Muskegon Public Schools

Management's Discussion and Analysis

Statement of Activities

	2018	2017
Program Revenues		
Charges for Services	\$ 327,096	\$ 315,827
Operating Grants	967,308	1,497,339
General Revenues		
Property taxes	1,944,209	1,925,770
Grants and Contributions Not Restricted to Specific Programs	8,272,464	7,348,489
Investment Earnings	5,897	5,406
Miscellaneous	44,655	36,380
Total Program Revenues and General Revenues	11,561,629	11,129,211
Expenses		
Instruction	6,813,245	6,982,896
Support Services	3,247,423	3,121,162
Community Services	29,731	26,164
Food Services	400,221	396,146
Athletics	354,173	279,021
Interest on long-term debt	461,842	513,084
Total Expenses	11,306,635	11,318,473
Change in Net Position	254,994	(189,262)
Net Position at Beginning of Year, as restated	(23,258,360)	(17,965,909)
Net Position at End of Year	\$ (23,003,366)	\$ (18,155,171)

The District's Funds

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

In the General Fund, our principal operating fund, the fund balance increased \$129,185 to \$1,054,363. The principal reasons were:

- Increased ACT18 revenue
- Reduced repair costs to land & building
- Reduced supplies and materials
- Less electricity consumed
- Reduced dues, fees, and miscellaneous costs
- Reduced Special Ed transportation costs

North Muskegon Public Schools

Management's Discussion and Analysis

General Fund Budgetary Highlights

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

The major revisions made to the 2017/2018 General Fund's original budget were:

Revenues:

- Local sources increased due to an increase in revenue from property taxes and Medicaid reimbursement.
- State sources were increased for additional MPSERS funds received and additional Special Ed funds received.
- Incoming transfers were increased for additional ACT18 revenue.

Expenditures:

- Added needs costs increased due to added para-pro staff and an increase to central special ed services.
- Instructional staff costs decreased due to reduced substitute and professional development costs.
- General administration decreased due to a reduction in printing & publishing.
- School administration increased as a result of salaries and benefits.
- Business support services was increased for copy machine charges and borrowing interest.
- Operations & maintenance was increased for work on the athletic fields and additional contracted custodial/maintenance costs.
- Central administration was decreased for the removal of the TRIG grant.
- Athletics was increased for supply costs.
- Capital outlay was reduced for less equipment purchased.

Final budget to Actual variances

Revenues were in line with the budget.

Expenditures:

- Instructional costs were under budget due to reduced cash in lieu and substitute teaching.
- Adult & Continuing Ed was over budget due to increased Adult Ed fte.
- Operations and maintenance was under budget due to a reduction in utilities and purchased services being less than estimated.
- Pupil transportation was under budget as a result of less fuel consumption and reduced transportation for another public school.
- Central was over budget for increased software and equipment expense.
- Athletics was under budget due to lower unemployment and supply expenses.

North Muskegon Public Schools

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the District had \$11,844,921 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$409,394 from last year. This year's decrease was the result of the normal depreciation exceeding current year additions. The largest purchase this year was for a portion of the roof being reroofed. We present more detailed information about our capital assets in the notes to the financial statements.

	<u>2018</u>	<u>2017</u>
Buildings and Land	\$ 18,728,403	\$ 18,553,403
Construction in Progress	5,418	-
Furniture and Equipment	2,197,883	2,780,339
Vehicles	<u>254,013</u>	<u>254,013</u>
Total Capital Assets	21,185,717	21,587,755
Less Accumulated Depreciation	<u>9,340,796</u>	<u>9,333,440</u>
Total Capital Assets, Net	<u>\$ 11,844,921</u>	<u>\$ 12,254,315</u>

Long-term Obligations

At June 30, 2018, the School District had \$18,469,824 in outstanding long-term obligations. During the year, the outstanding bond balance decreased due to normal scheduled debt repayment. The District borrowed additional funds from state aid revolving loan fund to assist with the bond payments noted below.

	<u>2018</u>	<u>2017</u>
Bonds	\$ 14,538,075	\$ 17,033,535
Other obligations	3,828,416	2,023,866
Compensated absences	68,833	76,918
Early retirement obligations	<u>34,500</u>	<u>82,564</u>
Total long-term obligations	<u>\$ 18,469,824</u>	<u>\$ 19,216,883</u>

North Muskegon Public Schools

Management's Discussion and Analysis

Economic Factors and Next Year's Budget

Our appointed officials and administration considered many factors when setting the District's 2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The State of Michigan foundation allowance is determined by multiplying the blended student count by the per pupil foundation allowance. The blended count for the 2019 fiscal year is 10 percent and 90 percent of the February 2018 and September 2018 student counts, respectively. The original 2019 budget was adopted in June 2018, anticipating a flat student enrollment. The budget adopted for the 2018-2019 District year is projecting close to break even.

The District obtained a state aid anticipation note in the amount of \$1,250,000 for the 2018-2019 school year.

Request for Information

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

North Muskegon Public Schools
STATEMENT OF NET POSITION
June 30, 2018

	Governmental activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 559,626
Investments	978,483
Receivables	2,030
Due from other governmental units	1,716,505
Inventories	2,981
Prepaid items	84,661
Total current assets	3,344,286
Noncurrent assets	
Capital assets, net	
Nondepreciable	425,418
Depreciable	11,419,503
Total noncurrent assets	11,844,921
Total assets	15,189,207
DEFERRED OUTFLOWS OF RESOURCES	
Related to other postemployment benefits	321,440
Related to pensions	3,736,788
Total deferred outflows of resources	4,058,228
Total assets and deferred outflows of resources	19,247,435
LIABILITIES	
Current liabilities	
State aid loan	975,000
Accounts payable and accrued liabilities	1,048,155
Due to other governmental units	165,298
Unearned revenue	14,235
Bonds and other obligations, due within one year	1,971,500
Total current liabilities	4,174,188
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	16,498,324
Net other postemployment benefits liability	5,069,213
Net pension liability	14,827,842
Total noncurrent liabilities	36,395,379
Total liabilities	40,569,567
DEFERRED INFLOWS OF RESOURCES	
Related to other postemployment benefits	171,376
Related to pensions	1,509,858
Total deferred inflows of resources	1,681,234
Total liabilities and deferred inflows of resources	42,250,801
NET POSITION	
Net investment in capital assets	2,477,018
Restricted	
Technology	50,707
Capital outlay/maintenance	38,036
Unrestricted	(25,569,127)
Total net position	\$ (23,003,366)

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

<i>Functions/Programs</i>	Program Revenue			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 6,813,245	\$ -	\$ 351,350	\$ (6,461,895)
Support services	3,247,423	24,572	417,051	(2,805,800)
Community services	29,731	28,688	350	(693)
Food services	400,221	188,500	198,557	(13,164)
Athletics	354,173	85,336	-	(268,837)
Interest on long-term debt	461,842	-	-	(461,842)
Total governmental activities	\$ 11,306,635	\$ 327,096	\$ 967,308	(10,012,231)
General revenues				
Property taxes				1,944,209
Grants and contributions not restricted to specific programs				8,272,464
Investment earnings				5,897
Miscellaneous				44,655
Total general revenues				10,267,225
Change in net position				254,994
Net position at beginning of year, as restated				(23,258,360)
Net position at end of year				\$ (23,003,366)

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
BALANCE SHEET
 Governmental Funds
 June 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
Cash and cash equivalents	\$ 372,746	\$ 54,304	\$ 132,576	\$ 559,626
Receivables	520	65	1,445	2,030
Due from other governmental units	1,709,797	-	6,708	1,716,505
Inventories	-	-	2,981	2,981
Prepaid items	82,479	-	2,182	84,661
Restricted cash and investments	978,483	-	-	978,483
	<hr/>			
Total assets	\$ 3,144,025	\$ 54,369	\$ 145,892	\$ 3,344,286
<hr/>				
LIABILITIES				
State aid loan	\$ 975,000	\$ -	\$ -	\$ 975,000
Accounts payable	62,756	-	565	63,321
Accrued liabilities	881,958	-	2,876	884,834
Due to other governmental units	165,298	-	-	165,298
Unearned revenue	4,650	-	9,585	14,235
	<hr/>			
Total liabilities	2,089,662	-	13,026	2,102,688
<hr/>				
FUND BALANCES				
Nonspendable				
Inventories	-	-	2,981	2,981
Prepaid items	82,479	-	2,182	84,661
Restricted				
Debt service	-	54,369	-	54,369
Food service	-	-	38,960	38,960
Technology	-	-	50,707	50,707
Capital outlay/maintenance	-	-	38,036	38,036
Unassigned	971,884	-	-	971,884
	<hr/>			
Total fund balances	1,054,363	54,369	132,866	1,241,598
	<hr/>			
Total liabilities and fund balances	\$ 3,144,025	\$ 54,369	\$ 145,892	\$ 3,344,286
	<hr/>			

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 June 30, 2018

Total fund balance—governmental funds		\$ 1,241,598
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 21,185,717	
Accumulated depreciation	<u>(9,340,796)</u>	11,844,921
Deferred inflows and outflows of resources related to pensions and other postemployment benefits are not reported in the governmental funds.		
Deferred outflows of resources - related to other postemployment benefits	321,440	
Deferred inflows of resources - related to other postemployment benefits	(171,376)	
Deferred outflows of resources - related to pensions	3,736,788	
Deferred inflows of resources - related to pensions	<u>(1,509,858)</u>	2,376,994
Accrued interest in governmental activities is not reported in the governmental funds.		
		(100,000)
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
		<u>(38,366,879)</u>
Net position of governmental activities		<u>\$ (23,003,366)</u>

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
REVENUES				
Local sources				
Property taxes	\$ 574,368	\$ 1,137,791	\$ 218,247	\$ 1,930,406
Investment earnings	4,396	1,501	-	5,897
Fees and charges	114,024	-	188,500	302,524
Other	288,519	-	172,291	460,810
Total local sources	981,307	1,139,292	579,038	2,699,637
State sources	8,610,370	13,803	36,381	8,660,554
Federal sources	124,824	-	163,749	288,573
Total revenues	9,716,501	1,153,095	779,168	11,648,764
EXPENDITURES				
Current				
Instruction	6,420,837	-	-	6,420,837
Supporting services	3,156,748	-	126,216	3,282,964
Community services	29,731	-	-	29,731
Food services	-	-	393,934	393,934
Debt service				
Principal repayment	-	2,380,000	-	2,380,000
Interest and other charges	-	505,351	-	505,351
Capital outlay	-	-	188,820	188,820
Total expenditures	9,607,316	2,885,351	708,970	13,201,637
Excess (deficiency) of revenues over (under) expenditures	109,185	(1,732,256)	70,198	(1,552,873)
OTHER FINANCING SOURCES (USES)				
Transfers in	20,000	-	-	20,000
Transfers out	-	-	(20,000)	(20,000)
Loan proceeds	-	1,727,440	-	1,727,440
Total other financing sources (uses)	20,000	1,727,440	(20,000)	1,727,440
Net change in fund balances	129,185	(4,816)	50,198	174,567
Fund balances at beginning of year	925,178	59,185	82,668	1,067,031
Fund balances at end of year	\$ 1,054,363	\$ 54,369	\$ 132,866	\$ 1,241,598

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
 For the year ended June 30, 2018

Net change in fund balances—total governmental funds	\$	174,567
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.</p>		
Depreciation expense	\$ (614,688)	
Capital outlay	<u>205,937</u>	(408,751)
<p>Governmental funds report the entire proceeds from the sale of capital assets, but the Statement of Activities reports only the gain or loss on the sale of capital assets.</p>		
		(643)
<p>Governmental funds report outflows for deferred charges on refunding as expenditures; in the Statement of Activities these costs are amortized over the life of the bond.</p>		
		(3,841)
<p>Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Position.</p>		
		(1,804,550)
<p>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.</p>		
		2,495,460
<p>Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.</p>		
		9,000
<p>Compensated absences and early retirement incentives reported in the Statement of Activities do not require the use of current financial resources. They are reported as expenditures when financial resources are used in the governmental funds.</p>		
		56,149
<p>Some other postemployment benefit 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.</p>		
		184,040
<p>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.</p>		
		<u>(446,437)</u>
Change in net position of governmental activities	\$	<u>254,994</u>

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2018

	<u>Agency funds</u>
ASSETS	
Cash and cash equivalents	<u><u>\$ 294,395</u></u>
LIABILITIES	
Deposits held for others	<u><u>\$ 294,395</u></u>

The accompanying notes are an integral part of this statement.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Basis of Presentation—Government-wide and Fund Financial Statements

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

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

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

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

The School District reports the following major governmental funds:

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

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligations.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Additionally, the School District reports the following fund types:

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

The sinking fund capital projects fund account for the financial resources to be used for the acquisition of fixed assets or construction of major capital projects.

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

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

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

Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

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

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

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

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

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

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

Cash and Investments

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

Investments for the School District are reported at fair value (generally based on quoted market prices). Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Cash and Investments—Continued

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

Inventories and Prepaid Items

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

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

Capital Assets

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

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

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

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

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Defined Benefit Plan

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

Deferred Outflows/Inflows of Resources

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

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

Net Position Flow Assumption

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

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

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

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

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

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

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

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

Compensated Absences

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

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

Early Retirement Obligations

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

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2018.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Sinking Fund Compliance

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund the School District has complied with the applicable provisions of §1212 of the Revised School Code.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2018, the School had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
Money Market Funds	\$ 133,681	31	not rated	13%
External investment pool	878,399	58	AAA	87%
Total fair value	\$ 1,012,080			100%

The School voluntarily invests certain excess funds in an external investment pool (Pool). The Pool is an external investment pool of “qualified” investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the School’s investments is the same as the value of the Pool shares.

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, 2018, \$450,812 of the School’s bank balance of \$839,793 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.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 420,000	\$ -	\$ -	\$ 420,000
Construction in progress	-	5,418	-	5,418
Total capital assets, not being depreciated	420,000	5,418	-	425,418
Capital assets, being depreciated:				
Buildings and improvements	18,133,403	175,000	-	18,308,403
Furniture and equipment	2,780,339	25,519	607,975	2,197,883
Vehicles	254,013	-	-	254,013
Total capital assets, being depreciated	21,167,755	200,519	607,975	20,760,299
Less accumulated depreciation:				
Buildings and improvements	6,921,692	442,912	-	7,364,604
Furniture and equipment	2,193,380	150,481	607,332	1,736,529
Vehicles	218,368	21,295	-	239,663
Total accumulated depreciation	9,333,440	614,688	607,332	9,340,796
Total capital assets, being depreciated, net	11,834,315	(414,169)	643	11,419,503
Capital assets, net	\$ 12,254,315	\$ (408,751)	\$ 643	\$ 11,844,921

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 507,888
Support services	72,131
Athletics	32,950
Food services	1,719
	\$ 614,688

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Transfers

The Food Service Fund transferred \$20,000 to the General Fund for indirect costs.

NOTE F—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2018 follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
State aid anticipation note				
2016/2017 0.76-1.00% due August 2017	\$ 121,000	\$ -	\$ 121,000	\$ -
2017/2018 1.47% due August 2018	-	975,000	-	975,000
	\$ 121,000	\$ 975,000	\$ 121,000	\$ 975,000

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE G—LONG-TERM OBLIGATIONS

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

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within one year
Governmental activities					
Bonds	\$ 15,855,000	\$ -	\$ 2,380,000	\$ 13,475,000	\$ 1,945,000
Premiums	1,202,668	-	117,017	1,085,651	-
Discounts	(24,133)	-	(1,557)	(22,576)	-
Other obligations	2,023,866	1,804,550	-	3,828,416	-
Compensated absences	76,918	506	8,591	68,833	4,000
Early retirement incentives	82,564	-	48,064	34,500	22,500
	\$ 19,216,883	\$ 1,805,056	\$ 2,552,115	\$ 18,469,824	\$ 1,971,500

In the previous schedule, the additions for other obligations represent \$116 of accrued interest on the School Bond Loan Fund, \$76,994 of accrued interest and \$1,727,440 of additional draws on the School Loan Revolving Fund.

Long-term obligations consist of the following:

	Interest Rate	Date of Maturity	Balance
General obligation bonds			
2015A Refunding General Obligation Bond	4.00%	May 2020	\$ 905,000
2015B Refunding General Obligation Bond	1.65-2.5%	May 2021	5,170,000
2016 Refunding General Obligation Bond	4.00%	May 2033	7,400,000
			\$ 13,475,000
Other obligations			
School Bond Loan Fund	3.10%	May 2039	\$ 3,832
School Loan Revolving Fund	3.10%	May 2039	3,824,584
			\$ 3,828,416

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE G—LONG-TERM OBLIGATIONS—Continued

The annual requirements of principal and interest to amortize the bonded debt outstanding as of June 30, 2018 follow:

Year ending June 30,	Principal	Interest	Total
2019	\$ 1,945,000	\$ 452,000	\$ 2,397,000
2020	2,030,000	403,000	2,433,000
2021	2,100,000	350,000	2,450,000
2022	615,000	296,000	911,000
2023	615,000	271,000	886,000
2024-2028	3,075,000	988,000	4,063,000
2029-2033	3,095,000	372,000	3,467,000
	\$ 13,475,000	\$ 3,132,000	\$ 16,607,000

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or 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.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

Benefits Provided – Pension

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. Depending on the plan option selected (Basic, Member Investment Plan (MIP), Pension Plus, Pension Plus 2), member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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 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.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—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 percent of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50 percent (up to 1 percent 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 percent employer match (up to 3 percent 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 percent after two years of service, 75 percent after three years of service, and 100 percent 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.

Pension Reform 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan (Pension Plus 2) with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6 percent. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85 percent for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Regular Retirement

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

Post-Retirement Adjustments

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

Plan Status

The Basic, MIP, and Pension Plus plans are closed to new entrants. The Pension Plus 2 plan and the DC plan are still open to new entrants.

Benefits Provided – OPEB

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare 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. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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 services 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.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Benefits Provided – OPEB—Continued

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent 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 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions – Pension and OPEB

School Districts are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. 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 unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 22-year period for the 2017 fiscal year.

The schedules below summarize the contribution rates in effect for the System’s fiscal year ended September 30, 2017.

Pension Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0 %	19.03 %
Member Investment Plan	3.0 - 7.0	19.03
Pension Plus Plans	3.0 - 6.4	18.40
Defined Contribution	0.0	15.27

OPEB Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Premium Subsidy	3.0 %	5.91 %
Personal Healthcare Fund	0.0	5.69

The School District’s pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$1,550,000, including Section 147c contributions.

For the year ended June 30, 2018, the School District and employee defined contribution plan contributions were approximately \$22,000 and \$33,500, respectively.

The School District’s OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB contributions were approximately \$350,000.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, the School District reported a liability of \$14,827,842 for its proportionate share of the net pension liability and a liability of \$5,069,213 for its proportionate share of the net OPEB liability.

The net pension and OPEB liabilities were measured as of September 30, 2017, and the total pension and OPEB liabilities used to calculate the net pension and OPEB liabilities were determined by an actuarial valuation rolled forward from September 30, 2016. The School District’s proportion of the net pension and OPEB liabilities was determined by dividing each employer’s statutorily required pension and OPEB contributions to the system during the measurement period by the percent of pension and OPEB contributions, respectively, required for all applicable employers during the measurement period. At September 30, 2017 and 2016, the School District’s pension proportion was 0.05722 and 0.05693 percent, respectfully. At September 30, 2017, the School District’s OPEB proportion was 0.05724 percent.

For the year ended June 30, 2018, the School District recognized pension expense of \$1,746,230 and OPEB expense of \$339,464.

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Pension</u>		<u>OPEB</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 128,864	\$ 72,757	\$ -	\$ 53,972
Changes of assumptions	1,624,508	-	-	-
Net difference between projected and actual earnings on plan investments	-	708,868	-	117,404
Changes in proportion and differences between School District contributions and proportionate share of contributions	545,865	28,429	1,777	-
State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date	-	699,804	-	-
School District contributions subsequent to the measurement date	1,437,551	-	319,663	-
Total	\$ 3,736,788	\$ 1,509,858	\$ 321,440	\$ 171,376

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources—Continued

The School District contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions and OPEB, in the chart above, will be recognized as a reduction of the net pension liability and the net OPEB liability, respectively, in the year ended June 30, 2019. The State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date reported as deferred inflows of resources will be recognized as revenue in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in expense as follows:

Year ending June 30,	Pension	OPEB
2019	\$ 479,433	\$ (41,016)
2020	709,848	(41,016)
2021	323,339	(41,016)
2022	(23,437)	(41,016)
2023	-	(5,535)

Actuarial assumptions

Valuation Assumptions

Investment rate of return –	7.5% a year for the MIP and Basic plans 7% a year for the Pension Plus plans 7.5% a year for OPEB	
Salary increases –	3.5%-12.3%	
Inflation –	3.5%	
Cost-of-living pension adjustments –	3% annual non-compounded for MIP members	
Healthcare cost trend rate –	7.5% Year 1 graded to 3.5% Year 12	

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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.

Experience Study

The annual actuarial valuation report of the System used for these statements is dated September 30, 2016. Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2014 valuation.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Long-Term Expected Rate of Return on Investments

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

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

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	5.6 %
Private Equity Pools	18.0	8.7
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
Total	<u>100.0</u> %	

*Long term rates of return are net of administrative expenses and 2.3% inflation.

Discount rate

The discount rate used to measure the total pension and OPEB liabilities was 7.5 percent (7 percent for the Pension Plus Plans). The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension and OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

Sensitivity of the net pension and OPEB liabilities to changes in the discount rate

The following presents the School District's proportionate share of the net pension and OPEB liabilities calculated using the discount rate of 7.5 percent (7 percent for Pension Plus Plans), as well as what the School District's proportionate share of the net pension and OPEB liabilities would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	<u>1% Lower (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Higher (8.5%)</u>
School District's proportionate share			
Net pension liability	\$ 19,315,746	\$ 14,827,842	\$ 11,049,312
Net OPEB liability	5,937,513	5,069,213	4,332,297

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate

The following presents the School District’s proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District’s proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher:

	1% Lower (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1% Higher (8.5%)
School District’s proportionate share			
Net OPEB liability	\$ 4,292,942	\$ 5,069,213	\$ 5,950,614

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plans’ fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System Comprehensive Annual Financial Report available at www.michigan.gov/orsschools.

Payable to the pension and OPEB plan

At year end the School District is current on all required pension and OPEB payments. Accruals for July and August deferred payroll and for July and August Section 147c amounts are not considered payables for this purpose.

NOTE I—COMMITMENTS AND CONTINGENCIES

Grant Programs

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

Operating leases

The School District has a lease agreement for the use of copiers expiring in March 2022. Expense for the year ended June 30, 2018 was approximately \$42,000. The following is a schedule of future minimum rental payments required under the lease.

Year ending June 30,	Amount
2019	\$ 41,832
2020	41,832
2021	41,832
2022	31,374
	\$ 156,870

Commitments

At June 30, 2018, the School District had entered into contracts for technology upgrades and building repairs of approximately \$147,000 and \$155,000 respectively. The technology upgrades will be paid from the Technology Fund and the building repairs will be paid by the Sinking Fund.

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE J—OTHER INFORMATION

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

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2018 or any of the prior three year.

NOTE K—SUBSEQUENT EVENTS

In August 2018, the School District received the proceeds of a \$1,250,000 State of Michigan (State) school aid anticipation notes payable. The note payable is not subject to redemption prior to its maturity in August 2019 and bears interest at the rate of 2.43 percent per annum. The School District pledged for payment of the note payable, the amount of State school aid to be received plus the full faith, credit, and resources of the School District.

NOTE L—CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2018, the School District adopted Governmental Accounting Standards Board (GASB) Statement 75—*Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

GASB Statement No. 75 requires governments that participate in postemployment benefits other than pensions (OPEB) to report in their Statement of Net Position a net OPEB liability.

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

	Governmental activities
Beginning net position	\$ (18,155,171)
Deferred outflows of resources - related to OPEB	409,863
Deferred inflows of resources - related to OPEB	(166,156)
Net OPEB liability	(5,346,896)
Beginning net position, as restated	\$ (23,258,360)

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

North Muskegon Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE M—UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement 84—*Fiduciary Activities* was issued by the GASB in January 2017 and will be effective for the School District's 2020 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

GASB Statement 87—*Leases* was issued by the GASB in June 2017 and will be effective for the School District's 2021 fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

North Muskegon Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2018

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 948,629	\$ 962,359	\$ 981,307	\$ 18,948
State sources	8,490,888	8,619,429	8,610,370	(9,059)
Federal sources	113,146	124,824	124,824	-
Incoming transfers and other transactions	15,000	20,000	20,000	-
Total revenues	9,567,663	9,726,612	9,736,501	9,889
EXPENDITURES				
Current				
Instruction				
Basic programs	5,497,751	5,496,349	5,478,142	18,207
Added needs	821,818	919,881	920,718	(837)
Adult and continuing education	15,022	13,736	21,977	(8,241)
Support services				
Pupil	684,063	693,771	691,627	2,144
Instructional staff	166,571	142,185	140,940	1,245
General administration	386,773	381,612	376,019	5,593
School administration	403,148	409,703	405,594	4,109
Business	170,039	192,924	189,521	3,403
Operations and maintenance	748,008	756,995	732,185	24,810
Pupil transportation services	136,736	136,008	124,000	12,008
Central	187,467	156,639	181,442	(24,803)
Athletics	314,517	327,318	315,420	11,898
Community services	25,750	29,732	29,731	1
Capital outlay	10,000	-	-	-
Total expenditures	9,567,663	9,656,853	9,607,316	49,537
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 69,759</u>	129,185	<u>\$ 59,426</u>
Fund balance at beginning of year			925,178	
Fund balance at end of year			<u><u>\$ 1,054,363</u></u>	

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
School District's proportion of the net pension liability (%)	0.05722%	0.05693%	0.05414%	0.05280%	-	-	-	-	-	-
School District's proportionate share of the net pension liability	\$ 14,827,842	\$ 14,203,988	\$ 13,224,254	\$ 11,629,192	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's covered payroll	\$ 4,744,579	\$ 4,740,389	\$ 4,508,615	\$ 4,494,154	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's proportionate share of the net pension liability as a percentage of its covered payroll	312.52%	299.64%	293.31%	258.76%	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	64.21%	63.27%	63.17%	66.20%	-	-	-	-	-	-

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Statutorily required contributions	\$ 852,040	\$ 894,450	\$ 1,044,474	\$ 1,104,841	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contributions	\$ 852,040	\$ 894,450	\$ 1,044,474	1,104,841	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 4,771,844	\$ 4,739,013	\$ 4,658,940	\$ 4,504,273	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	17.86%	18.87%	22.42%	24.53%	-	-	-	-	-	-

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
School District's proportion of the net OPEB liability (%)	0.05724%	-	-	-	-	-	-	-	-	-
School District's proportionate share of the net OPEB liability	\$ 5,069,213	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's covered payroll	\$ 4,744,579	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's proportionate share of the net OPEB liability as a percentage of its covered payroll	106.84%	-	-	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%	-	-	-	-	-	-	-	-	-

Note: For years prior to 2018 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Statutorily required contributions	\$ 355,351	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contributions	\$ 355,351	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 4,771,844	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	7.45%	-	-	-	-	-	-	-	-	-

Note: For years prior to 2018 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

North Muskegon Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
Notes to Required Supplementary Information
For the year ended June 30, 2018

Changes of benefit terms: There were no changes of benefit terms in 2018.

Changes of assumptions: There were no changes of benefit assumptions in 2018.

STATISTICAL DATA (UNAUDITED)

North Muskegon Public Schools
STATISTICAL DATA
 June 30, 2018

HISTORICAL PROPERTY VALUATIONS

In accordance with Act No. 539, Public Acts of Michigan, 1982, and Article IX, Section 3 of the Michigan Constitution, the ad valorem State Equalized Valuation (SEV) represents 50% of true cash value. SEV does not include any value of tax exempt property (e.g. churches, governmental property) or property granted tax abatements under Act No. 198, Public Acts of Michigan, 1974, as amended. As a result of Proposal A, ad valorem property taxes are assessed on the basis of taxable value, which is subject to assessment caps. SEV is used in the calculation of debt margin and true cash value.

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

<u>Year</u>	<u>Homestead</u>	<u>Non-homestead</u>	<u>Taxable value</u>
2018	\$ 117,786,762	\$ 32,546,696	\$ 150,333,458
2017	112,029,811	33,990,412	146,020,223
2016	108,956,852	34,214,142	143,170,994
2015	108,164,728	34,536,641	142,701,369
2014	106,310,690	33,330,634	139,641,324
2013	107,443,856	32,234,758	139,678,614
2012	102,520,088	36,806,336	139,326,424
2011	104,857,918	34,791,806	139,649,724
2010	105,863,975	36,050,618	141,914,593
2009	112,526,926	33,962,757	146,489,683
2008	112,148,267	33,766,455	145,914,722
2007	109,248,677	35,257,211	144,505,888
2006	104,928,454	33,142,008	138,070,462
2005	100,300,658	31,752,512	132,053,170
2004	95,840,566	29,676,337	125,516,903
2003	93,678,598	26,313,763	119,992,361
2002	90,024,640	26,294,951	116,319,591
2001	85,628,523	24,421,945	110,050,468
2000	80,971,381	21,851,753	102,823,134

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MAJOR TAXPAYERS

The top ten taxpayers in the School District and their 2017 Taxable Valuation and Industrial Facilities Tax Valuation are as follows:

<u>Taxpayer</u>	<u>Product/service</u>	<u>Taxable value</u>
Beverly Hills Apartments	Apartments	\$ 1,838,200
Consumer's Energy	Utility	1,721,335
Peterson, Aaron & Jenny	Residential	1,422,600
MPLX Terminals LLC	Oil Refinery	1,133,553
DTE Energy Company	Utility	1,104,700
Witham, Christopher & Stephanie	Residential	882,858
Newcorp Inc.	Heavy Eqpt/trucking	878,904
Pointe Marine Association	Marine	821,912
Dat Properties LLC	Assisted Living	729,300
Johnson, Charles & Nina	Residential	687,502
		<u><u>\$ 11,220,864</u></u>

The taxable values of the above taxpayers represent 7.46 percent of the School District's 2017 taxable value of \$150,333,458.

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

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

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	2018	2017	2016	2015	2014	2013	2012	2011
Voted (non-homestead)	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	17.8524
Debt	7.8200	7.8200	7.8200	7.8200	7.8200	7.7300	7.7300	7.7300
Sinking Fund	1.4925	1.4920	1.5000	-	-	-	-	-
TOTAL HOMESTEAD	9.3125	9.3120	9.3200	7.8200	7.8200	7.7300	7.7300	7.7300
TOTAL NON-HOMESTEAD	27.3125	27.3120	27.3200	25.8200	25.8200	25.7300	25.7300	25.5824

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

Other Major Taxing Units

	2018	2017	2016	2015	2014	2013	2012	2011
State Education Fund ¹	6.0000	6.0000	6.0000	6.0000	6.0000	6.0000	6.0000	6.0000
Muskegon County	6.8957	6.8957	6.6357	6.6557	6.6957	6.6957	6.6957	4.4920
City of North Muskegon	12.8850	12.1379	12.1380	12.1849	12.1849	12.1849	12.9339	12.9339
Muskegon County I/S/D	4.7580	4.7580	4.7580	4.7580	3.7580	3.7580	3.7580	3.7580
Muskegon Community College	2.5437	2.5437	2.5437	2.5437	2.2037	2.2037	2.2037	2.2037

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

Source: Muskegon County

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STATE AID PAYMENTS

The School District's primary source of funding for operating costs is the State aid foundation allowance per pupil. The foundation guarantee was set at \$7,631 per pupil for the fiscal year 2017/2018. In future years, this allowance may be adjusted by an index based upon the change in revenues to the state school aid fund and the change in the total number of pupils statewide.

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

<u>Year</u>	<u>Total</u>	<u>State Amount Received per Pupil</u>	<u>Foundation Allowance per Pupil</u>
2017/18 ¹⁰	\$ 8,646,326	\$ 7,073.27	\$ 7,631.00
2016/17 ⁹	8,229,706	6,939.30	7,511.00
2015/16 ⁸	7,945,890	6,798.17	7,391.00
2014/15 ⁷	7,627,781	6,541.90	7,126.00
2013/14 ⁶	7,453,068	6,450.20	7,026.00
2012/13 ⁵	7,197,887	6,400.53	6,966.00
2011/12	6,864,583	6,319.01	6,965.00
2010/11 ⁴	6,552,281	6,795.48	7,435.00
2009/10 ³	6,236,052	6,771.80	7,435.00
2008/09 ¹	6,220,922	6,747.25	7,435.00

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

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

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

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

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

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

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

⁹2016/2017, the school received \$612,668 in section 147C funds for the MPSERS UAAL Rate stability, \$69,136 in MPSERS cost offset.

¹⁰2017/2018, the school received \$699,804 in section 147C funds for the MPSERS UAAL Rate stability, \$97,329 in MPSERS cost offset.

Source: Michigan Department of Education and School District

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TAX LEVIES AND COLLECTIONS

The School District’s fiscal year begins July 1 and ends June 30. School District property taxes are due December 1 of each fiscal year and are payable without interest or penalty on or before the following February 14. All real property taxes remaining unpaid on March 1st of the year following the levy are turned over to the County Treasurer for collection. Muskegon County annually pays from its Tax Payment Fund delinquent taxes on real property to all taxing units in the County, including the School District, shortly after the date delinquent taxes are returned to the County Treasurer for collection. The payment from this fund has resulted in collections of taxes approaching 100% for all taxing units. Delinquent personal property taxes are negligible.

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

<u>Levy Year</u>	<u>Operating tax levy</u>	<u>Collections to March 1 of Following Year</u>		<u>Collections plus funding to June 30 each year</u>	
2017	\$ 574,440	\$ 566,147	98.56 %	\$ 574,365	99.99 %
2016	585,964	584,042	99.67	585,964	100.00
2015	608,944	589,014	96.73	608,944	100.00
2014	584,474	554,288	94.84	584,414	99.99
2013	573,983	550,690	95.94	573,101	99.85
2012	553,311	553,299	100.00	553,303	100.00
2011	628,326	588,472	93.66	624,459	99.38
2010	600,623	562,846	93.71	600,075	99.91
2009	606,881	578,413	95.31	597,832	98.51
2008	606,881	569,881	93.90	606,881	100.00

The Tax Payment Fund is financed through the issuance of General Obligation Limited Tax Notes (GOLTNs) by the County. Although the School District anticipates the continuance of this program by the County, the ability of the County to issue such GOLTNs is subject to market conditions at the time of offering. In addition, Act 206 of 1893, as amended, provides in part that: “The primary obligation to pay to the county the amount of taxes and interest thereon shall rest with the local taxing units, and if the delinquent taxes which are due and payable to the county are not received by the county for any reason, the county has full right of recourse against the taxing unit to recover the amount thereof and interest thereon...” On the first Tuesday in May in each year, a tax sale is held by the County at which lands delinquent for taxes assessed in the third year preceding the sale, or in a prior year, are sold for the total of the unpaid taxes of those years.

Source: *School District*

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PENSION FUND

For the period from October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPSERS") which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. The School District's estimated contribution to MPSERS for the 2017/18 fiscal year and the contributions for the previous nine years are shown below.

<u>Contribution Period</u>	<u>Contribution Rate</u>
October 1, 2017—September 30, 2018	32.28-36.88 %
October 1, 2016—September 30, 2017	32.66-36.64
October 1, 2015—September 30, 2016	31.49-36.31
October 1, 2014—September 30, 2015	29.72-34.54
October 1, 2013—September 30, 2014	25.52-29.35
October 1, 2012—September 30, 2013	26.96-27.37
October 1, 2011—September 30, 2012	19.16-24.66
October 1, 2010—September 30, 2011	19.41-20.66
October 1, 2009—September 30, 2010	16.94
October 1, 2008—September 30, 2009	16.54

<u>Fiscal year ending June 30</u>	<u>Contributions to MPSERS</u>
2018	\$ 1,902,436
2017	1,903,852
2016	1,697,348
2015	1,588,279
2014	1,332,286
2013	1,164,003
2012	1,079,986
2011	793,376
2010	728,578
2009	688,462

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DEBT STATEMENT

Direct Debt

<u>Dated</u>	<u>Purpose/Type</u>	<u>Interest spread</u>	<u>Maturities</u>	<u>Amount outstanding</u>
12/16/2015	Building & Site/Refunding	4%	5/1/16-20	\$ 905,000
12/16/2015	Building & Site/Refunding	1.19-2.5%	5/1/16-21	5,170,000
3/30/2016	Building & Site/Refunding	4%	5/1/17-33	7,400,000
				<u>\$ 13,475,000</u>

Source: *Municipal Advisory Council of Michigan*

School Bond Loan Fund

As of June 30, 2018, the School District has a School Bond Loan Fund borrowing balance of \$3,828,416

School Bond Loan Fund-SBLF	\$ 3,833
School Loan Revolving Fund-GOSLRF	<u>3,824,583</u>
	<u>\$ 3,828,416</u>

Source: *State of Michigan Department of Treasury*

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SCHOOL ENROLLMENT - HISTORICAL ENROLLMENT

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

<u>School Year</u>	<u>Enrollment</u>
2017/18	1,041
2016/17	1,034
2015/16	1,037
2014/15	1,012
2013/14	1,012
2012/13	996
2011/12	997
2010/11	947
2009/10	931
2008/09	920