Public Schools of the City of Muskegon

REPORT ON FINANCIAL STATEMENTS

(with required supplementary information)

Year ended June 30, 2007

Public Schools of the City of Muskegon

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The Public Schools of the City of Muskegon
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

The discussion and analysis of the Public Schools of the City of Muskegon's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to provide, in layman's terms, a look at past performance and current financial position of the District. Readers must also review the financial statements and notes to the financial statements to enhance their understanding of the District's financial performance.

The Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements adopted this reporting model for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the Management's Discussion and Analysis (MD&A).

Overview of the Financial Statements

This annual report consists of five parts: (1) management's discussion and analysis (this section), (2) independent auditors' report, (3) the basic financial statements, (4) required supplementary information and (5) statistical section. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the District.

District-wide Financial Statements

The district-wide financial statements were implemented for fiscal year 2003. These statements are full accrual basis statements that provide information about the District's ***overall*** financial status. They are used to help determine whether or not the District is better off, or worse off, as the result of the year's activities. The ***Statement of Net Assets*** reports all of the District's assets and liabilities, both short-term and long-term, whether they are "currently available" or not. Capital assets and long-term obligations of the District are reported in this statement. All of the current year's revenues and expenses are accounted for in the ***Statement of Activities***, regardless of when cash is received or paid.

The two district-wide statements report the District's ***net assets*** and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

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

In district-wide statements, the District's activities are classified as ***governmental activities***. This includes most of the District's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes and state aid finance most of these services.

Fund Financial Statements

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

Fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the ***General Fund***. Additional activities are reported in their relevant funds including: ***Special Revenue Funds*** for Food Service, Athletic, Special Education, and Muskegon Museum of Art activities, ***Debt Service Funds***, ***Capital Project Funds***, and ***Fiduciary Funds*** for student group and trust activities.

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

Financial Analysis of the District as a Whole

The net assets of the District at June 30, 2007 amounted to $36 million. This chart shows a condensed breakdown of the net assets and compares them to the June 30, 2006 net assets, which amounted to $31 million.

Comparative Condensed Statement of Net Assets

	2005-06 As restated	2006-07
Current Assets	$ 35,287,287	$ 35,427,511
Capital Assets	52,115,700	51,370,509
Other Non-Current Assets	2,704,703	2,769,923
Total Assets	$ 90,107,690	$ 89,567,943
Current Liabilities	$ 23,201,935	$ 22,024,684
Non-Current Liabilities	35,674,427	31,705,169
Total Liabilities	$ 58,876,362	$ 53,729,853
Net Assets		
Invested in Capital Assets, Net of Related Debt	$ 21,399,347	$ 22,888,592
Restricted for:		
Debt Service	$ 1,292,183	$ 410,984
Permanent Funds	7,758,566	8,917,735
Unrestricted	781,232	3,620,779
Total Net Assets	$ 31,231,328	$ 35,838,090

The largest portion of the District's net assets (69% 2006 vs. 64% 2007) reflects investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Additional restrictions on permanent trust funds apply to assets restricted by bequest terms and debt service to liquidate bonds and interest.

The remaining net assets represent resources that are unrestricted as to how they may be used.

The net assets of the District increased by $4,606,762 during the 2006-07 year. The following chart shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the District's annual activity. The cost of the District's governmental activities for the year was $67.7 million. However, the amount that the District's taxpayers ultimately financed for these activities was only $39.04 million because $1.86 million of the cost was paid for by those who benefited from the programs, and $26.8 million was paid for by other governments and organizations who subsidized certain programs with grants and contributions. The remaining "public benefit" portion was paid for with property taxes, state pupil foundation aid, investment earnings, and other miscellaneous revenues.

Comparative Statement of Activities – Governmental Activities

	2005-06 As restated	2006-07
Revenues		
Program Revenues		
Charges for services	$ 2,430,008	$ 1,855,175
Operating grants and contributions	23,500,582	26,763,065
General revenues		
Property taxes	10,335,316	9,681,291
State formula aid and unrestricted grants	35,006,758	31,828,767
Other	1,362,293	2,135,662
Total revenues	$ 72,634,957	$ 72,263,960
Expenses		
Instruction	$ 35,390,635	$ 33,550,870
Support services	27,731,541	25,274,861
Community services	2,729,849	3,213,633
Food services	2,285,570	2,328,167
Athletics	642,464	647,070
Interest on long term debt	1,374,655	1,394,399
Unallocated depreciation and amortization	1,246,071	1,248,198
Total Expenses	71,400,785	67,657,198
Increase (decrease) in net assets	1,234,172	4,606,762
Net assets at beginning of year	29,997,156	31,231,328
Net assets at end of year	$ 31,231,328	$ 35,838,090

Financial Analysis of the District's Funds

A substantial portion (56%) of the District's revenue is received from the State of Michigan. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. This chart depicts the breakdown of the sources of revenue for the District.

Revenue and Other Financing by Source

	2005-06		2006-07	
State	$ 41,989,519	56%	$ 42,269,229	56%
Local	14,199,799	19%	14,893,623	20%
Federal	12,868,095	17%	12,603,492	16%
Net other financing sources	5,652,706	8%	5,804,966	8%
	$ 74,710,119	100%	$ 75,571,310	100%

As depicted below, 47% is spent on direct instruction, 35% is spent on support services, 9% on community service, food service, and athletic activities. The final 9% is used for debt service and other.

Expenditures by Function

	2005-06		2006-07	
Instruction	$ 35,328,244	47%	$ 34,632,094	47%
Support services	28,105,129	37%	26,192,135	35%
Community services	2,776,455	4%	3,359,815	5%
Food services	2,285,090	3%	2,328,047	3%
Athletics	650,779	1%	647,070	1%
Debt service	3,936,545	5%	4,604,455	6%
Other	2,083,901	3%	2,025,854	3%
	$ 75,166,143	100%	$ 73,789,470	100%

The financial performance of the District as a whole is reflected in its governmental funds. The combined governmental fund equity increased by $1.8 million during the 2006-07 fiscal year, resulting in total fund equity of $15.26 million at year-end. (The general operating fund portion of this is $4.36 million.)

Factors Increasing Fund Equity

District reductions – In preparation for the 2006-07 fiscal year, the school district made adjustments in its operating budget to reduce costs associated with a reduction in the projected student enrollment. One of these actions was to eliminate numerous salaried positions in both the teaching and administrative ranks.

Increasing enrollment – Our trend of enrollment decline reversed for 2006-07. The official State count increased by approximately 55 students. At $7,343 per student, this increase to the District was approximately $404,000.

Other – As a result of revenues exceeding expenditures, the budget was balanced and excess revenue of approximately $1.18 million was returned to fund balance.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget periodically during the school year in response to changes in the operating environment. These revisions are made in order to deal with unexpected changes in revenues and expenditures. During the 2006-07 year, the budget was amended three times. The December 2006 and April 2007 amendments incorporated the September student counts and actual staffing for the school year. The June 2007 amendment incorporated known State funding changes and the administration's best year-end estimates of revenue and expenditures.

Original budget/final budget comparison

Revenues – There was a $2,947,204 (4.6%) change in the total General Fund revenue budget from the *original* to the *final* budget of the year. The significant changes in revenue are:

- The ***state source*** revenue budget was increased by $2,624,452 (6.4%). The increase was expected as a result of an increase in enrollment and associated increase in state aid.

- ***The federal source*** revenue budget was increased by $586,638 (5.4%). This increase includes Title program carry over grants from 2005-06 and grants not obligated at the time of the original budget.

Expenditures – There was a $2,054,483 (3.2%) increase in the total General Fund expenditures from the *original* budget to the *final* budget. The significant changes by functional category are:

- The ***instructional expenditures*** increased $1,098,626 (3.2%). A portion of the increase was due to an increase of $825,471 in basic programs, and an increase in special education expenditures. These increases were a direct result of increased enrollment and the number of students served.

- The ***community services*** increased $708,323 (43.0%) due to expense shifting into community services line items because of personnel reclassifications in the Title I budget.

Final budget/actual results comparison

Revenues – Actual expenses for federal and state grant programs were less than expected and less than the grant allocations, and, as a result, revenues were $895,933 and $1,225,207, respectively, less than expected.

Expenditures – Actual expenses were $2,767,199 less than anticipated. Significant differences between final budgeted and actual expenses occurred in Pupil Transportation and Instruction. The decrease in Pupil Transportation of approximately $600,000 was due to contracted transportation services, which were budgeted but not provided nor expended. The decrease in Instructional program expenses of approximately $900,000 was due to grant revenue budgeted but never received and therefore never expended.

Actual expenditures were $1,183,864 less than revenues, due to a reduction in expenditures in the areas of transportation, added needs, and instructional staff support.

Fund balance as of July 1, 2006, of $3,176,729 was increased to $4,360,593 as of June 30, 2007.

The Ending Fund balance was more favorable than expected.

Capital Assets and Debt Administration

Capital Assets – A summary of the District's capital assets at year-end is outlined below.

Summary of Capital Assets (Net of Depreciation)

	June 30	
	2006	2007
Non Depreciating Assets		
Land	$ 1,537,304	$ 1,537,304
Construction in Progress	75,237	0
Art and historic treasures	3,725,064	3,821,464
Depreciating Assets, Net		
Building and improvements	43,776,744	43,392,233
Land improvements	1,029,911	929,913
Furniture and equipment	1,971,440	1,689,595
Total	$52,115,700	$51,370,509

Debt Administration – A summary of the District's indebtedness is outlined below.

Summary of Indebtedness

	June 30	
	2006	2007
2004 Refunding Issue	$30,393,516	$28,394,531
School Bond Loan Fund - General Obligation	2,255,442	769,736
1998 Durant bond issue	2,165,002	2,165,002
Installment Purchase Agreements	567,538	315,307
Severance agreements and compensated absences	2,860,799	2,356,509
Total	$38,242,297	$34,001,085

Other Governmental Funds

The district maintains numerous funds which support overall district objectives and services. Of these other governmental funds, food service, museum, picture, library capital and permanent fund showed increases in fund balances. These balances reflect increases in revenue over expenditures as well as contributions made by organizations to several selected funds.

The debt service and athletic funds reflect a decrease in fund balance. The debt service fund balance decrease was a result of a loan repayment due to the Michigan School Bond Loan Fund. Athletic expenditures exceeded revenues, resulting in an ending fund balance of $73,098.

The total of all other non-general fund balances increased by $597,976 to $10,897,390 as of June 30, 2007.

Net capital assets decreased $745,191. This was due to the depreciation of assets in the areas of buildings and improvements, land improvements, and furniture and equipment.

Several major capital expenditures took place, including the installation of security camera systems at Muskegon High School and Hackley Public Library, as well as the upgrading of technology wiring and electronics at Muskegon High School. Credit ratings remain sound and there are no planned major facility or service activities that involve additional borrowing.

Debt reductions were in accordance with the required repayment terms.

Under State statute, the District is legally restricted from incurring long-term bonded debt in excess of 15% of the assessed value of taxable property within the school district. At June 30, 2007 the District's bonded debt of $31,329,269 reduced by that full amount, bonds qualified by the State for guarantee, is below the $86 million maximum.

2007-08 Outlook

Developing a balanced budget for 2007-08 required reductions of approximately $1.5 million. As in 2006-07, the increases in salaries and benefits had to be partially financed with reductions of costs since the projected per pupil foundation allowance will not cover these increases. While this series of reductions has been very painful, the achievement of these reductions reflects the strong will and leadership of the Board of Education in response to the strong community desire to maintain the fiscal strength of the District. A unified will and effort has allowed the District to maintain its student-centered vision as the guiding force through the major cost reduction effort.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Mr. Colin Armstrong, Superintendent, Public Schools of the City of Muskegon, 349 West Webster, Muskegon, MI 49440, telephone number (231) 720-2000.

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 25, 2007

Board of Education
Public Schools of the City of Muskegon
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of the City of Muskegon (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Public Schools of the City of Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of the City of Muskegon, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2007, on our consideration of the Public Schools of the City of Muskegon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - vii and page 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Schools of the City of Muskegon's basic financial statements. The combining nonmajor fund financial statements on pages 33 - 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The statistical data included on pages 36 - 45 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Brickley DeLong, PLC

Public Schools of the City of Muskegon

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 14,024,241
Investments	8,827,558
Receivables	948,956
Due from other governmental units	11,095,202
Inventories	290,407
Prepaid items	241,147
Total current assets	35,427,511
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	5,358,768
Depreciable	46,011,741
Bond issuance costs, net	227,921
Note and interest receivable	2,542,002
Total noncurrent assets	54,140,432
Total assets	89,567,943
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	10,500,000
Accounts payable and accrued liabilities	7,012,426
Due to other governmental units	1,412,293
Deferred revenue	427,049
Bonds and other obligations, due within one year	2,672,916
Total current liabilities	22,024,684
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	31,328,169
Accrued interest	377,000
Total noncurrent liabilities	31,705,169
Total liabilities	53,729,853
NET ASSETS	
Invested in capital assets, net of related debt	22,888,592
Restricted	
Debt service	410,984
Permanent funds	
Expendable	243,129
Nonexpendable	8,603,162
Unrestricted	3,692,223
Total net assets	$ 35,838,090

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

STATEMENT OF ACTIVITIES

For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenue: Charges for services	Program Revenue: Operating grants and contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental activities
Governmental activities				
Instruction	$ 33,550,870	$ 256,550	$ 13,202,422	$ (20,091,898)
Support services	25,274,861	931,547	8,919,269	(15,424,045)
Community services	3,213,633	233,925	2,465,513	(514,195)
Food services	2,328,167	328,241	2,175,861	175,935
Athletics	647,070	104,912	-	(542,158)
Interest on long-term debt	1,394,399	-	-	(1,394,399)
Unallocated depreciation and amortization	1,248,198	-	-	(1,248,198)
Total governmental activities	$ 67,657,198	$ 1,855,175	$ 26,763,065	(39,038,958)
General revenues				
Property taxes levied for				
General purposes				5,463,812
Debt service				4,217,479
Grants and contributions not restricted to specific programs				31,828,767
Investment earnings				2,011,056
Miscellaneous				124,606
Total general revenues				43,645,720
Change in net assets				4,606,762
Net assets at July 1, 2006, as restated				31,231,328
Net assets at June 30, 2007				$ 35,838,090

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

BALANCE SHEET

Governmental Funds

June 30, 2007

	General Fund	Julia E. Hackley Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	$ 11,589,139	$ 76,350	$ 2,358,752	$ 14,024,241
Investments	-	6,286,299	2,541,259	8,827,558
Receivables	929,967	-	18,989	948,956
Due from other governmental units	10,807,200	-	288,002	11,095,202
Due from other funds	986,241	-	308,865	1,295,106
Inventories	232,423	-	57,984	290,407
Prepaid items	57,546	-	17,522	75,068
Total assets	$ 24,602,516	$ 6,362,649	$ 5,591,373	$ 36,556,538
LIABILITIES AND FUND BALANCES				
Liabilities				
State aid loan	$ 10,500,000	$ -	$ -	$ 10,500,000
Accounts payable	139,697	-	98,662	238,359
Accrued liabilities	6,543,448	-	48,744	6,592,192
Due to other governmental units	1,187,638	-	924	1,188,562
Due to other funds	608,392	-	812,454	1,420,846
Deferred revenue	1,262,748	-	95,848	1,358,596
Total liabilities	20,241,923	-	1,056,632	21,298,555
Fund balances				
Reserved				
Inventories	232,423	-	57,984	290,407
Prepaid items	57,546	-	17,522	75,068
Debt service	-	-	968,984	968,984
Permanent funds	-	6,362,649	2,240,513	8,603,162
Purchase of prints and restoration of artwork	-	-	243,129	243,129
Unreserved				
Undesignated				
General Fund	4,070,624	-	-	4,070,624
Special revenue funds	-	-	232,957	232,957
Capital project funds	-	-	773,652	773,652
Total fund balances	4,360,593	6,362,649	4,534,741	15,257,983
Total liabilities and fund balances	$ 24,602,516	$ 6,362,649	$ 5,591,373	$ 36,556,538

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance—governmental funds		$ 15,257,983
Amounts reported for governmental activities in the Statement of Net Assets 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	$ 66,254,564	
Accumulated depreciation	(14,884,055)	51,370,509
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	285,252	
Accumulated amortization	(57,331)	227,921
Other long-term note and interest receivable in governmental activities are not reported in the governmental funds.		2,542,002
Accrued interest in governmental activities is not reported in the governmental funds.		(558,000)
Deferred revenue reported on the balance sheet that does not provide current financial resources is not reported as revenue in the governmental funds.		931,547
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds and other obligations payable	(31,644,576)	
Compensated absences	(1,004,905)	
Early retirement incentives	(1,351,604)	(34,001,085)
Internal service fund balances are not part of the governmental funds but are reported in the Statement of Net Assets.		67,213
Net assets of governmental activities in the Statement of Net Assets		$ 35,838,090

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Governmental Funds

For the year ended June 30, 2007

	General Fund	Julia E. Hackley Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	$ 5,747,243	$ -	$ 4,217,479	$ 9,964,722
Investment earnings	456,433	964,080	517,543	1,938,056
Fees and charges	1,564,962	-	533,338	2,098,300
Other	219,053	-	673,492	892,545
Total local sources	7,987,691	964,080	5,941,852	14,893,623
State sources	42,098,742	-	170,487	42,269,229
Federal sources	10,580,609	-	2,022,883	12,603,492
Total revenues	60,667,042	964,080	8,135,222	69,766,344
EXPENDITURES				
Instruction	34,632,094	-	-	34,632,094
Support services	26,192,135	-	-	26,192,135
Community services	2,099,396	-	-	2,099,396
Food services	-	-	2,328,047	2,328,047
Athletics	-	-	647,070	647,070
Museum	-	-	1,210,563	1,210,563
Picture	-	-	2,073	2,073
Permanent	-	26,054	21,729	47,783
Debt service				
Principal	-	-	3,348,742	3,348,742
Interest and other charges	-	-	1,255,713	1,255,713
Library capital improvements	-	-	44,209	44,209
Public improvements	-	-	243,701	243,701
Total expenditures	62,923,625	26,054	9,101,847	72,051,526
Excess (deficiency) of revenues over (under) expenditures	(2,256,583)	938,026	(966,625)	(2,285,182)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	4,217,060	-	25,000	4,242,060
Transfers in	322,427	-	1,240,479	1,562,906
Transfers out	(855,020)	(344,505)	(294,399)	(1,493,924)
Other transactions	(244,020)	-	-	(244,020)
Total other financing sources (uses)	3,440,447	(344,505)	971,080	4,067,022
Net change in fund balances	1,183,864	593,521	4,455	1,781,840
Fund balances at July 1, 2006, as restated	3,176,729	5,769,128	4,530,286	13,476,143
Fund balances at June 30, 2007	$ 4,360,593	$ 6,362,649	$ 4,534,741	$ 15,257,983

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

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, 2007

Net change in fund balances—total governmental funds		$ 1,781,840
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives.		
Depreciation and amortization expense	$ (1,248,198)	
Capital outlay	524,439	(723,759)
Governmental funds report the entire proceeds from sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.		(38,212)
Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.		73,000
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		(884,586)
Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		3,736,922
Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		(61,000)
Compensated absences and early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		504,290
The net revenue (expenses) of the internal service funds are reported in the governmental activities.		218,267
Change in net assets of governmental activities		$ 4,606,762

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

STATEMENT OF NET ASSETS

Internal Service Funds

June 30, 2007

ASSETS	
Due from other funds	$ 309,608
Prepaid items	166,079
Total assets	475,687
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	875
Due to other governmental units	223,731
Due to other funds	183,868
Total liabilities	408,474
Net assets	
Unrestricted	$ 67,213

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Internal Service Funds

For the year ended June 30, 2007

REVENUES	
Charges for services	$ 950,100
Other	45,545
	995,645
EXPENSES	
Costs of services	708,396
Transfers out	68,982
	777,378
Change in net assets	218,267
Net assets (deficit) at July 1, 2006	(151,054)
Net assets at June 30, 2007	$ 67,213

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

STATEMENT OF CASH FLOWS

Internal Service Funds

For the year ended June 30, 2007

Cash flows from operating activities	
Receipts from prior year refund	$ 45,545
Payments for premiums and claims	(708,396)
Payments from other funds for services	662,851
Net increase in cash	-
Cash balances at July 1, 2006	-
Cash balances at June 30, 2007	$ -
Cash flows from operating activities	
Change in net assets	$ 218,267
Adjustments to reconcile change in net assets	
to net cash provided by operating activities	
(Increase) decrease in operating assets	
Due from other funds	(141,403)
Prepaid items	(30,725)
Increase (decrease) in operating liabilities	
Accounts payable	(827)
Due to other governmental units	(94,291)
Due to other funds	48,979
Net cash provided by operating activities	$ -

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

Fiduciary Funds

June 30, 2007

	Agency funds
ASSETS	
Cash and cash equivalents	$ 430,543
Receivables	1,005
Prepaid items	4,139
	$ 435,687
LIABILITIES	
Accounts payable	$ 60,680
Deposits held for others	375,007
	$ 435,687

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services 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. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District'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 *Julia E. Hackley Fund* is a fund to be utilized at the Board's discretion for school and educational purposes in the City of Muskegon and to provide additional educational advantages and opportunities to the children of the City of Muskegon. The fund is legally restricted to the extent that only earnings, and not principal, may be used for the aforementioned purposes.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The School District accounts for its food service, athletic, picture and museum activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.
- The *permanent funds* are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

Internal service funds – Internal service funds account for workers' compensation and unemployment costs provided to various departments and funds of the School District, on a cost reimbursement basis.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method
The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. 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, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

Modified Accrual Method
Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. 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 compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, 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. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue
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 year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead 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 2006 to August 2007. Thus, the unpaid portion at June 30, 2007 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, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments
Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balances for the principal.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides 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.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deposit 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.

Interfund Receivables and Payables
Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

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.

For the year ended June 30, 2007, the School District levied the following amounts per $1,000 of taxable valuation:

Fund	Mills
General Fund - Non-homestead	18
Debt service fund - Homestead and non-homestead	7

Inventories
Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items
Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets
Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Capital Assets
Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets. Management has also elected to capitalize works of art and historical treasures with individual asset costs greater than $1,000 for financial reporting purposes.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	5-50 years
Buses and other vehicles	10 years
Furniture and other equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated. Art and historical treasures also are not depreciated as they generally appreciate in value over time.

Compensated Absences
The liability for compensated absences reported in the district-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 Incentives
For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives 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 A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations
In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

Net Assets In District-wide Financial Statements
Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund debt is not considered to be capital related debt.

- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements
The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE B—PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2006, the School District inadvertently reported unspent donor advised funds contributed to the Museum Fund as a current year revenue instead of as deferred revenue. The June 30, 2006 Museum Fund fund balance and the district-wide net assets have been restated to reflect this correction.

The restatement of fund balance as of June 30, 2006 is as follows:

Fund balance at June 30, 2006	$ 121,821
Increase in deferred revenue	(30,276)
Fund balance at July 1, 2006, as restated	$ 91,545

The restatement of net assets as of June 30, 2006 is as follows:

Net assets at June 30, 2006	$ 31,261,604
Increase in deferred revenue	(30,276)
Net assets at July 1, 2006, as restated	$ 31,231,328

NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School District does not consider these amendments to be significant.

NOTE D—DEPOSITS AND INVESTMENTS

As of June 30, 2007, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
Permanent Funds				
Money Market Mutual Funds				
Allegiant Money Market Fund	$ 23,595	7	AAA	0 %
US Treasury	124,138	754	N/A	1
Common Stock	188,880	N/A	BBB+	2
Preferred Stock - other rated				
	68,880	14,054	A+	1
	11,995	1,218	AA	0
	96,760	9,248	AAA	1
Stock Mutual Funds				
Dodge & Cox Intl Stock Fund	920,887	N/A	N/A	10
Dodge & Cox Stk Fund	1,105,943	N/A	N/A	13
First Eagle Fund of America	584,810	N/A	N/A	7
Fifth Third Equity Index Fund Trust	448,857	N/A	N/A	5
Jensen Portfolio Fund	563,415	N/A	N/A	6
T Rowe Price Growth Stock Fund	618,438	N/A	N/A	7
Other	2,292,616	N/A	N/A	26
Bond Mutual Funds				
Other rated				
	25,175	1,537	A	0
	71,344	10,968	AA-	1
	466,198	10,257	Aaa	5
	46,550	3,073	BBB+	1
Other not rated	1,169,077	27,295	Not rated	14
Total fair value	$ 8,827,558			100 %
Portfolio weighted average maturity		4,276		

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

NOTE D—DEPOSITS AND INVESTMENTS—Continued

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, which 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, 2007, $10,006,800 of the School District's bank balance of 15,393,812 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Custodial credit risk - investments. For an investment 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.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities allowed by law and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

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

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 1,537,304	$ -	$ -	$ 1,537,304
Construction in progress	75,237	2,122	77,359	-
Art and historical treasures	3,725,064	96,400	-	3,821,464
Total capital assets, not being depreciated	5,337,605	98,522	77,359	5,358,768
Capital assets, being depreciated:				
Land improvements	2,314,364	12,432	-	2,326,796
Buildings and improvements	53,770,537	427,071	-	54,197,608
Equipment	4,598,580	63,773	290,961	4,371,392
Total capital assets, being depreciated	60,683,481	503,276	290,961	60,895,796

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Less accumulated depreciation:				
Land improvements	$ 1,284,453	$ 112,430	$ -	$ 1,396,883
Buildings and improvements	9,993,793	811,582	-	10,805,375
Equipment	2,627,140	307,406	252,749	2,681,797
Total accumulated depreciation	13,905,386	1,231,418	252,749	14,884,055
Total capital assets, being depreciated, net	46,778,095	(728,142)	38,212	46,011,741
Capital assets, net	$ 52,115,700	$ (629,620)	$ 115,571	$ 51,370,509

Depreciation
Depreciation expense has been charged as unallocated depreciation.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Bond issuance costs	$ 285,252	$ -	$ -	$ 285,252
Less accumulated amortization	40,551	16,780	-	57,331
Bond issuance costs, net	$ 244,701	$ (16,780)	$ -	$ 227,921

Amortization
Amortization expense has been charged as unallocated amortization.

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

Receivable fund	Payable fund	Amount
General Fund	Other governmental funds	$ 802,373
General Fund	Internal service funds	183,868
Internal service funds	General Fund	309,608
Other governmental funds	General Fund	298,784
Other governmental funds	Other governmental funds	10,081
		$ 1,604,714

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

	Transfers in		
Transfers out	General Fund	Other governmental funds	Total
General Fund	$ -	$ 855,020	$ 855,020
Julia E. Hackley Fund	6,970	337,535	344,505
Other governmental funds	246,475	47,924	294,399
Internal Service funds	68,982	-	68,982
Total	$ 322,427	$ 1,240,479	$ 1,562,906

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

NOTE H—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, 2007 follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
State aid anticipation note				
2005/2006 2.92% due August 2006	$ 10,750,000	$ -	$ 10,750,000	$ -
2006/2007 3.68% due August 2007	-	10,500,000	-	10,500,000
	$ 10,750,000	$ 10,500,000	$ 10,750,000	$ 10,500,000

NOTE I—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
General Fund		
Receivables	$ 931,547	$ -
Due from other governmental units	-	320,731
Student deposits	-	10,470
Other governmental funds		
Museum deposits	-	95,848
Total deferred revenue for governmental funds	$ 931,547	$ 427,049

NOTE J—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 School Bond Loan Fund, equipment installment loans and the Education Interconnection and Consortium Financing Agreement.

Summary of Long-term Obligations
The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
Governmental activities:					
Bonds	$ 32,558,518	$ -	$ 1,998,985	$ 30,559,533	$ 1,998,984
Other obligations	2,822,980	77,686	1,815,623	1,085,043	172,946
Early retirement incentives	1,847,732	-	496,128	1,351,604	500,986
Compensated absences	1,013,067	254,785	262,947	1,004,905	-
	$ 38,242,297	$ 332,471	$ 4,573,683	$ 34,001,085	$ 2,672,916

In the previous schedule, the additions for other obligations represent $77,686 of accrued interest on the School Bond Loan Fund.

General obligation bonds consist of the following:

2004 Refunding Bond payable in annual installments ranging from $1,900,000 to $2,000,000 due May 2008 to 2021; plus interest ranging from 2.25% to 5% payable semi-annually	$ 27,050,000
Plus issuance premium	1,344,531
Durant obligations payable in annual installments ranging from $257,465 to $1,729,988 including interest at 4.76% due May 2009 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	2,165,002
Total bonded debt	30,559,533

NOTE J—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Other obligations		
School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements or May 2027, whichever is sooner; interest payable of $53,126 is included at interest rates between 2.625% and 4.875%	$	769,736
School bus installment loans payable in aggregate annual amounts ranging from $33,856 to $99,146 due through August 2010; plus interest ranging from 3% to 3.51%		200,432
Computer installment loan payable in quarterly installments of $21,862 due through December 2007; plus interest at 2.85%		65,585
Education Interconnection and Consortium Financing Agreement payable in annual installments of $8,215 due March 2008 to 2013		49,290
Total other obligations		1,085,043
Early retirement incentives		1,351,604
Compensated absences		1,004,905
	$	34,001,085

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

NOTE J—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

The annual requirements of principal and interest to amortize bonded debt, installment loans, the Education Interconnection and Consortium Financing Agreement, and early retirement incentives outstanding as of June 30, 2007 follows:

Year ending June 30,	Principal	Interest	Total
2008	$ 2,672,916	$ 1,109,659	$ 3,782,575
2009	3,564,061	1,546,350	5,110,411
2010	2,332,956	1,057,302	3,390,258
2011	2,257,198	993,159	3,250,357
2012	2,235,914	924,747	3,160,661
2013-2017	9,968,201	3,289,077	13,257,278
2018-2021	7,850,667	908,750	8,759,417
	$ 30,881,913	$ 9,829,044	$ 40,710,957

NOTE K—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

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

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

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

NOTE K—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued
Funding policy – Continued
The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007, were 16.34 percent of payroll through September 30, 2006, and 17.74 percent effective October 1, 2006. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were approximately $6,367,000, $6,168,000 and $5,444,000, respectively, and were equal to the required contribution for those years.

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

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

Post-Retirement Health Care Benefits
Pursuant to employment contracts, certain employees electing early retirement are provided post-retirement health benefits which vary depending on the plan chosen and their age at retirement. Health care benefits terminate the month the person attains eligibility for full social security benefits, or dies, whichever occurs first; however, no more than ten (10) years of payments will be made. The School District records expenditures for these benefits when premiums are due. Future benefits will be funded out of future revenues. The cost of these benefits for the year ended June 30, 2007 was approximately $242,430 provided to 225 participants.

NOTE L—CONTINGENCIES

- **Litigation** – The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.

- **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.

NOTE M—OTHER INFORMATION

Economic Dependence – Prior years' revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 65 percent of General Fund revenues.

Risk Management – 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, 2007 or any of the prior three years.

NOTE N—SUBSEQUENT EVENT

On August 20, 2007, the School District received the proceeds of a $8.158 million State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 20, 2008 and bears interest at the rate of 3.68 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.

REQUIRED SUPPLEMENTARY INFORMATION

Public Schools of the City of Muskegon

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget-positive
	Original	Final	Actual	(negative)
REVENUES				
Local sources	$ 7,484,725	$ 7,570,519	$ 7,987,691	$ 417,172
State sources	40,729,497	43,353,949	42,098,742	(1,255,207)
Federal sources	10,889,904	11,476,542	10,580,609	(895,933)
Incoming transfers and other transactions	4,762,034	4,412,354	4,539,487	127,133
Total revenues	63,866,160	66,813,364	65,206,529	(1,606,835)
EXPENDITURES				
Instruction				
Basic programs	22,784,233	23,609,974	23,047,929	562,045
Added needs	11,400,503	11,728,611	11,337,415	391,196
Adult and continuing education	321,800	266,577	246,750	19,827
Support services				
Pupil	6,496,579	5,788,782	5,584,339	204,443
Instructional staff	4,349,411	5,064,217	4,639,864	424,353
General administration	590,410	541,354	533,036	8,318
School administration	2,732,925	2,575,615	2,537,973	37,642
Business	1,668,000	1,767,236	1,691,523	75,713
Operations and maintenance	6,732,531	6,793,124	6,740,046	53,078
Pupil transportation services	3,224,658	3,125,686	2,492,401	633,285
Central	1,867,676	2,035,350	1,934,229	101,121
Other	41,400	39,500	38,724	776
Community services	1,646,055	2,354,378	2,099,396	254,982
Outgoing transfers and other transactions	879,200	1,099,460	1,099,040	420
Total expenditures	64,735,381	66,789,864	64,022,665	2,767,199
Excess (deficiency) of revenues over (under) expenditures	$ (869,221)	$ 23,500	1,183,864	$ 1,160,364
Fund balance at July 1, 2006			3,176,729	
Fund balance at June 30, 2007			$ 4,360,593	

OTHER SUPPLEMENTAL INFORMATION

Public Schools of the City of Muskegon
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2007

	Total other governmental funds	Special revenue				Debt retirement	Capital projects		Permanent Fund
		Food service	Athletics	Museum	Picture		Library capital improvements	Public improvements	
ASSETS									
Cash and cash equivalents	$ 2,358,752	$ 165,071	$ 32,092	$ 314,918	$ -	$ 1,271,327	$ 272,075	$ 292,146	$ 11,123
Investments	2,541,259	-	-	-	240,425	-	-	-	2,300,834
Receivables	18,989	38	-	16,247	2,704	-	-	-	-
Due from other governmental units	288,002	288,002	-	-	-	-	-	-	-
Due from other funds	308,865	-	62,918	-	-	-	29,182	216,765	-
Inventories	57,984	11,955	-	46,029	-	-	-	-	-
Prepaid items	17,522	-	125	17,397	-	-	-	-	-
Total assets	$ 5,591,373	$ 465,066	$ 95,135	$ 394,591	$ 243,129	$ 1,271,327	$ 301,257	$ 508,911	$ 2,311,957
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	$ 98,662	$ 73,140	$ 5,372	$ 18,800	$ -	$ -	$ 1,350	$ -	$ -
Accrued liabilities	48,744	11,278	16,665	20,801	-	-	-	-	-
Due to other governmental units	924	48	-	876	-	-	-	-	-
Due to other funds	812,454	242,390	-	161,111	-	302,343	-	35,166	71,444
Deferred revenue	95,848	-	-	95,848	-	-	-	-	-
Total liabilities	1,056,632	326,856	22,037	297,436	-	302,343	1,350	35,166	71,444
Fund balances									
Reserved									
Inventories	57,984	11,955	-	46,029	-	-	-	-	-
Prepaid items	17,522	-	125	17,397	-	-	-	-	-
Debt service	968,984	-	-	-	-	968,984	-	-	-
Permanent funds	2,240,513	-	-	-	-	-	-	-	2,240,513
Purchase of prints and restoration of artwork	243,129	-	-	-	243,129	-	-	-	-
Unreserved									
Undesignated	1,006,609	126,255	72,973	33,729	-	-	299,907	473,745	-
Total fund balances	4,534,741	138,210	73,098	97,155	243,129	968,984	299,907	473,745	2,240,513
Total liabilities and fund balances	$ 5,591,373	$ 465,066	$ 95,135	$ 394,591	$ 243,129	$ 1,271,327	$ 301,257	$ 508,911	$ 2,311,957

Public Schools of the City of Muskegon

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Other Governmental Funds

For the year ended June 30, 2007

	Total other governmental funds	Special revenue				Debt retirement	Capital projects		Permanent Fund
		Food service	Athletics	Museum	Picture		Library capital improvements	Public improvements	
REVENUES									
Local sources									
Property taxes	$ 4,217,479	$ -	$ -	$ -	$ -	$ 4,217,479	$ -	$ -	$ -
Investment earnings	517,543	-	-	-	32,327	63,777	13,652	21,008	386,779
Fees and charges	533,338	328,241	80,370	124,727	-	-	-	-	-
Other	673,492	-	24,542	648,950	-	-	-	-	-
Total local sources	5,941,852	328,241	104,912	773,677	32,327	4,281,256	13,652	21,008	386,779
State sources	170,487	152,978	-	17,509	-	-	-	-	-
Federal sources	2,022,883	2,022,883	-	-	-	-	-	-	-
Total revenues	8,135,222	2,504,102	104,912	791,186	32,327	4,281,256	13,652	21,008	386,779
EXPENDITURES									
Food services	2,328,047	2,328,047	-	-	-	-	-	-	-
Athletics	647,070	-	647,070	-	-	-	-	-	-
Museum	1,210,563	-	-	1,210,563	-	-	-	-	-
Picture	2,073	-	-	-	2,073	-	-	-	-
Permanent	21,729	-	-	-	-	-	-	-	21,729
Debt service									
Principal	3,348,742	-	-	-	-	3,348,742	-	-	-
Interest and other charges	1,255,713	-	-	-	-	1,255,713	-	-	-
Library capital improvemements	44,209	-	-	-	-	-	44,209	-	-
Public improvements	243,701	-	-	-	-	-	-	243,701	-
Total expenditures	9,101,847	2,328,047	647,070	1,210,563	2,073	4,604,455	44,209	243,701	21,729
Excess (deficiency) of revenues over (under) expenditures	(966,625)	176,055	(542,158)	(419,377)	30,254	(323,199)	(30,557)	(222,693)	365,050
OTHER FINANCING SOURCES (USES)									
Transfers from other governmental units and other transactions	25,000	-	-	-	-	-	25,000	-	-
Transfers in	1,240,479	-	510,000	447,902	10,806	-	50,006	221,765	-
Transfers out	(294,399)	(157,509)	-	(22,915)	-	-	-	-	(113,975)
Total other financing sources (uses)	971,080	(157,509)	510,000	424,987	10,806	-	75,006	221,765	(113,975)
Net change in fund balances	4,455	18,546	(32,158)	5,610	41,060	(323,199)	44,449	(928)	251,075
Fund balances at July 1, 2006, as restated	4,530,286	119,664	105,256	91,545	202,069	1,292,183	255,458	474,673	1,989,438
Fund balances at June 30, 2007	$ 4,534,741	$ 138,210	$ 73,098	$ 97,155	$ 243,129	$ 968,984	$ 299,907	$ 473,745	$ 2,240,513

STATISTICAL DATA (Unaudited)

Public Schools of the City of Muskegon

HISTORICAL PROPERTY VALUATIONS

Year ended June 30, 2007

(Unaudited)

Levy Year	Homestead	Homestead TIF	Non-homestead	Non-homestead TIF
2006	$ 259,049,286	1,469,003	$ 328,492,052	$ 5,569,026
2005	248,195,364	1,445,072	313,871,485	3,524,755
2004	239,234,097	-	307,957,272	7,859,052
2003	232,771,561	-	302,330,532	7,571,181
2002	222,251,151	-	297,378,708	10,684,622
2001	206,560,819	-	307,926,641	8,235,174
2000	192,655,760	1,334,781	284,545,526	18,230,319
1999	181,156,107	924,062	275,072,802	17,666,391
1998	169,546,200	692,718	263,127,023	9,755,617
1997	160,507,216	777,653	272,523,814	7,999,904

Information obtained per Michigan Department of Education website http://mdoe.state.mi.us/taxvalue/taxvalue

Public Schools of the City of Muskegon

MAJOR TAXPAYERS

Year ended June 30, 2007

(Unaudited)

Taxable values as of December 2006:

Taxpayer		Taxable value	Percent	
Consumers Energy	$	73,329,972	9.58	%
Sappi		35,818,829	4.68	
DTE		9,469,700	1.24	
Johnson Technology		7,797,731	1.02	
ADAC Plastics		7,289,620	0.95	
ESCO Company		5,844,530	0.76	
Hinman Lake LLC		5,651,361	0.74	
Coles Quality Foods		5,583,238	0.73	
Brunswick Corp		5,505,361	0.72	
Holland Neway International		5,362,718	0.70	
10 Largest		161,653,060	21.12	
All Other		603,865,116	78.88	
Total	$	765,518,176	100.00	%

Source: Muskegon County Equalization Department

Public Schools of the City of Muskegon

SCHOOL DISTRICT TAX RATES

Year ended June 30, 2007

(Unaudited)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Voted	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000
Debt	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000
Hackley Public Library	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.9947	0.9947	1.0000	1.0000
TOTAL HOMESTEAD	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000
TOTAL NON-HOMESTEAD	25.0000	25.0000	25.0000	25.0000	25.0000	25.0000	25.9947	25.9947	26.0000	26.0000

Source: Muskegon County Settlement Statement

The School District's 18 voted mills will expire with the December 1, 2015 levy.

Public Schools of the City of Muskegon

STATE AID SUMMARY—FUNDS FROM STATE SOURCES

(INCLUDING CATEGORICALS)

Year ended June 30, 2007

(Unaudited)

Year ended June 30	State Aid Received
2007	$ 41,432,058
2006	41,750,509
2005	41,764,928
2004	44,206,210
2003	46,394,271
2002	47,394,327
2001	48,753,096
2000	45,860,742

Source: State of Michigan August State Aid Status Report

Public Schools of the City of Muskegon

OPERATING TAX LEVIES AND COLLECTIONS

Year ended June 30, 2007

(Unaudited)

Tax Year	Tax Levy				Collections				
	City of Muskegon	City of Norton Shores	Muskegon Township	Total	City of Muskegon	City of Norton Shores	Muskegon Township	Total	% Collected
2006	$ 9,090,147	$ 573,769	$ 43,797	$ 9,707,713	$ 7,623,709	$ 393,867	$ 37,238	$ 8,054,814	82.97 %
2005	8,826,715	547,650	41,259	9,415,624	7,458,959	424,870	39,666	7,923,495	84.15
2004	8,685,298	519,356	38,057	9,242,711	7,125,786	408,174	32,664	7,566,624	81.87
2003	8,661,741	487,289	36,935	9,185,965	7,118,450	381,543	32,064	7,532,057	82.00
2002	8,693,519	480,809	37,010	9,211,338	7,166,803	358,404	30,760	7,555,967	82.03
2001	8,837,020	437,077	36,588	9,310,685	7,274,578	334,877	30,544	7,639,999	82.06
2000	8,126,928	392,701	33,707	8,553,336	6,634,788	324,638	31,637	6,991,063	81.73
1999	8,248,151	396,736	41,716	8,686,603	6,933,100	343,957	38,568	7,315,625	84.22
1998	7,806,374	380,560	38,536	8,225,470	6,599,854	331,966	30,979	6,962,799	84.65
1997	8,034,361	361,163	31,868	8,427,392	6,766,322	316,453	30,782	7,113,557	84.41

Source: Muskegon County Settlement Statement

Public Schools of the City of Muskegon

LABOR FORCE

Year ended June 30, 2007

(Unaudited)

A breakdown of the number of employees of the Public Schools of the City of Muskegon (including part-time employees) and their affiliation with organized groups is as follows:

Employees	Number	Bargaining unit	Contract expiration
Administrators	33	Non-Affiliated	6/30/2008
Professional Staff	378	MEA	6/30/2008
Support Staff/Clerks/Cooks/ Classroom Assistants	153	MEA	6/30/2008
Custodial/Maintenance/Bus Drivers	97	Non Instructional Em. Assoc.	6/30/2009
Para-Professionals	172	Non-Affiliated	6/30/2009
TOTAL STAFF	833		

Public Schools of the City of Muskegon

PENSION FUND

Year ended June 30, 2007

(Unaudited)

For the period from October 1, 2006 through September 30, 2007, the School District will pay an amount equal to 17.74 percent of its employees' wages to the Michigan Public School Employees Retirement System (MPSERS) which is administered by the State of Michigan. The following were the applicable contribution rates required by law for the periods:

October 1, 2006—September 30, 2007	17.74 %
October 1, 2005—September 30, 2006	16.34
October 1, 2004—September 30, 2005	14.87
October 1, 2003—September 30, 2004	12.99
October 1, 2002—September 30, 2003	13.16
October 1, 2001—September 30, 2002	12.17
October 1, 2000—September 30, 2001	12.16
October 1, 1999—September 30, 2000	11.66
October 1, 1998—September 30, 1999	10.77
October 1, 1997—September 30, 1998	11.12

These contributions are required by law. The School District's contributions for the past ten years are shown below. The School District does not have an unfunded accrued liability under MPSERS.

Year ending June 30,	Paid to pension fund
2007	$ 6,367,000
2006	6,168,000
2005	5,444,000
2004	5,059,000
2003	5,237,000
2002	5,052,000
2001	4,896,000
2000	4,497,000
1999	4,153,000
1998	4,243,000

Effective January 1, 1987, members of MPSERS may irrevocably elect to contribute a percentage of their gross wages on a tax deferred basis to a member investment plan (MIP) which qualifies them for additional benefits. All employees hired after January 1, 1990 will contribute to the plan at a graduated rate of their gross wages. If a member leaves MPSERS service before a retirement benefit has vested, the member's accumulated contributions to MIP, plus interest, if any, are refundable.

Public Schools of the City of Muskegon

DEBT STATEMENT—DIRECT DEBT

Year ended June 30, 2007

(Unaudited)

Dated	Purpose	Type	Interest spread	Maturities	Amount outstanding
02/10/04	1995 Refunding	GOUTQ	2.25-5 %	05/01/08-21	$ 27,050,000
			NET DIRECT DEBT		$ 27,050,000

Public Schools of the City of Muskegon

SCHOOL BOND LOAN FUND PROGRAM

Year ended June 30, 2007

(Unaudited)

As of June 30, 2007, the School District has a School Bond Loan Fund balance of $769,736.

The Bonds are fully qualified as of the date of delivery pursuant to Act 108 of the Public Acts of Michigan, 1961, as amended, enacted pursuant to Article IX, Section 16, of the Michigan Constitution of 1963. Under the terms of said constitutional and statutory provisions, if for any reason, the School District will be or is unable to pay the principal and interest on the Bonds when due, the School District shall borrow, and the State of Michigan (State) shall lend to it from the School Bond Loan Fund established by the State, an amount sufficient to enable the School District to make payment. Article IX, Section 16 of the Michigan Constitution, as implemented by Act 112 of the Public Acts of Michigan, 1961, as amended, authorizes the State, without approval of its electors, to borrow from time to time such amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefore, for the purpose of making loans to school districts as provided amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefore, for the purpose of making loans to school districts as provided under such section. Loans to school districts for such purposes are made from the proceeds of such State borrowing.

Complete financial statements of all of the State's funds as included in the State's Comprehensive Annual Financial Report (CAFR) prepared by the State's Department of Management and Budget are available upon request from the Department of Management and Budget, Office of Financial Management, P.O. Box 30026, Lansing, Michigan 48909, telephone (517) 373-1011. The State has agreed to file its CAFR with the Nationally Recognized Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities Exchange Commission) annually, so long as any bonds qualified for participation in the School Bond Loan Fund remain outstanding.

Public Schools of the City of Muskegon

SCHOOL ENROLLMENT

Year ended June 30, 2007

(Unaudited)

Historical enrollment for the School District is as follows:

School year	Enrollment	School year	Enrollment
2006/07	5,730	2001/02	6,584
2005/06	5,690	2000/01	6,761
2004/05	6,036	1999/00	6,788
2003/04	6,182	1998/99	6,940
2002/03	6,455	1997/98	7,116

Enrollment by grades—2006/07 is as follows:

Kindergarten	502	Seventh	304
First	486	Eighth	367
Second	354	Ninth-Twelfth	1,318
Third	352	Special Education	621
Fourth	361	Adlternative Education	289
Fifth	381	Adult Education participants	55
Sixth	340		
		TOTAL	5,730

Public Schools of the City of Muskegon

SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Financial Report and
Independent Auditors' Reports

June 30, 2007

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October 25, 2007

Board of Education
Public Schools of the City of Muskegon
Muskegon, Michigan

We have audited the financial statements of the Public Schools of the City of Muskegon as of and for the year ended June 30, 2007 and have issued our report thereon dated October 25, 2007. 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Public Schools of the City of Muskegon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Public Schools of the City of Muskegon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Public Schools of the City of Muskegon's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 25, 2007

Board of Education
Public Schools of the City of Muskegon
Muskegon, Michigan

Compliance

We have audited the compliance of the Public Schools of the City of Muskegon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Public Schools of the City of Muskegon's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Public Schools of the City of Muskegon's management. Our responsibility is to express an opinion on the Public Schools of the City of Muskegon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Public Schools of the City of Muskegon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Public Schools of the City of Muskegon's compliance with those requirements.

In our opinion, the Public Schools of the City of Muskegon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance
The management of the Public Schools of the City of Muskegon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Public Schools of the City of Muskegon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Public Schools of the City of Muskegon's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards
We have audited the financial statements of the Public Schools of the City of Muskegon as of and for the year ended June 30, 2007 and have issued our report thereon dated October 25, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Public Schools of the City of Muskegon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis) Prior year	Current year	Total	Accrued (deferred) revenue June 30, 2007
U.S. Department of Education								
Direct programs:								
Indian Education Title IV, Part A	84.060A							
S060A050013		$ 39,137	$ 249	$ 249	$ 7,352	$ -	$ 7,352	$ -
S060A060013		9,578	-	1,367	-	1,400	1,400	33
Total direct programs		48,715	249	1,616	7,352	1,400	8,752	33
Passed through Michigan Department of Labor and Economic Growth								
Adult Education English Language Civics	84.002A							
0711207500477		28,017	-	23,262	-	25,900	25,900	2,638
Lead 2007 Gear Up Michigan!	84.334S							
801P2001092 2006		149,985	66,126	68,329	146,477	2,203	148,680	-
Total passed through Michigan Department of Labor and Economic Growth		178,002	66,126	91,591	146,477	28,103	174,580	2,638

Public Schools of the City of Muskegon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED

For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis) Prior year	Current year	Total	Accrued (deferred) revenue June 30, 2007
U.S. Department of Education—Continued								
Passed through Michigan Department of Education:								
Title I	84.010							
0515200506		$ 3,000	$ 873	$ 1,877	$ 1,996	$ 1,004	$ 3,000	$ -
0515500506		75,000	24,838	37,103	62,735	12,265	75,000	-
0615300506		3,134,667	400,356	400,356	2,755,848	-	2,755,848	-
0615300607		484,424	-	484,424	-	484,424	484,424	-
0715300607		3,149,848	-	2,437,677	-	2,768,813	2,768,813	331,136
0715500607		40,000	-	37,088	-	40,000	40,000	2,912
		6,886,939	426,067	3,398,525	2,820,579	3,306,506	6,127,085	334,048
Title I - Part C Migrant Education	84.011							
0618302006		45,351	520	45,351	520	44,831	45,351	-
0618900506		74,442	25,892	25,892	74,442	-	74,442	-
0718900607		71,732	-	49,150	-	56,609	56,609	7,459
		191,525	26,412	120,393	74,962	101,440	176,402	7,459
Homeless Students' Assistance Grants	84.196A							
0623200506		59,106	8,243	8,243	58,743	-	58,743	-
0723200607		69,751	-	62,056	-	64,099	64,099	2,043
		128,857	8,243	70,299	58,743	64,099	122,842	2,043
21st Century Community Learning Centers	84.287							
062110 21ST03-042		360,000	3,440	3,440	360,000		360,000	-
072110 21ST03-042		360,000	-	316,368	-	360,000	360,000	43,632
		720,000	3,440	319,808	360,000	360,000	720,000	43,632
Title V - Part A	84.298							
0602500506		44,926	8,598	8,598	43,449	-	43,449	-
0602500607		1,477	-	1,477	-	1,477	1,477	-
0702500607		24,843	-	19,685	-	19,711	19,711	26
		71,246	8,598	29,760	43,449	21,188	64,637	26

Public Schools of the City of Muskegon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED

For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis) Prior year	Current year	Total	Accrued (deferred) revenue June 30, 2007
U.S. Department of Education—Continued								
Passed through Michigan Department of Education—Continued:								
Title II, Part D Enhancing Education Through Technology	84.318							
0642900506		$ 60,256	$ 10,417	$ 10,417	$ 58,765	$ -	$ 58,765	$ -
0642900607		1,491	-	1,491	-	1,491	1,491	-
0742900607		33,155	-	26,817	-	26,960	26,960	143
		94,902	10,417	38,725	58,765	28,451	87,216	143
Title I—Comprehensive School Reform Demonstration	84.332							
0518800506		166,233	9,478	27,094	148,617	17,616	166,233	-
0518700506		120,100	7,208	50,701	76,607	43,493	120,100	-
0618700607		128,000	-	103,770	-	99,416	99,416	(4,354)
		414,333	16,686	181,565	225,224	160,525	385,749	(4,354)
Reading First State Grants	84.357							
0529300506		1,129,500	185,001	185,001	1,129,500	-	1,129,500	-
0629300607		885,741	-	759,844	-	883,707	883,707	123,863
062920020303		114,046	20,148	20,148	112,879	-	112,879	-
062920050601		116,782	25,285	25,285	116,781	-	116,781	-
0729100607C		114,613	-	-	-	113,366	113,366	113,366
0729100607C		116,308	-	83,725	-	115,048	115,048	31,323
		2,476,990	230,434	1,074,003	1,359,160	1,112,121	2,471,281	268,552
Title III - Limited English	84.365A							
0605800506		58,779	339	339	9,126	-	9,126	-
0605800607		54,389	-	54,389	-	54,389	54,389	-
0705800607		48,512	-	21,960	-	36,450	36,450	14,490
		161,680	339	76,688	9,126	90,839	99,965	14,490

Public Schools of the City of Muskegon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED

For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis) Prior year	Current year	Total	Accrued (deferred) revenue June 30, 2007
U.S. Department of Education—Continued								
Passed through Michigan Department of Education — Continued:								
Title IIA-Improving Teacher Quality	84.367							
0505200506		$ 211,608	$ 44,846	$ 44,846	$ 211,608	$ -	$ 211,608	$ -
0605200506		538,013	96,480	96,480	327,913	-	327,913	-
0605200607		467,027	-	467,027	-	467,027	467,027	-
0705200607		783,369	-	562,007	-	668,292	668,292	106,285
		2,000,017	141,326	1,170,360	539,521	1,135,319	1,674,840	106,285
Total passed through Michigan Department of Education		13,146,489	871,962	6,480,126	5,549,529	6,380,488	11,930,017	772,324
Passed through Muskegon Area Intermediate School District:								
Adult Education Family Literacy	84.002A							
061190-610586		5,337	5,337	5,337	5,337	-	5,337	-
061130-710587		17,500	-	19,400	-	50,927	50,927	31,527
071190-710587		7,300	-	3,210	-	4,238	4,238	1,028
071130-710587		18,432	-	-	-	18,432	18,432	18,432
		48,569	5,337	27,947	5,337	73,597	78,934	50,987
Special Education Cluster:								
I.D.E.A. 101-476	84.027							
Minigrant		230	-	208	-	208	208	-
50450-42		1,482,663	28,612	28,612	1,482,663	-	1,482,663	-
60450-42		1,450,293	315,958	383,704	1,339,697	114,428	1,454,125	46,682
70450-42		1,373,812	-	904,373	-	1,271,580	1,271,580	367,207
0745006/07		10,000	-	10,000	-	10,000	10,000	-
MiBLSi		21,000	-	21,000	-	19,621	19,621	(1,379)
		4,337,998	344,570	1,347,897	2,822,360	1,415,837	4,238,197	412,510
I.D.E.A. 94-142	84.173							
0604600506		54,019	6,730	6,730	54,019	-	54,019	-
0704600607		61,231	-	43,707	-	61,231	61,231	17,524
		115,250	6,730	50,437	54,019	61,231	115,250	17,524
Total Special Education Cluster		4,453,248	351,300	1,398,334	2,876,379	1,477,068	4,353,447	430,034

Public Schools of the City of Muskegon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED

For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis) Prior year	Current year	Total	Accrued (deferred) revenue June 30, 2007
U.S. Department of Education—Continued								
Passed through Muskegon Area Intermediate School District—Continued:								
Drug Free Schools and Communities Act	84.186							
0628600405		$ 34,149	$ 6,578	$ 6,578	$ 34,149	$ -	$ 34,149	$ -
0728600607		54,904	-	37,479	-	54,904	54,904	17,425
		89,053	6,578	44,057	34,149	54,904	89,053	17,425
Total passed through Muskegon Area Intermediate School District		4,590,870	363,215	1,470,338	2,915,865	1,605,569	4,521,434	498,446
Passed through Baker College of Muskegon								
Evenstart	84.213							
060390 0506		225,000	76,058	76,058	216,137	-	216,137	-
070390 0607		225,000	-	2,253	-	2,253	2,253	-
		450,000	76,058	78,311	216,137	2,253	218,390	-
Total U.S. Department of Education		18,414,076	1,377,610	8,121,982	8,835,360	8,017,813	16,853,173	1,273,441

Public Schools of the City of Muskegon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED

For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis) Prior year	Expenditures (accrual basis) Current year	Expenditures (accrual basis) Total	Accrued (deferred) revenue June 30, 2007
U.S. Department of Agriculture								
Passed through Michigan Department of Education:								
National School Lunch and Breakfast	10.550							
Entitlement commodities		$ 111,499	$ -	$ 111,499	$ -	$ 111,499	$ 111,499	$ -
Bonus commodities		1,075	-	1,075	-	1,075	1,075	-
		112,574	-	112,574	-	112,574	112,574	-
Child Nutrition Cluster:								
061970 Breakfast	10.553	433,900	12,934	59,795	387,039	46,861	433,900	-
071970 Breakfast		402,869	-	335,950	-	402,869	402,869	66,919
		836,769	12,934	395,745	387,039	449,730	836,769	66,919
061950 Lunches	10.555	156,212	3,600	21,953	137,859	18,353	156,212	-
071950 Lunches		141,782	-	118,929	-	141,782	141,782	22,853
061960 Free and reduced		1,209,616	28,037	169,526	1,068,127	141,489	1,209,616	-
071960 Free and reduced		1,098,648	-	920,822	-	1,098,648	1,098,648	177,826
061980 Snack		8,480	-	302	8,178	302	8,480	-
071980 Snack		11,755	-	11,755	-	11,755	11,755	-
		2,626,493	31,637	1,243,287	1,214,164	1,412,329	2,626,493	200,679
061940 Special Milk	10.556	989	-	63	926	63	989	-
071940 Special Milk		786	-	659	-	786	786	127
		1,775	-	722	926	849	1,775	127
Total Child Nutrition Cluster		3,465,037	44,571	1,639,754	1,602,129	1,862,908	3,465,037	267,725
Child Care Food								
061920	10.558	12,602	19	1,359	11,262	1,340	12,602	-
071920		43,715	-	42,488	-	43,715	43,715	1,227
072010		2,347	-	2,347	-	2,347	2,347	-
		58,664	19	46,194	11,262	47,402	58,664	1,227
Total passed through Michigan Department of Education and U.S. Department of Agriculture		3,636,275	44,590	1,798,522	1,613,391	2,022,884	3,636,275	268,952

Public Schools of the City of Muskegon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED

For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis) Prior year	Expenditures (accrual basis) Current year	Expenditures (accrual basis) Total	Accrued (deferred) revenue June 30, 2007
U.S. Department of Labor								
Passed through Muskegon Intermediate School District:								
WIA Youth Activities	17.259							
27314013/WIA-05/06		$ 81,365	$ 58,062	$ 58,062	$ 81,365	$ -	$ 81,365	$ -
27314013/WIA-06/07		32,125	-	6,591	-	32,125	32,125	25,534
		113,490	58,062	64,653	81,365	32,125	113,490	25,534
Total U.S. Department of Labor		113,490	58,062	64,653	81,365	32,125	113,490	25,534
U.S. Department of Health and Human Services								
Passed through Michigan Department of Human Services:								
Temporary Assistance for Needy Families								
BA-05-61001 2006	93.558	375,064	43,250	231,500	79,771	188,250	268,021	-
BA-05-61001 2007		375,064	-	69,297	-	114,881	114,881	45,584
		750,128	43,250	300,797	79,771	303,131	382,902	45,584
Passed through Muskegon Area Intermediate School District:								
Headstart	93.600							
05CH825807		1,433,590	376,462	961,939	891,255	585,477	1,476,732	-
05CH8258/08		944,124	-	616,284	-	823,580	823,580	207,296
		2,377,714	376,462	1,578,223	891,255	1,409,057	2,300,312	207,296
Medical Assistance Program Title XIX	93.778							
Transportation		37,755	-	37,755	-	37,755	37,755	-
Outreach		64,375	-	51,019	-	64,375	64,375	13,356
		102,130	-	88,774	-	102,130	102,130	13,356
Total passed through Muskegon Area Intermediate School District		2,479,844	376,462	1,666,997	891,255	1,511,187	2,402,442	220,652
Total U.S. Department of Health and Human Services		3,229,972	419,712	1,967,794	971,026	1,814,318	2,785,344	266,236
U.S. Department of Defense								
Passed through the Department of the Army								
JROTC M1201592	12.XXX	46,602	3,942	3,942	46,602	-	46,602	-
JROTC MI201592		20,000	-	18,542	-	20,279	20,279	1,737
		66,602	3,942	22,484	46,602	20,279	66,881	1,737
TOTAL FEDERAL ASSISTANCE		$ 25,460,415	$ 1,903,916	$ 11,975,435	$ 11,547,744	$ 11,907,419	$ 23,455,163	$ 1,835,900

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2007

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.

2. Management has utilized the Grants Section Auditors Report (Form R7120) and Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2007 governmental funds financial statements		
General Fund	$ 10,580,579	
School service funds (includes Food Service Fund)	2,022,883	$ 12,603,462
Less:		
Medicaid Administration revenues included as federal revenues in the basic financial statements		(694,666)
Revenue reported in the basic financial statements for IDEA MiBLSi that should be deferred		(1,379)
Rounding		2
		$ 11,907,419

Public Schools of the City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Public Schools of the City of Muskegon.

2. ***No*** significant deficiencies in internal control were disclosed by the audit of the financial statements.

3. ***No*** instances of noncompliance material to the financial statements of the Public Schools of the City of Muskegon were disclosed during the audit.

4. ***No*** significant deficiencies in internal control were disclosed by the audit of the major federal award programs.

5. The auditors' report on compliance for the major federal award programs for the Public Schools of the City of Muskegon expresses an unqualified opinion.

6. There were ***no*** audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs were:

Name	CFDA Number
U.S. Department of Education	
Title I	84.010
Special Education Cluster	84.027 and 84.173
21st Century Community Learning Centers	84.287
Reading First	84.357
U.S. Department of Agriculture	
Child Nutrition Cluster	10.553, 10.555 and 10.556

8. The threshold for distinguishing Types A and B programs was $357,223.

9. The Public Schools of the City of Muskegon was not determined to be a low-risk auditee.

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

NONE

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

NONE

CLIENT DOCUMENTS

Public Schools of the City of Muskegon

349 W. Webster Avenue
Muskegon, MI 49440

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 25, 2007

Michigan Department of Education
Lansing, Michigan

The Public Schools of the City of Muskegon respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2006 dated November 2, 2006.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

U.S. Department of Education
Fiscal 2006 Finding No. 1: 21st Century Community Learning Centers
Pass-through entity: Michigan Department of Education
CFDA: 84.287
Award Number: 062110/21ST 03042
Award Year Ended: June 30, 2006

Specific Requirement: Financial Reporting

Condition: The grant was overexpended by function, but not in total. MDE Form DS 4044 "Grants Final Expenditure Report" reported four functions were overexpended, with two functions greater than 10 percent, by an aggregate of $149,661.

Recommendation: All program award budgets and amendments should be submitted to the Business Office for review before submission to grant agencies.

Current Status: This recommendation was implemented during the year ended June 30, 2007. ***No*** similar finding was noted during the fiscal 2007 audit.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

REPORTABLE CONDITIONS

Fiscal 2006 Finding No. 2: Petty Cash Procedures

Condition: During a review of petty cash expenditures at one elementary school, we noted that petty cash disbursements were not properly documented as to business purpose and other information. We also noted that petty cash fund reimbursements were not made in amounts equal to expenditures being reimbursed.

Recommendation: Internal control procedures for petty cash accounts should be strengthened.

Current Status: This recommendation was implemented during the year ended June 30, 2007. ***No*** similar finding was noted during the fiscal 2007 audit.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Health and Human Services
Fiscal 2006 Finding No. 3: Temporary Assistance for Needy Families
Pass-through entity: Michigan Department of Education
CFDA: 93.558
Award Number: BA-05-61001
Award Year Ended: September 30, 2005

Specific Requirement: Allowable Cost/Cost Principles

Condition: Although the grant was not overexpended in total, the grant was overexpended by budget line.

Recommendation: Federal program expenditures by budget line should be monitored closely for budget compliance and for budget lines requiring amendment.

Current Status: This recommendation was implemented during the year ended June 30, 2007. ***No*** similar finding was noted during the fiscal 2007 audit.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued

COMPLIANCE—Continued

U.S. Department of Education
Fiscal 2006 Finding No. 4: Title I
Pass-through entity: Michigan Department of Education
CFDA: 84.010
Award Number: 0615300506
Award Year Ended: September 30, 2006

Specific Requirement: Special Tests and Provisions for Schoolwide Plans

Condition: None of the schoolwide plans had the required component of preschool transition plans.

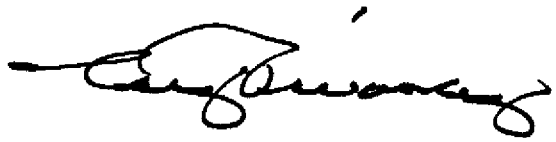
Recommendation: Title I schoolwide plans should be reviewed by program administrators for completeness of all required components.

Current Status: This recommendation was implemented during the year ended June 30, 2007. ***No*** similar finding was noted during the fiscal 2007 audit.

REPORTABLE CONDITIONS

There were ***no*** reportable conditions reported in relation to the major federal award programs.

Sincerely,



Gary Privasky
Executive Director of Administrative Services

349 W. Webster Avenue
Muskegon, MI 49440

CORRECTIVE ACTION PLAN

October 25, 2007

Michigan Department of Education
Lansing, Michigan

The Public Schools of the City of Muskegon respectfully submits the following Corrective Action Plan for the year ended June 30, 2007.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2007

The findings from the Schedule of Findings and Responses for the year ended June 30, 2007 provided ***no*** findings in either Section B or Section C. Accordingly, there are ***no*** matters requiring corrective action as shown below.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

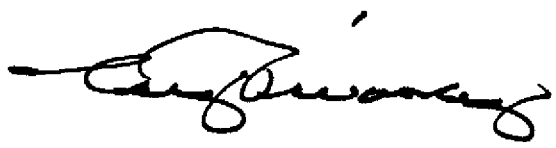
There were ***no*** compliance findings and ***no*** significant deficiencies in relation to the financial statement audit.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

There were ***no*** compliance findings and ***no*** significant deficiencies in relation to the major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Gary Privasky at (231) 720-2018.

Sincerely,



Gary Privasky
Executive Director of Administrative Services