

Public Schools of the City of
North Muskegon

REPORT ON FINANCIAL STATEMENTS
(with required supplemental information)

Year ended June 30, 2007

Public Schools of the City of
North Muskegon

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Public Schools of the City of
North Muskegon
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Public Schools of the City of North Muskegon is a K-12 School District located in the City of North Muskegon, Michigan. This Management's discussion and analysis provides an overall review of the Districts financial activities for the fiscal year ended June 30, 2007.

The discussion is a requirement of the GASB 34 and generally accepted accounting principles GAAP. These principles require the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Financial Highlights

During the past year, North Muskegon Schools continued to operate in a fiscally challenged environment, meeting our governmental reporting responsibilities and on-going challenges. Budgeted revenues are substantially dependent on state student and categorical aid which has been under pressure. None the less looking at the year as a whole we note the following Financial Highlights and Other Accomplishments:

1. Growth in fund Balance

Unique and, in some cases, unexpected events contributed to a positive increase to fund balance for the 2006/2007 school year.

State Aid

In late June, the State of Michigan declared that the budget shortfall would not require a reduction in State School Aid due to a one time transfer of excess assets from the State of Michigan Retirement Fund.

At Risk

An increase from 40 to 51 of At Risk student count allowed for special services to this population and, use of the increased income to offset At Risk expenses usually paid for by the General Fund.

Adult Education

Administration of this new program generated both interest income and administration fees to the District.

2. Adult Education

In cooperation with White Lake Community Education, North Muskegon has started an extensive program of Adult Education. The program served 76 students in their high school graduation requirements and continuing education programs.

Public Schools of the City of
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3. Other Community Services

- ° Driver's Education
- ° Child Care Services

The North Muskegon Board of Education and Administration made a commitment to offer our students driver's education services again this year. A low cost program enrolled 24 students in this program.

After-school daytime child care services were again offered in cooperation with White Lake Community Education services. This program helps both parents in the community and our schools of choice students by offering after school and daytime services to the community.

4. Elementary School Program

The Elementary School invested in a new cursive handwriting program this year. The program was started in conjunction with the new Language Arts program that was purchased last year by the school district.

5. Middle School/High School Media Services

The Middle School/High School Media Services staff time was increased to provide additional hours for students to complete homework and to access computers with supervision and direction.

6. Legal Expenditures

Legal Expenditures decreased dramatically in the 2006/2007 school year due to settlement of an out-of-court case.

Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

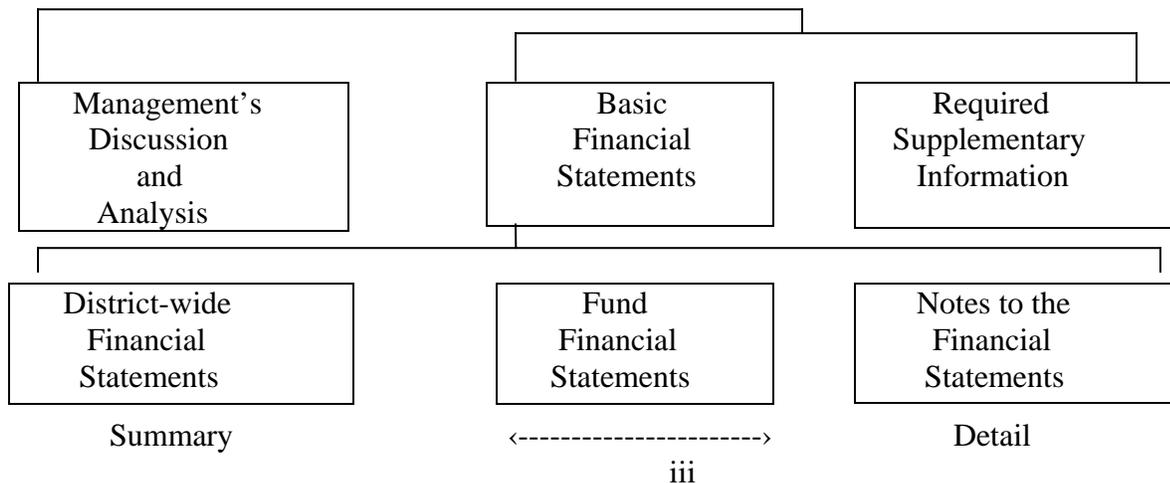
Overview of the Financial Statements

This annual report for the Public Schools of the City of North Muskegon consists of a series of financial statements, a management's discussion and analysis and required supplemental information.

- The district-wide financial statements provide short-term and long-term information about the Public Schools of the City of North Muskegon's overall financial status. The fund financial statements focus on the individual parts of the District. These statements report operations in greater detail than the district-wide statements.
- The governmental funds statements describes the basic services like regular and special education expenses in the short term in addition to what the district has in reserved for future spending.
- Proprietary funds statements are for those services that operate like a business, such as our athletic and cafeteria departments.
- A fiduciary fund, where North Muskegon acts as an agent or trustee is also included in these statements.

The financial statements also include notes and detailed information that more fully explains the information provided in the financial statements. The statements are then followed by required supplementary information that offers further support and explains how the financial statements compare with the budget year.

**Organization of the Public Schools of the City of North Muskegon
Annual Financial Report**



Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

The basic financial statements include two kinds of statements that present different views of the district.

The District-wide financial statements reports information about the District as a whole and about its activities in a manner that helps answer the question “Is the District better off or worse off as a result of the year’s activities overall.” The Statement of Net Assets and the Statement of Activities report information about the districts assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations.

- The Statement of Net Assets includes information on all assets and liabilities, both financial and capital, short-term and long-term.
- The Statement of Activities includes all revenues and expenses during the year regardless of when the cash is received or paid.

The Governmental Fund financial statements reports the activities the Public Schools of the City of North Muskegon’s General Fund – not of the District as a whole.

They include:

- The Balance Sheet
- The Statement of revenues, expenditures, and changes in fund balances.

These reports use modified accrual accounting and focus on current financial resources. On the balance sheet, asset and liabilities are expected to be used up during the current school year or soon thereafter and do not record long-term capital assets or liabilities. The Statement of revenues, expenditures and changes in fund balance reflects revenues for which cash is received during or soon after the end of the school budget year. Expenditures for goods and services used during the school year are recorded as a related liability or accounts payable.

In the 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.

Additional activities are reported in their relevant funds including: Special Revenue Funds for Food service and Athletic activities, Debt Service Funds, Capital Projects Funds, and Fiduciary Funds.

Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Financial Analysis of the District as a whole.

The net assets (deficit) of the district at June 30, 2007 amounted to 3 million. Figure A-1 shows a condensed breakdown of the net assets.

87% of the asset total reflects investment in capital assets, land, building and improvement and furniture and equipment.

The District uses capital assets to provide services to students; consequently, these assets are not available for future spending. Capital assets cannot be used to repay debt and cannot be liquidated to apply against liabilities because of the related debt.

Figure A-1 Public Schools of the City of North Muskegon Condensed Statement of Net Assets (Deficiency)	
	Governmental Activities
Current assets	\$ 2,651,364
Non-current assets	17,163,818
Total Assets	19,815,182
Current liabilities	3,080,559
Non-current liabilities	19,786,982
Total Liabilities	22,867,541
Net Assets (Deficiency)	
Invested in capital assets and projects, net of related debt	(3,458,263)
Restricted for debt service	202,752
Unrestricted	203,152
Net assets (deficiency)	\$ (3,052,359)

Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Summary of Changes in Net Assets

Depreciation Expense

The school District is required to maintain a detailed record of its Capital Assets, and to record annual depreciation expense and accumulated depreciation. Accumulated depreciation expense is a reduction in net assets. For the fiscal year ended June 30, 2007, accumulated depreciation was \$4,321,676. Depreciation expense recorded on a straight-line basis over the estimated useful lives of the assets was \$583,407.

Capital Outlay Acquisitions

Capital acquisitions for fiscal year ended June 30, 2007 were \$15,850 for building technology, furniture and equipment.

Long-Term Debt Changes

Additional School Bond Loan borrowing (625,644) was done to make debt principal payments accounting for substantially all of the long-term debt increase in the year. The interest cost associated with this borrowing (\$70,497) was added to loan principal.

Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Figure A-2
Public Schools of the City of North Muskegon
Statement of Change in Net Asset (Deficiency)

Results of Operations:

For the fiscal year ended June 30, 2007, the District wide results of operations were:

	<u>Amount</u>	<u>% of Total</u>
General Revenue:		
Property taxes levied for general operation	\$ 586,215	6.9
State of Michigan aid, unrestricted	6,129,835	71.8
Property taxes levied for debt service	1,057,227	12.4
Investment earnings	75,351	.9
Other	13,915	.2
	7,862,543	92.2
Program Revenue:		
Charges for services - local	222,273	2.6
Operating grants and contributions	447,120	5.2
	8,531,936	100.0
Expenses:		
Instruction and instructional support	5,023,571	57.1
Support services	1,832,011	20.8
Food services	204,669	2.3
Athletics	228,852	2.6
Interest on long-term debt	933,372	10.6
Depreciation and amortization (unallocated)	583,407	6.6
	8,805,882	100.0
Increase in Net Assets (Deficiency)	\$ (273,946)	

Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Property Taxes Levied for General Operations

➤ General Fund Property Taxes

General Fund property taxes represent 17.8578 mills on non-homestead properties that the district levies for operations. The 2006 taxable value for non-homestead was \$33,142,008. Ordinarily a school district levies 18 mills, but due to the headlee millage reduction act, the Public Schools of North Muskegon is only allowed by law to levy 17.8578 mills for a headlee reduction of .1422 mills. This is a permanently reduced rate until voted back by the people.

Article IX, Section 31 of the Michigan Constitution (commonly referred to as the "Headlee Amendment") requires that if the total value of existing taxable property (SEV) in a local taxing unit, exclusive of new construction and improvements, increases faster than the US Consumer Price Index from one year to the next, the maximum authorized tax rate for that local taxing unit must be reduced through a millage reduction fraction unless new millage is authorized by a vote of the electorate of the local taxing unit.

The effect of these laws is to limit property tax increases in Michigan. The School Districts voted non-homestead millage and headlee amendment override will expire with the December 1, 2010 levy.

➤ State of Michigan Aid, Unrestricted Foundation Allowance

The State of Michigan Aid, unrestricted is determined by the following variables:

- The State of Michigan State Aid Act. Annually the State of Michigan sets the per student foundation allowance. The North Muskegon foundation allowance for 2006-2007 was \$7,210 per student.
- Student Enrollment. Student membership is blended using 75% of the current year September count and 25% of the prior years February count.
- The District's non-homestead taxable value as of 5/23/06 was \$33,142,008. Non-homestead taxes of 7.73 mills are used to reduce voted debt in the debt retirement funds. As outlined in the Michigan Constitution of 1963, if this sum is less than sufficient to pay the principal and interest on the bonds at such time the principal and interest fall due, funds will be borrowed from the School Bond Loan Fund. North Muskegon borrowed \$625,644 in 2006/2007 to meet its obligation to its bondholders. PA 92 of 2005 requires repayment of outstanding school bond loans within 6 years of our final bond payment. Based on a review of the district's outstanding debt service requirements, millage rate, taxable value and projected taxable growth rate, North Muskegon will meet the repayment requirements of the State of Michigan PA 92.

Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Student Enrollment

The District's blended count for the 2006-2007 school year was 887.81. The following summarizes the blended counts of the past five years:

	<u>Student Blended Count</u>	<u>Student change from Prior year</u>
2006-2007	887.81	9.97
2005-2006	877.84	(4.14)
2004-2005	881.98	(27.44)
2003-2004	909.46	(3.37)
2002-2003	912.83	12.58

The Public Schools of the City of North Muskegon participates in the countywide Schools of Choice program.

Property Taxes Levied for Debt Service

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties, both homestead and non-homestead encompassed by the City of North Muskegon. The School District is 2 square miles and follows boundaries those of the City of North Muskegon.

The top ten taxpayers within the City of North Muskegon represent 3.75% of the School District's 2006 taxable valuation of \$138,070,462. Debt levies included voted debt for the 2003, 2005, and 2006 issues. A total of 7.73 mills were levied for debt service.

- The Public Schools of the City of North Muskegon has met the requirements of material compliance under Public Act 34 of 2001, to issue municipal securities under the act with approval from the Department of Treasury, State of Michigan.

Public Schools of the City of
North Muskegon
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

General Fund Budget & Actual Revenues & Expenditures

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 school year. As a matter of practice, the District amends its budget periodically through the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures.

	<u>July 1, 2006 Budget</u>	<u>June 30, 2007 Budget</u>	<u>Variance</u>
Revenues			
Property taxes	592,143	586,084	(6,059)
Other local sources	108,113	121,919	13,806
State sources	5,767,478	6,069,938	302,460
Federal sources	144,904	160,100	15,196
Other	<u>279,574</u>	<u>126,508</u>	<u>(153,066)</u>
Total Revenues	<u>6,892,212</u>	<u>7,064,549</u>	<u>172,337</u>
Expenditures			
Instruction	4,674,383	4,674,981	(598)
Support services	1,957,548	1,900,399	57,149
Special Ed center costs	80,500	340,640	(260,140)
Fund mod – athletics & café	154,170	153,479	691
Other	<u>29,546</u>	<u>24,270</u>	<u>5,276</u>
Total Expenditures	<u>6,896,147</u>	<u>7,093,769</u>	<u>(197,622)</u>

Public Schools of the City of
North Muskegon
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

FUND FINANCIAL STATEMENTS
General Fund Operational Budget
Comparison of Budget to Actual Results

<u>REVENUES</u>	<u>Initial Budget</u>	<u>Amended Budget</u>	<u>Actual Result</u>
Local	700,256	708,003	707,537
State	5,767,478	6,069,938	6,129,835
Federal	144,904	160,100	160,100
Transfers and other	279,574	126,508	188,562
	<hr/>	<hr/>	<hr/>
Total	<u>6,892,212</u>	<u>7,064,549</u>	<u>7,186,034</u>
		Variance from Initial Budget	4.3%
		Variance from Amended Budget	1.7%
 <u>EXPENDITURES</u>			
Instruction	4,674,383	4,674,981	4,669,593
Student/staff services	432,917	476,039	459,481
General administration	336,506	318,258	316,220
School administration	351,354	325,421	324,393
Business services	107,988	90,938	97,803
Maintenance	636,009	580,278	578,569
Transportation	92,774	109,465	106,783
Other costs	264,216	518,389	508,355
	<hr/>	<hr/>	<hr/>
Total	<u>6,896,147</u>	<u>7,093,769</u>	<u>7,061,197</u>
		Variance from Initial Budget	2.3%
		Variance from Amended Budget	(.46%)

The above variances between budget and actual are relatively insignificant considering all the unknowns that existed when the budget was prepared. These unknowns consist of such items as student count, employee contracts, state aid, staffing, and new accounting guidelines.

Public Schools of the City of
North Muskegon
FUND FINANCIAL STATEMENTS
COMPARATIVE RESULTS OF OPERATIONS
Actual

GENERAL OPERATING FUND

	For the year ended June 30		Favorable (Unfavorable)
	<u>2007</u>	<u>2006</u>	<u>Variance</u>
Revenues			
Taxes	\$ 586,215	\$ 557,650	\$ 28,565
Investment earnings	55,533	59,806	(4,273)
Other local sources	65,789	74,539	(8,750)
State restricted grants	6,129,835	5,708,516	421,319
Federal restricted grants	160,100	92,602	67,498
Transfers from athletic/cafe funds	22,300	10,000	12,300
Other governmental units - Sp. Ed.	159,200	254,695	(95,495)
Prior year adjustments	7,062	32,757	(25,695)
	<u>7,186,034</u>	<u>6,790,565</u>	<u>395,469</u>
Total			
Expenditures			
Instruction	4,669,593	4,527,177	(142,416)
Supporting services	1,832,011	1,834,834	2,823
Debt principal payments	21,667	30,530	8,863
Athletic and café subsidy	152,570	157,269	4,699
Interest	39,238	68,552	29,314
Payments to others for Sp. Ed., etc.	334,118	78,240	(255,878)
Capital outlay	12,000	71,187	59,187
	<u>7,061,197</u>	<u>6,767,789</u>	<u>(293,408)</u>
Total			
EXCESS REVENUE, NET	<u>\$ 124,837</u>	<u>\$ 22,776</u>	<u>\$ 102,061</u>

Public Schools of the City of
North Muskegon
COMPARATIVE REVENUE ANALYSIS
SELECTED ITEMS - GENERAL OPERATING FUND
Actual

GENERAL OPERATING FUND

	For the year ended June 30		
	<u>2007</u>	<u>2006</u>	<u>Change</u>
<u>Prior Year Adjustments</u>			
Special education	22,945	18,644	4,301
State aid	(10,562)	11,631	(22,193)
Workers compensation insurance adj.	(5,853)	854	(6,707)
EI Billback	-	1,628	(1,628)
IRS	532	-	532
Total	7,062	32,757	(25,695)
<u>Other Local Sources</u>			
Rent income	8,470	9,760	(1,290)
Contributions	8,437	13,500	(5,063)
Medicaid	21,110	30,063	(8,953)
Other - including discounts	2,165	1,815	350
Expense reimbursements	3,280	3,841	(561)
Drivers education	6,630	15,560	(8,930)
Special activities trip	15,697	-	15,697
Total	65,789	74,539	(8,750)
<u>Federal Restricted Grants</u>			
Title I	17,838	17,838	-
Title II-A	19,577	19,521	56
Title V	180	356	(176)
Drug free grant	1,684	2,481	(797)
Idea funds	120,638	49,954	70,684
Title II-D	183	333	(150)
Katrina grant	-	2,119	(2,119)
Total	160,100	92,602	67,498

Public Schools of the City of
North Muskegon
COMPARATIVE EXPENSES ANALYSIS
SELECTED ITEMS - GENERAL OPERATING FUND
SALARIES

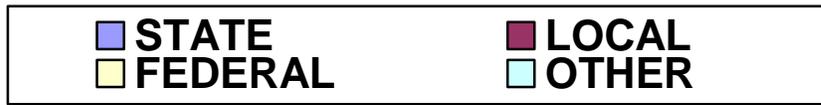
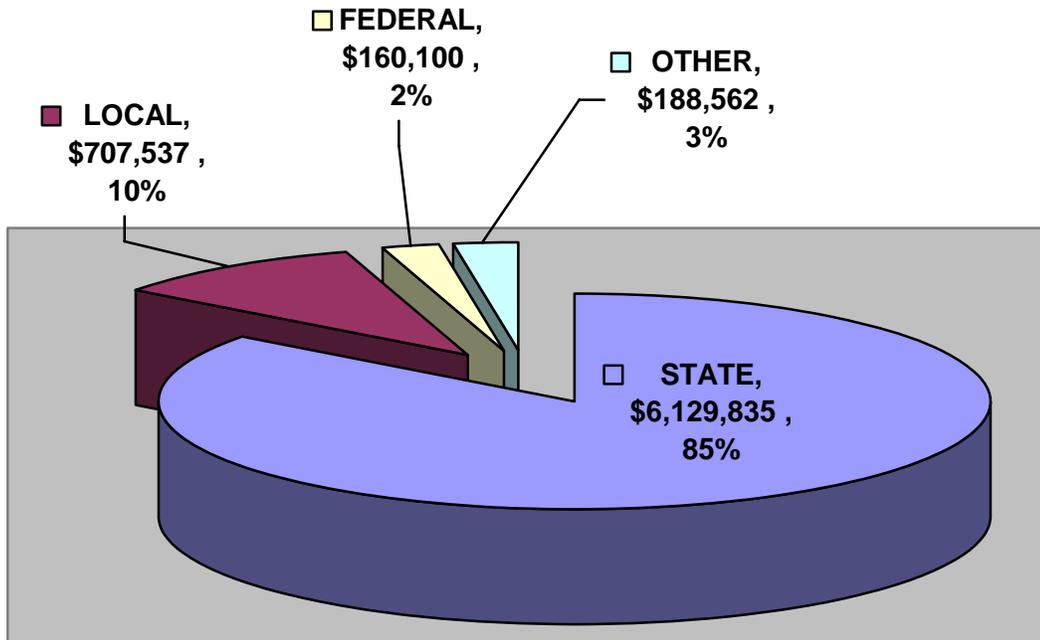
	For the year ended June 30		<u>Change</u>	<u>% Change</u>
	<u>2007</u>	<u>2006</u>		
Elementary school	\$ 1,109,511	\$ 1,080,012	\$ 29,499	3%
Middle school	594,989	547,112	47,877	9%
High school	802,206	791,194	11,012	1%
Special education	420,276	407,577	12,699	3%
Title I - at risk	59,475	58,387	1,088	2%
Drivers education	5,482	10,003	(4,521)	-45%
Guidance	104,603	99,819	4,784	5%
Psychologist	-	5,600	(5,600)	-100%
Noon aides & caller	16,527	16,082	445	3%
Support services	10,491	9,512	979	10%
Librarian and clerks	29,705	45,626	(15,921)	-35%
Technology supervisor	51,306	49,534	1,772	4%
Title II	11,030	13,722	(2,692)	-20%
General administration	173,242	177,629	(4,387)	-2%
School administration	199,405	210,655	(11,250)	-5%
Operations and maintenance	60,740	60,321	419	1%
Transportation	58,815	52,527	6,288	12%
	<u>\$ 3,707,803</u>	<u>\$ 3,635,312</u>	<u>\$ 72,491</u>	<u>2%</u>

Public Schools of the City of
North Muskegon
COMPARATIVE EXPENSES ANALYSIS
SELECTED ITEMS - GENERAL OPERATING FUND
EMPLOYEE BENEFITS

	For the year ended June 30			
	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>% Change</u>
Elementary school	\$ 575,152	\$ 550,662	\$ 24,490	4%
Middle school	306,423	306,170	253	0%
High school	464,204	440,941	23,263	5%
Special education	179,614	157,039	22,575	14%
Title I - at risk	17,967	13,543	4,424	33%
Drivers education	1,013	2,191	(1,178)	-54%
Guidance	50,746	56,243	(5,497)	-10%
Psychologist	-	1,343	(1,343)	-100%
Noon aides & callers	4,186	4,580	(394)	9%
Support services	2,236	2,805	(569)	-20%
Title II	2,640	3,577	(937)	-26%
Librarian and clerks	19,554	22,142	(2,588)	-12%
Technology supervisor	19,076	12,277	6,799	55%
General administration	90,120	86,921	3,199	4%
School administration	104,567	111,119	(6,552)	-6%
Operations and maintenance	47,629	51,795	(4,166)	-8%
Transportation	16,333	13,395	2,938	22%
	<u>\$ 1,901,460</u>	<u>\$ 1,836,743</u>	<u>\$ 64,717</u>	<u>4%</u>

Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

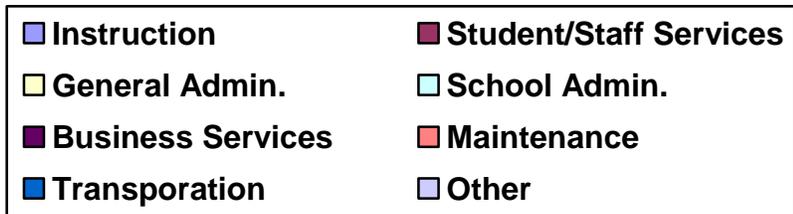
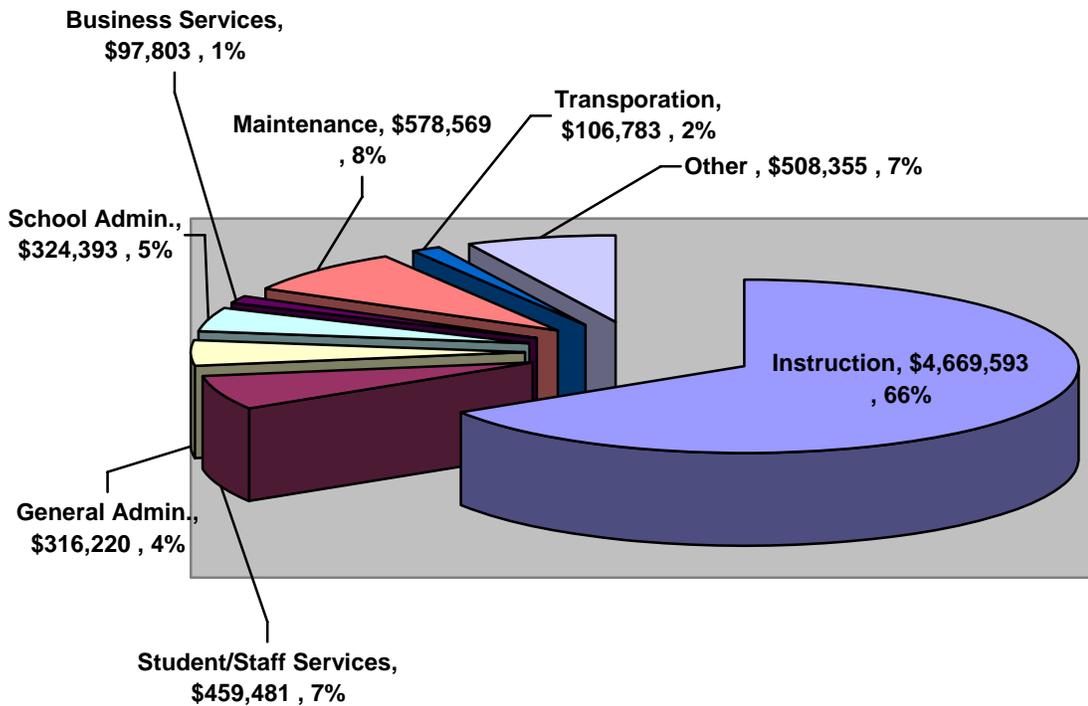
GENERAL FUND REVENUES
\$7,186,034



Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

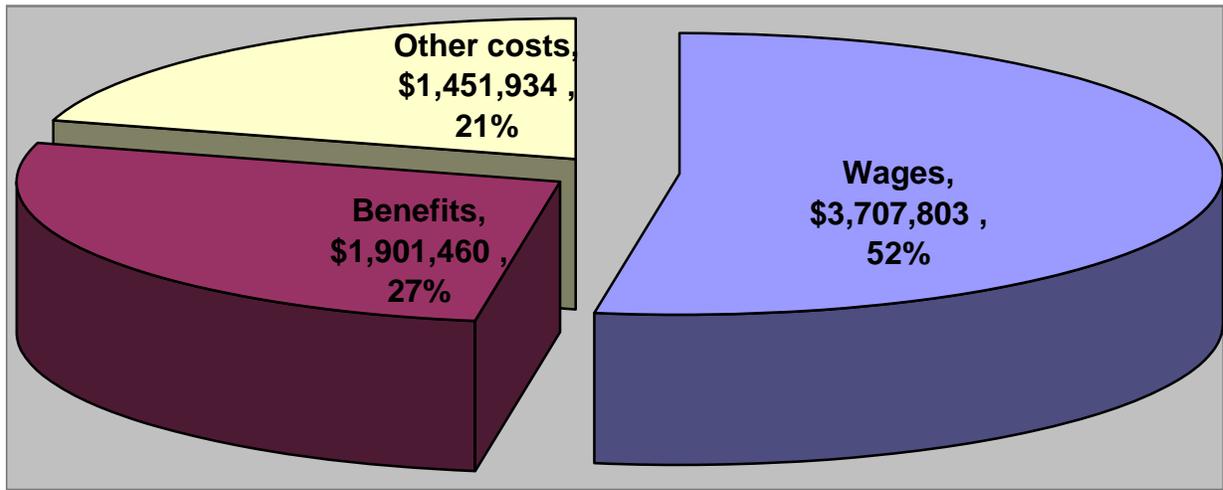
GENERAL FUND EXPENDITURES

\$7,061,197



Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

**GENERAL FUND EXPENDITURES BY
MAJOR COST COMPONENTS
\$7,061,197**



Public Schools of the City of
North Muskegon
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Original vs. Final Budget: Significant adjustments

Revenue:

Adult Education

This is the first year that the State of Michigan approved an adult education grant for North Muskegon Public Schools. We ran the program contractually with White Lake Community Education. We serviced a blended count of 76 students for the year ending June 30, 2007. This count brought in \$201,922 to the general fund after the official budget was set in the previous June.

Foundation Allowance

The State of Michigan School Aid Budget is not set until October 1st of each year. The budget for North Muskegon was estimated in the previous June as required by law. In June the budget was estimated on 861.33 students at a foundation allowance of \$7,170 per student. Our actual foundation allowance was granted for \$7,210 on a blended count of 887.81 full time equivalent students.

Equity and At Risk Categorical

A small increase in both the Equity payment and the At Risk categorical paid through State Aid contributed additional income to the general fund of \$34,575.

Adjustment to Prior Year

Income generated from prior year adjustments were less than expected resulting in a reduction to the final budget by \$44,650.

Incoming Transfers

A partial payment of our Act 18 income was received in April 2007 for \$34,118. Since this estimate was so low, the budget was decreased from \$156,000 to \$95,000. Final figures came in August 30, 2007 after the final budget was set.

Expenses:

Instructional Expenditures

Total instructional expenditures came in with a variance of less than \$600.

Public Schools of the City of
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Operational Expenditures

Operational expenditures changed mainly in the areas of natural gas and electrical usage. This was our first full year of using our new boilers and air conditioning systems. Natural gas usage declined dramatically by \$63,000 while electric service increased our costs by \$26,775.

Interest Expense

North Muskegon Schools "State Aid Note" borrowing decreased from \$1,845,000 to \$800,000. This reduced borrowing eliminated interest paid by \$24,284.

Transportation Expenses

The transportation department was expanded this year to pick up additional services to special education students. These services added additional cost to the budget totaling approximately \$20,000.

Outgoing Transfers

The majority of the difference of \$248,000 included the cost we paid to White Lake Community Education for running the Adult Education program. This expenditure is directly offset by the revenue generated by the program in the income section. An adjustment is expected in the 2007/2008 school year to fix a problem with the student count.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendents Office, the Public Schools of North Muskegon at (231) 719-4100.

INDEPENDENT AUDITOR'S REPORT

Board of Education
North Muskegon Public Schools
North Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities and funds of Public Schools of the City of North Muskegon (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's financial statements as listed in the table of contents. These financial statements are the responsibility of Public Schools of the City of North Muskegon's management. Our responsibility is to express an opinion of 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 principals 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 fund, and the aggregate remaining fund information of Public Schools of the City of North Muskegon, as of June 30, 2007, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

JOHN J. MAHONEY CPA, P.C.

Board of Education

Page 2

In accordance with Government Auditing Standards we have also issued our report dated October 30, 2007 on our consideration of Public Schools of the City of North Muskegon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The managements' discussion and analysis and budgetary comparison information on pages i through xx and 34 through 36, 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 supplementary information. However, we did not audit the information and express no opinion on it.

The statistical data included on pages A1 through A8 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Muskegon, Michigan

October 30, 2007

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

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

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

Compliance

As part of obtaining reasonable assurance about whether the Public Schools of the City of North Muskegon's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Public Schools of the City of North Muskegon in a separate letter dated October 30, 2007.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Public Schools of the City of North Muskegon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting.

Continued from preceding page:

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Public Schools of the City of North Muskegon in a separate letter dated October 30, 2007.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Education, 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.

Muskegon, Michigan
October 30, 2007

Public Schools of the City of
North Muskegon
STATEMENT OF NET ASSETS (DEFICIT)
June 30, 2007

	ASSETS	Governmental <u>activities</u>
CURRENT ASSETS		
Cash and cash equivalents		\$ 1,474,148
Due from other governmental units		1,170,783
Inventories		5,063
Prepaid expenses		1,370
Total current assets		<u>2,651,364</u>
NONCURRENT ASSETS		
Capital assets, net of depreciation		16,896,902
Bond issuance costs, net of amortization		266,916
Total noncurrent assets		<u>17,163,818</u>
Total assets		19,815,182
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
State aid loan		829,604
Accounts payable and accrued expenses		1,129,180
Unearned revenue		362,175
Bonds and notes payable, due within one year		732,100
Sick pay & early retirement incentives, due within one year		27,500
Total current liabilities		<u>3,080,559</u>
NONCURRENT LIABILITIES		
Bonds and notes payable, less amounts due within one year		19,639,747
Sick pay and early retirement incentives, less amounts due within one year		147,235
Total noncurrent liabilities		<u>19,786,982</u>
Total liabilities		22,867,541
NET ASSETS		
Invested in capital assets, net of related debt		(3,474,945)
Restricted for:		
Debt service		202,752
Capital projects		16,682
Unrestricted		203,152
Total net assets (deficit)		<u><u>\$ (3,052,359)</u></u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of
North Muskegon
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

		Program Revenue		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for services	Operating grants and contributions	Governmental activities
Functions/Programs				
Governmental activities				
Instruction	\$ 5,023,571	\$ 6,630	\$ 371,606	\$ (4,645,335)
Support services	1,832,011	-	-	(1,832,011)
Food services	204,669	136,647	74,743	6,721
Athletics	228,852	78,996	771	(149,085)
Interest on long-term debt	933,372	-	-	(933,372)
Unallocated depreciation and amortization	583,407	-	-	(583,407)
	<u>\$ 8,805,882</u>	<u>\$ 222,273</u>	<u>\$ 447,120</u>	<u>\$ (8,136,489)</u>
General revenues				
Taxes				
Property taxes, levied for general purposes				586,215
Property taxes, levied for debt service				1,057,227
Grants & contributions not restricted to specific programs				6,129,835
Investment earnings				75,351
Miscellaneous				13,915
				<u>7,862,543</u>
Change in net assets (deficit)				(273,946)
Net Assets (Deficit) at July 1, 2006				<u>(2,778,413)</u>
Net Assets (Deficit) at June 30, 2007				<u>\$ (3,052,359)</u>

The accompanying notes are an integral part of this statement

PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	GOVERNMENT FUND TYPES				TOTAL GOVERNMENTAL FUNDS
	GENERAL	SCHOOL SERVICES	DEBT RETIREMENT	CAPITAL PROJECTS	
ASSETS:					
Cash and cash equivalents	\$ 1,228,210	\$ 10,510	\$ 202,752	\$ 32,676	\$ 1,474,148
Due from other governmental units	1,168,301	2,482	-	-	1,170,783
Inventory - textbooks	1,500	-	-	-	1,500
Inventory - food	-	3,563	-	-	3,563
Prepaid expense	1,370	-	-	-	1,370
TOTAL ASSETS	2,399,381	16,555	202,752	32,676	2,651,364
LIABILITIES AND FUND BALANCE					
Note payable	829,604	-	-	-	829,604
Accounts payable	38,211	-	-	15,994	54,205
Salaries and benefits payable	649,639	3,408	-	-	653,047
Accrued expenses	235,049	-	-	-	235,049
Due to other governmental units	60,360	-	-	-	60,360
TOTAL LIABILITIES	1,812,863	3,408	-	15,994	1,832,265
FUND BALANCE					
Reserved for:					
Capital projects	-	-	-	16,682	16,682
Debt service	-	-	202,752	-	202,752
Unreserved	586,518	13,147	-	-	599,665
TOTAL FUND BALANCE	586,518	13,147	202,752	16,682	819,099
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,399,381	\$ 16,555	\$ 202,752	\$ 32,676	\$ 2,651,364

The accompanying notes are an integral part of this statement.

Public Schools of the City of
North Muskegon
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS (DEFICIT)
June 30, 2007

Total fund balance - governmental funds		\$ 819,099
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Amounts reported for governmental activities in the Statement of Net Assets (Deficit) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

Cost of capital assets	21,218,578	
Accumulated depreciation	<u>(4,321,676)</u>	16,896,902

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	308,221	
Accumulated amortization	<u>(41,305)</u>	266,916

Bond premiums, net of discounts, are not deferred in the governmental funds		(362,175)
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Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in governmental funds.

Bonds payable	(18,486,400)	
Early retirement incentive	(85,000)	
Compensated absences	(62,235)	
Loans	<u>(1,912,947)</u>	(20,546,582)

Accrued interest in governmental activities is not reported in the governmental funds		<u>(126,519)</u>
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Net assets (deficit) of governmental activities in the Statement of Net Assets (Deficit)		<u><u>\$ (3,052,359)</u></u>
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PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	GOVERNMENT FUND TYPE				TOTAL GOVERNMENTAL FUNDS
	GENERAL	SCHOOL SERVICE	DEBT RETIREMET	CAPITAL PROJECTS	
REVENUES:					
Local sources:					
Taxes	\$ 586,215	\$ -	\$ 1,057,227	\$ -	\$ 1,643,442
Charges for services, etc.	-	215,643	-	-	215,643
Investment earnings	55,533	-	13,142	2,383	71,058
Other local sources	65,789	771	-	-	66,560
State restricted grants	6,129,835	8,091	-	-	6,137,926
Federal restricted grants	160,100	66,652	-	-	226,752
Other financing sources					
Fund modification	22,300	152,570	50,499	-	525,369
Special Ed. act 18	159,200	-	-	-	159,200
Other transactions	7,062	-	-	-	7,062
Loans	-	-	625,644	-	625,644
TOTAL	7,186,034	443,727	2,046,512	2,383	9,678,656
EXPENDITURES:					
Education:					
Instructions	4,669,593	-	-	-	4,669,593
Supporting services	1,832,011	-	-	-	1,832,011
Food service	-	204,669	-	-	204,669
Athletics	-	228,852	-	-	228,852
Capital outlay	12,000	3,850	-	-	15,850
Debt principal payment	21,667	-	700,000	-	721,667
Fund modification	152,570	22,300	350,499	-	525,369
Interest	39,238	-	851,919	-	891,157
Other	334,118	-	910	-	335,028
TOTAL	7,061,197	459,671	1,903,328	-	9,424,196
EXCESS REVENUES (EXPENDITURES)	124,837	(15,944)	143,184	2,383	254,460
FUND BALANCE July 1, 2006	461,681	29,091	59,568	14,299	564,639
FUND BALANCE June 30, 2007	<u>\$ 586,518</u>	<u>\$ 13,147</u>	<u>\$ 202,752</u>	<u>\$ 16,682</u>	<u>\$ 819,099</u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of
North Muskegon
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

Net change in fund balances - total governmental funds		\$ 254,460
Amounts reported for governmental activities in the Statement of Activities are different because:		
Proceeds from loans are an other financing source in the governmental funds but the proceeds increase long-term debt in the Statement of Net Assets.		(625,644)
Governmental funds report outlays for capital assets and bond issuance as expenditures		
In the Statement of Activities these costs are written off over time:		
Depreciation expense	(583,407)	
Capital outlay	15,850	
Amortization expense, net	4,293	(563,264)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets (Deficit).		721,667
Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		(42,215)
Increases in 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.		(18,950)
Change in net assets (deficit) of governmental activities		\$ (273,946)

The accompanying notes are an integral part of this statement.

Public Schools of the City of
North Muskegon
STATEMENT OF FIDUCIARY FUNDS
Agency Funds
June 30, 2007

ASSETS

Cash and cash equivalents	<u>\$ 128,330</u>
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LIABILITIES

Student activities funds	<u>\$ 128,330</u>
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The accompanying notes are an integral part of this statement.

PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON
 COMBINING BALANCE SHEET - SCHOOL SERVICE FUND
 June 30, 2007

	School Service		
	Cafeteria	Athletics	Combined
ASSETS			
Cash	\$ 9,288	\$ 1,222	\$ 10,510
Inventories	3,563	-	3,563
Due from other government units	1,472	1,010	2,482
	\$ 14,323	\$ 2,232	\$ 16,555
TOTAL ASSETS			
	\$ 14,323	\$ 2,232	\$ 16,555
 LIABILITIES			
Liabilities	3,408	-	3,408
	3,408	-	3,408
TOTAL LIABILITIES			
	3,408	-	3,408
 FUND BALANCE			
	10,915	2,232	13,147
	10,915	2,232	13,147
 TOTAL LIABILITIES AND FUND BALANCE			
	\$ 14,323	\$ 2,232	\$ 16,555

PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON
STATEMENT OF REVENUES AND EXPENDITURES AND FUND BALANCE
SCHOOL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2007

REVENUES:

Food Services - Cafeteria		
Student lunches and milk, etc.	\$ 136,647	
Federal aid	66,652	
State aid	8,091	211,390
Athletic Activities		
Admissions and program sales, etc.	46,875	
Contributions	771	
Tournaments	5,160	
Pay to participate fees	26,961	
Incoming transfers from general fund	152,570	232,337
TOTAL REVENUES		443,727

EXPENDITURES

Food Services - Cafeteria		
Purchases - food and milk	94,859	
Salaries and fringes	86,248	
Miscellaneous supplies, etc.	13,939	
U.S.D.A. donated commodities	9,131	
Equipment repairs	4,342	
Transfers to general fund	10,000	218,519
Athletic Activities		
Salaries and retirement	153,270	
Supplies and equipment	8,505	
Contract services, etc.	28,313	
Transfers to general fund	12,300	
Officials	17,575	
Grounds	21,189	241,152
TOTAL EXPENDITURES		459,671
EXCESS (EXPENDITURES)		(15,944)
FUND BALANCE - July 1, 2006		29,091
FUND BALANCE - June 30, 2007		\$ 13,147

PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON
 COMBINING BALANCE SHEET - DEBT FUND
 June 30, 2007

	GENERAL OBLIGATION BONDS				
	2006 ISSUE	2005 ISSUE	2003 ISSUE	1996 ISSUE	COMBINED
	<u>ASSETS</u>				
Cash and cash investments	\$ 128,759	\$ 64,098	\$ 9,895	\$ -	\$ 202,752
TOTAL ASSETS	128,759	64,098	9,895	-	202,752
	<u>LIABILITIES</u>				
Fund Balance	128,759	64,098	9,895	-	202,752
TOTAL LIABILITIES AND FUND BALANCE	\$ 128,759	\$ 64,098	\$ 9,895	\$ -	\$ 202,752

PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON
 COMBINING STATEMENT OF REVENUE AND EXPENDITURES AND FUND BALANCE - DEBT FUND
 June 30, 2007

	GENERAL OBLIGATION BONDS				
	2006 ISSUE	2005 ISSUE	2003 ISSUE	1996 ISSUE	COMBINED
REVENUES					
Taxes	\$ 292,308	\$ 492,920	\$ 271,999	\$ -	\$ 1,057,227
Interest earned	5,230	4,512	3,387	13	13,142
Loan - school bond fund	-	-	625,644	-	625,644
Fund modification	245,657	104,842	-	-	350,499
TOTAL REVENUES	543,195	602,274	901,030	13	2,046,512
EXPENDITURES					
Debt principal payment	-	305,000	395,000	-	700,000
Interest on debt	414,429	256,845	180,645	-	851,919
Paying agent fees, etc.	200	260	450	-	910
Fund modification	-	-	346,357	4,142	350,499
TOTAL EXPENDITURES	414,629	562,105	922,452	4,142	1,903,328
Net Revenue (Expenditures)	128,566	40,169	(21,422)	(4,129)	143,184
Fund Balance July 1, 2006	193	23,929	31,317	4,129	59,568
Fund Balance June 30, 2007	<u>\$ 128,759</u>	<u>\$ 64,098</u>	<u>\$ 9,895</u>	<u>\$ -</u>	<u>\$ 202,752</u>

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. 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 of fiscal matters.

2. 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 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 assets.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2. District-wide and Fund Financial Statements - Continued

District-wide Financial Statements - Continued

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.

Fund financial statements – Fund financial statements are provided for all governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Because of public interest and consistency no distinction between major and non-major funds has been made. Accordingly, all 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 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.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2. District-wide and Fund Financial Statements - Continued

Governmental Funds - Continued

- The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic 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 fund accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

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 School District has no Trust funds.

- 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).

3. 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 eligible requirements imposed by the provider have been met.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – 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, 2006 the foundation allowance was based on pupil membership counts taken in September 2005 and February 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.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. Other Accounting Policies

Deposits 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.

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.

Property Taxes

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

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

<u>Fund</u>	<u>Mills</u>
General Fund – Non-homestead	17.86
Debt service fund – Homestead and non-homestead	7.73

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are 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. Unused inventory included in the School Service Fund at year end was \$3,563.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. Other Accounting Policies - Continued

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 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 the other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets and Depreciation

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.

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

Building and improvements	50 years
Buses and other vehicles	10 years
Furniture and other equipment	10 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.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. Other Accounting Policies – Continued

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 only when there is a specific due date or, if the retirement date is before year end, when there is not a specified legally enforceable due date.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

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 at face amount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. Other Accounting Policies – Continued

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.
- **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 statement and accompanying notes. Actual results may differ from those estimates.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual budgets 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 the 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 Assistant Superintendent is authorized to transfer budgeted amounts between 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.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District did not have significant expenditure budget variances

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE C – DEPOSITS AND INVESTMENTS – CREDIT RISK

Deposits

At year end, the bank carrying amounts of the School District's deposits were \$1,861,201. The book balance at year end was \$1,473,948 of which \$100,000 was covered by federal depository insurance and \$1,373,948 was uninsured and uncollateralized. The School District had \$200 of petty cash on hand. The School District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the School District, subject to minimal risk. The School District utilizes pooled cash accounts for some of its funds.

Investments – The School District has no investments.

NOTE D – CAPITAL ASSETS

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital Assets, not being depreciated:				
Land	\$ 420,000	-	-	\$420,000
Total capital assets not being depreciated	420,000	-	-	420,000
Capital Assets being depreciated:				
Buildings & improvements	17,619,285	-	-	17,619,285
Equipment	2,973,654	15,850	73,594	2,915,910
Vehicles	263,383	-	-	263,383
Total capital assets being depreciated	20,856,322	15,850	73,594	20,798,578
Less Accumulated Depreciation:				
Building & improvements	2,348,303	396,684	-	2,744,987
Equipment	1,263,219	173,379	73,594	1,363,004
Vehicles	200,341	13,344	-	213,685
Total accumulated depreciation	3,811,863	583,407	73,594	4,321,676
Total capital assets being depreciated, net	17,044,459	567,557	-	16,476,902
Capital assets, net	\$17,464,459	\$567,557	\$ -	\$16,896,902

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE E – BOND ISSUANCE COSTS

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deduction</u>	<u>Balance</u> <u>June 30, 2007</u>
Bond Issuance Costs:				
2006	\$ 123,647	\$ -	\$ -	\$ 123,647
2005	100,655	-	-	100,655
2003	83,919	-	-	83,919
	<u>\$ 308,221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 308,221</u>
Total Bond Issuance Costs				
Less Accumulated Amortization:				
2006	2,290	4,580	-	6,870
2005	10,065	6,710	-	16,775
2003	11,267	6,393	-	17,660
	<u>23,622</u>	<u>17,683</u>	<u>-</u>	<u>41,305</u>
Total Accumulated Amortization				
	<u>\$ 284,599</u>	<u>\$ 17,683</u>	<u>\$ -</u>	<u>\$ 266,916</u>
Total Bond Issuance Costs, Net				

Amortization

Amortization expense has been charged as unallocated amortization.

NOTE F – SHORT-TERM DEBT

State Aid Loan

The State of Michigan (state) school aid anticipation note payable issued on August 18, 2006 was paid on August 20, 2007 plus interest at the rate of 3.68 percent per annum. The School District pledged, for payment of the note, the amount of state school aid received plus the full faith, credit, and resources of the School District.

Summary of and Changes in Short-Term Debt

	<u>Balance</u> <u>July 1, 2006</u>	<u>Year ended June 30, 2007</u>		<u>Balance</u> <u>June 30, 2007</u>
		<u>Additions</u>	<u>Retirements</u>	
2006/2007 3.68%				
State aid anticipation note	\$ -	\$829,604	\$ -	\$829,604
2005/2006 2.92%				
State aid anticipation note	1,898,724	-	1,898,724	-
	<u>\$1,898,724</u>	<u>\$829,604</u>	<u>\$1,898,724</u>	<u>\$829,604</u>

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE G – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Obligations

There were no interfund balances.

Interfund Transfers

The General Fund transferred \$152,570 to the Athletics Fund. The Athletics Fund and Cafeteria Fund transferred \$12,300 and \$10,000 respectively to the General Fund during the year.

NOTE H – 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 Fund loans, compensated absences, and termination benefits.

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:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due within</u> <u>one year</u>
Governmental activities:					
Bonds	\$19,186,400	\$ -	\$ 700,000	\$18,486,400	\$710,000
Other obligations	<u>1,366,758</u>	<u>739,591</u>	<u>46,167</u>	<u>2,060,182</u>	<u>49,600</u>
	<u>\$20,553,158</u>	<u>\$ 739,591</u>	<u>\$ 746,167</u>	<u>\$20,546,582</u>	<u>\$759,600</u>

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE H – LONG-TERM OBLIGATIONS - Continued

Summary of Long-term Obligations – Continued

Bonds payable at June 30, 2007 is comprised of the following issues:

2006 Refunding issue due in annual installments of \$0 - \$565,000 through May 1, 2033; interest at 4.0% to 4.4%	\$ 8,110,000
2005 Refunding issue due in annual installments of \$25,000 to \$480,000 through November 2020; interest at 2.5 to 5.0%	5,915,000
\$13,440,000 serial bonds issued in 2003 and due in annual installments of \$300,000 to \$500,000 through May 1, 2033; interest at 2.0% to 5.4% - partially refunded.	<u>4,440,000</u>
Subtotal	18,465,000
 \$52,214 Durant Non-Plaintiff serial bonds due in annual installments of \$12,302 to \$4,715 through May 15, 2013; interest at 4.76%	 <u>21,400</u>
Total Bonded Debt	 <u><u>\$18,486,400</u></u>

The Durant Non-Plaintiff bond, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. Payments on this debt have been deferred until the year 2009.

The Durant Non-Plaintiff bond is a self-liquidating bond and is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations. This Bond is payable both as to principal and interest solely from the State Aid payments described in the preceding paragraph.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE H – LONG-TERM OBLIGATIONS - Continued

The annual requirements of principal and interest to amortize debt outstanding as of June 30, 2006 follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	710,000	759,114	1,469,114
2009	740,000	741,364	1,481,364
2010	755,000	719,614	1,474,614
2011-15	4,350,000	3,056,920	7,406,920
2016-20	5,050,000	2,067,030	7,117,030
2021-25	2,725,000	1,217,720	3,942,720
2026-30	2,615,000	668,004	3,283,004
2031-33	<u>1,520,000</u>	<u>133,286</u>	<u>1,653,286</u>
	18,465,000	9,363,052	27,828,052
School Bond Loan Fund	1,836,838	-	1,836,838
Durant Bond	21,400	4,265	25,665
EPA Loan	36,334	-	36,334
Compensated absences	62,235	-	62,235
Early retirement incentives	85,000	-	85,000
Installment debt	<u>39,775</u>	<u>2,685</u>	<u>42,460</u>
	<u>\$20,546,582</u>	<u>\$9,370,002</u>	<u>\$29,916,584</u>

The Debt Retirement Funds have \$202,752 available to service the general obligation bonds. Interest expenditures for all long-term debt for the year ended June 30, 2007 total \$924,195.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE I – 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 or MPSERS. That report may be obtained by writing to or calling:

Office Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing, MI 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.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE I – 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 17.74 percent of payroll. 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, was \$798,193 which consisted of \$680,120 from the District and \$118,073 from employees.

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.

NOTE J – COMMITMENTS AND CONTINGENCIES

Federal Programs – The School District participates in federally-assisted 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 K – OTHER INFORMATION

Economic Dependence

Prior year's 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 85 percent of General Fund revenues.

Public Schools of the City of
North Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE K – OTHER INFORMATION – Continued

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 L – SUBSEQUENT EVENT

On August 20, 2007 the School District received the proceeds of a \$900,000 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 SUPPLEMENTAL INFORMATION

Public Schools of the City of
North Muskegon
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2007

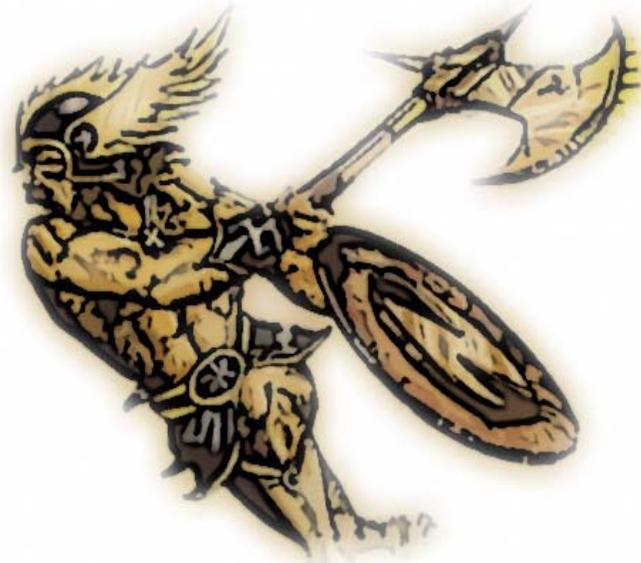
	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUE				
Local sources				
Property taxes	\$ 592,143	\$ 586,084	\$ 586,170	\$ 86
Interest Delinquent Taxes	273	50	45	(5)
Investment earnings	50,000	54,662	55,533	871
Participation Fees	15,840	6,630	6,630	-
Rental Income	10,500	10,000	8,470	(1,530)
Donations/Strings/Other	1,000	9,436	8,437	(999)
Reimbursements	2,500	5,696	3,280	(2,416)
Medicaid	27,000	20,500	21,110	610
Special activities trip	-	12,445	15,697	3,252
Miscellaneous	1,000	2,500	2,165	(335)
Total local sources	700,256	708,003	707,537	(466)
State sources				
Foundation - General	5,518,233	5,652,786	5,652,786	-
Foundation - Special Ed	187,859	174,172	174,172	-
At Risk	55,218	64,165	64,160	(5)
Durant	5,221	5,221	5,221	-
Equity payment	-	20,420	20,420	-
Pers credit	-	(106,868)	-	106,868
Bus driver safety	947	-	-	-
Adult education	-	248,890	201,924	(46,966)
Math/science	-	11,152	11,152	-
Total state sources	5,767,478	6,069,938	6,129,835	59,897

Public Schools of the City of
North Muskegon
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - CONTINUED
General Fund
For the year ended June 30, 2007

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES - Continued				
Federal sources				
Title I	\$ 17,838	\$ 17,838	\$ 17,838	\$ -
Title II A	19,521	19,577	19,577	-
Title II D	333	183	183	-
Title V	356	180	180	-
Drug Free	2,481	1,684	1,684	-
IDEA	104,375	120,638	120,638	-
Total federal sources	<u>144,904</u>	<u>160,100</u>	<u>160,100</u>	<u>-</u>
Incoming transfers/other				
MAISD - ACT 18	156,000	95,000	159,200	64,200
MAISD - transportation	3,408	-	-	-
EI Billback	25,000	1,158	-	(1,158)
Miscellaneous	20,166	-	1,158	1,158
Prior Year Adjustment	50,000	5,350	5,904	554
Fund modification	25,000	25,000	22,300	(2,700)
Total incoming transfers/other	<u>279,574</u>	<u>126,508</u>	<u>188,562</u>	<u>62,054</u>
Total general fund revenues	6,892,212	7,064,549	7,186,034	121,485
EXPENDITURES				
Elementary	1,710,908	1,759,532	1,758,724	808
Middle school	852,786	915,141	912,177	2,964
High school	1,414,780	1,296,990	1,296,988	2
Special Ed	622,838	621,315	619,701	1,614
At Risk	73,071	82,003	82,003	-
Guidance	163,822	161,690	161,507	183

Public Schools of the City of
North Muskegon
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - CONTINUED
General Fund
For the year ended June 30, 2007

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
EXPENDITURES - Continued				
Psychologist	\$ 55,938	\$ 76,940	\$ 65,334	\$ 11,606
Other support	20,967	34,285	34,212	73
Instructional improvement	21,979	24,467	21,898	2,569
Library services	48,270	51,462	51,074	388
Technology	107,927	113,341	111,603	1,738
Title II A&D, Title V	14,014	13,854	13,853	1
General administration	336,506	318,258	316,220	2,038
Office of the principals	351,354	325,421	324,393	1,028
Internal services	40,416	48,833	47,982	851
Interest expense	55,332	31,385	39,238	(7,853)
Operations & maintenance	636,009	580,278	578,569	1,709
Transportation	92,774	109,465	106,783	2,682
MAISD data processing	12,240	10,720	10,583	137
Outgoing Transfers	80,500	340,640	334,118	6,522
Loan principal	29,546	24,270	21,667	2,603
Athletics	154,170	153,479	152,570	909
Total expenditures	<u>6,896,147</u>	<u>7,093,769</u>	<u>7,061,197</u>	<u>32,572</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (3,935)</u>	<u>\$ (29,220)</u>	124,837	<u>\$ 154,057</u>
Fund balances at July 1, 2006			<u>461,681</u>	
Fund balances at June 30, 2007			<u>\$ 586,518</u>	



NORTH MUSKEGON PUBLIC SCHOOLS
1600 Mills Avenue
North Muskegon Public Schools
231-719-4100
231-744-0739 Fax

CONTINUING DISCLOSURE
2006/2007

Administrative Staff

John L. Weaver, Superintendent of Schools
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FORM OF
CONTINUING DISCLOSURE AGREEMENT

NORTH MUSKEGON PUBLIC SCHOOLS
COUNTY OF MUSKEGON
STATE OF MICHIGAN

GENERAL FINANCIAL INFORMATION

PROPERTY VALUATIONS

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

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

Historical Valuation

<u>Year</u>	<u>Homestead</u>	<u>Non-Homestead</u>	<u>Total Taxable Valuation</u>
2007	109,248,677	35,257,211	144,505,888
2006	104,928,454	33,142,008	138,070,462
2005	100,300,658	31,752,512	132,053,170
2004	95,840,566	29,676,337	126,376,329
2003	93,678,598	26,313,763	120,668,038
2002	90,024,640	26,294,951	116,502,768
2001	85,628,523	24,421,945	110,043,333
2000	80,971,381	21,851,753	102,763,002

MAJOR TAXPAYERS

The top ten taxpayers in the School District and their 2006 Taxable Valuation and Industrial Facilities Tax Valuation are as follows:

<u>Taxpayer</u>	<u>Product/Service</u>	<u>Taxable Valuation</u>
Marathon Oil	Oil Refinery	\$1,904,652
Beverly Hills Apartments	Apartments	1,616,002
Jestco Properties LLC	Consultation	1,531,420
DTE Energy	Utility	848,300
Consumer's Energy	Utility	786,078
Newcorp Inc.	Heavy Eqpt./trucking	820,655
Pointe Marine Assoc	Marina	657,374
Whitehall Properties	Real Estate	638,703
Ericksons, Inc	Heavy Equipment	492,000
Marathon Oil Co	Fuel	<u>490,200</u>
TOTAL		<u>\$9,785,384</u>

The Taxable Valuations of the above taxpayers represent 6.77% of the School District's 2007 Taxable Valuation of \$144,505,888.

CONSTITUTIONAL MILLAGE ROLLBACK

Article IX, Section 31 of the Michigan Constitution requires that if the total value of existing taxable property (State Equalized Valuation) in a local taxing unit, exclusive of new construction and improvements, increases faster than the U.S. Consumer Price Index from one year to the next, the maximum authorized tax rate for that local taxing unit must be reduced through a Millage Reduction Fraction unless new millage is authorized by a vote of the electorate of the local taxing unit.

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

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

North Muskegon Public Schools

	2007	2006	2005	2004	2003
Voted (non-homestead)	17.8524	17.8578	17.7626	17.9820	17.9820
Debt	7.7300	7.7300	7.7300	7.7300	7.0000
TOTAL HOMESTEAD	7.0000	7.0000	7.0000	7.0000	7.0000
TOTAL NON-HOMESTEAD	24.8524	24.8578	24.7626	24.9820	24.9820

The School District's voted non-homestead millage expires with the December 1, 2006 levy.

Other Major Taxing Units

	2006	2005	2004
State Education Fund ¹	6.0000	6.0000	6.0000
Muskegon County	6.7757	6.7757	6.7957
City of North Muskegon	12.4026	12.4026	12.6339
Muskegon County I/S/D	3.7580	3.7580	3.7580
Muskegon Community College	2.2037	2.2037	2.2037

O Pursuant to school finance reform legislation which became effective in March 1994, the State of Michigan levies 6.00 mills for school operating purposes on all homestead and non-homestead property located within the School District. The School District levies 18.0000 mills of voted operating millage on non-homestead property and authorized debt millage on all homestead and non-homestead property located within the School District. See "SOURCES OF SCHOOL OPERATING REVENUE" herein. Pursuant to 2002 Public Act 244 (the "Act"), for the year 2003 only, the 6 mill State Education tax levy was reduced to 5 mills and the levy has been permanently moved forward to July 1 from December 1.

Source: Muskegon County

STATE AID PAYMENTS

The School District's primary source of funding for operating costs is the State aid foundation allowance per pupil. The foundation guarantee was set from \$6,700 to \$8,000 per pupil for the fiscal year 2006/07. In future years, this allowance may be adjusted by an index based upon the change in revenues to the state school aid fund and the change in the total number of pupils statewide. See "SOURCES OF SCHOOL OPERATING REVENUE" herein for additional information.

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

<u>Year</u>	<u>Total</u>	<u>State Amount Received per Pupil</u>	<u>Foundation Allowance per Pupil</u>
2006/07	6,031,057	\$6,793.18	\$7,210.00
2005/06	5,716,009	6,349.16	7,000.00
2004/05	5,607,054	6,203.38	6,825.00
2003/04	5,723,271	6,285.00	6,825.00
2002/03	5,738,672	6,265.48	6,825.00
2001/02	5,666,176	6,118.16	6,625.00
2000/01	5,487,544	5,885.02	6,325.00

Source: Michigan Department of Education and School District
2006/2007 was the first year NMPS offered an Adult Education program which generated \$201,922 in new money, in addition a credit adjustment of \$106,868 was made to the foundation allowance and offset with a MSPERS credit.

TAX LEVIES AND COLLECTIONS

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

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

<u>Levy Year</u>	<u>Operating Tax Levy</u>	<u>Collections to March 1 of Following Year</u>	<u>Collections plus Funding To June 30 of Following Year</u>		
2006	586,400	545,212	92.97	586,400	100.00%
2005	557,377	529,414	94.98	557,377	100.00%
2004	535,101	510,499	95.40	535,101	100.00
2003	490,231	450,253	91.84	490,231	100.00
2002	475,563	463,721	97.51	475,563	100.00
2001	443,160	413,797	93.37	443,160	100.00

Source: School District

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

PENSION FUND

For the period October 1 through September 30 the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPSERS") which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. The School District's estimated contribution to MPSERS for the 2005/06 fiscal year and the contributions for the previous four years are shown below.

<u>Contribution Period</u>	<u>Contribution Rate</u>
Oct. 1, 2007-Sept. 30, 2008	16.72%
Oct. 1, 2006-Sept. 30, 2007	17.74%
Oct. 1, 2005-Sept. 30, 2006	16.34
Oct. 1, 2004-Sept. 30, 2005	14.87
Oct. 1, 2003-Sept. 30, 2004	12.99
Oct. 1, 2002-Sept. 30, 2003	12.99
Oct. 1, 2001-Sept. 30, 2002	12.17
Oct. 1, 2000-Sept. 30, 2001	12.16

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Contributions to</u> <u>MPSERS</u>
2007	680,120
2006	615,924
2005	583,230
2004	500,392
2003	483,717
2002	489,826
2001	485,784

Source: Audited financial statements

DEBT STATEMENT

(As of January 2007 and including the Bonds described herein)

DIRECT DEBT

<u>Dated</u> <u>Date</u>	<u>Purpose</u>	<u>Type</u>	<u>Interest</u> <u>Spread</u>	<u>Maturities</u>	<u>Amount</u> <u>Outstanding</u>
08/12/03	Building & Site	& Ref.UTQ	2.00 - 5.25%	5/1/05-33	4,835,000
1/4/05	Building & Site	Refunding	2.50 - 5.00%	5/1/05-20	6,220,000
2/9/06	Building & Site	Refunding	4.00 - 4.40%	5/1/20-33	8,110,000
TOTAL DIRECT DEBT					\$19,165,000

Source: Municipal Advisory Council of Michigan

OTHER FINANCING

In November 1998, the School District sold bonds to the Michigan Municipal Bond Authority payable solely from annual state appropriations pursuant to Section 11g of the State School Aid Act of 1979, as amended. Such bonds do not by statute, constitute a general obligation of the School District or a debt of the School District within the meaning of any constitutional or statutory debt limitation. The current amount of principal outstanding is \$33,358.

OTHER BORROWING

The School District has the following borrowing outstanding:

<u>Date</u>	<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance</u>
8/20/2007	State Aid Note	3.68%	08/20/08	\$900,000
	EPA Loan	0.00	11/10/10	36,334

SCHOOL BOND LOAN FUND (SBLF) PROGRAM

As of June 30, 2007, the School District has a School Bond Loan Fund borrowing balance of \$1,836,838.

For more information on the School Bond Loan Fund, please see "QUALIFICATION BY THE STATE OF MICHIGAN"

Source: State of Michigan Department of Treasury

SCHOOL ENROLLMENT - HISTORICAL ENROLLMENT

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

<u>School Year</u>	<u>Enrollment</u>
2006/07	893
2005/06	880
2004/05	876
2003/04	907
2002/03	919
2001/02	894
2000/01	929

APPENDIX A - Budget



Resolution for Adoption by the Board of Education North Muskegon Public Schools 2006-2007 FINAL

Resolved, that this resolution shall be the general appropriations of North Muskegon Public School District Name for the 2006-2007 fiscal year; a resolution to make appropriations; to provide for the expenditure of the appropriations; and to provide for the disposition of all revenue received by North Muskegon Public Schools.

Be it further resolved, that the total revenues and unappropriated fund balance estimated to be available for appropriation in the general fund of the school district for fiscal year 2006-2007 which includes 18 mills of ad valorem taxes to be levied on non-homestead and non-qualified agricultural property to be used for operating purposes is as follows:

Revenue:	<u>Preliminary</u>	<u>Final</u>
Local	\$ 700,256	\$ 708,003
State	\$5,767,478	\$6,069,938
Federal	\$ 144,904	\$ 160,100
Other Financing Sources	\$ 279,574	\$ 126,508
Total Revenue -	\$6,892,212	\$7,064,549
Fund Balance, July 1	\$ 461,681	\$ 461,681
Less Appropriated Fund Balance	\$ 11,935	\$ 29,220
Total Available to Appropriate	\$6,904,147	\$7,093,769

Be it further resolved, that \$7,064,549 of the total available to appropriate in the general fund is hereby appropriated in the amounts and for the purposes set forth below:

Expenditures:	<u>Preliminary</u>	<u>Final</u>
Instruction		
Basic Programs	\$3,978,473	\$3,971,663
Added Needs	\$ 695,909	\$ 716,818
Support Services		
Pupil Support	\$ 248,727	\$ 259,415
Instructional Staff Support	\$ 192,191	\$ 203,124
General Administration	\$ 336,506	\$ 318,258
School Administration	\$ 351,354	\$ 325,421
Business Services	\$ 95,748	\$ 80,218
Operations and Maintenance	\$ 636,009	\$ 580,278
Transportation	\$ 92,774	\$ 109,463
Other Central Support	\$ 12,240	\$ 10,720
Other Financing Uses	\$ 264,216	\$ 518,389
Total Appropriated	\$6,904,147	\$7,093,769

This resolution shall take immediate effect.