

SCHOOL DISTRICT OF THE CITY OF MUSKEGON HEIGHTS

**Office of the Emergency Manager
Donald B. Weatherspoon**

Order 2012-12

**BY THE POWER AND AUTHORITY VESTED IN THE EMERGENCY MANAGER
FOR THE SCHOOL DISTRICT OF THE CITY OF MUSKEGON HEIGHTS,
MICHIGAN (“EMERGENCY MANAGER”) UNDER THE LOCAL GOVERNMENT
AND SCHOOL DISTRICT FISCAL ACCOUNTABILITY ACT, 2011 PA 4, MCL
141.1501 to 141.1531**

**THE EMERGENCY MANAGER, DONALD B. WEATHERSPOON, ISSUES THE
FOLLOWING:**

**ORDER APPROVING ADOPTING A FINANCIAL AND OPERATING PLAN FOR THE
SCHOOL DISTRICT OF THE CITY OF MUSKEGON HEIGHTS**

WHEREAS, the School District for the City of Muskegon Heights (“District”) is currently in receivership and under the supervision of an Emergency Manager appointed by the Governor (“Emergency Manager”) under the Local Government and School District Fiscal Accountability Act, 2011 PA 4, MCL 141.1501 to 141.1531 (“Act”);

WHEREAS, the Emergency Manager has broad powers under the Act to rectify the District’s financial emergency and to assure the District’s fiscal accountability and capacity to provide or cause to be provided necessary governmental services essential to the public health, safety and welfare;

WHEREAS, under Section 18 of the Act, the Emergency Manager must develop and may amend a written financial and operating plan for the District with the objectives of assuring that the District is able to provide or cause to be provided public educational services to residents of the District and assuring the fiscal accountability of the District (“Plan”);

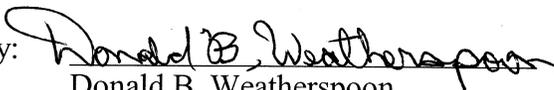
WHEREAS, as part of the Plan and consistent with the Code, the Emergency Manager has determined that the issuance of a public school academy contract to an applicant to organize and operate the Muskegon Heights Public School Academy System (“System”) is a viable option that will allow the Emergency Manager to provide for the delivery of public education services to residents of the District and also allow for the repayment of existing District debt obligations;

WHEREAS, the Emergency Manager now desires to submit the Plan to the State Treasure for approval, as provided under the Act; and

NOW, THEREFORE, IT IS ORDERED THAT, that the attached Plan is approved and adopted by the Emergency Manager as the financial and operating plan for the District; and

IT IS FURTHER ORDERED THAT, the Plan shall be submitted to the State Treasury for approval and a copy shall be provided to the Superintendent of Public Instruction.

Dated: August 6, 2012

By: 
Donald B. Weatherspoon,
Emergency Manager

FINANCIAL AND OPERATING PLAN
for the
SCHOOL DISTRICT OF THE CITY OF MUSKEGON HEIGHTS

August 6, 2012

Part 1

AUTHORIZATION AND OBJECTIVES

Section 1.01. Authorization.

This financial and operating plan, including the academic and educational plan, for the School District of the City of Muskegon Heights is required by Section 18 of the Local Government and School District Fiscal Accountability Act, 2011 PA 4, MCL 141.1501 to 141.1531. A financial and operating plan for a school district must provide for all of the following:

- (a). Conducting all aspects of the operations of the school district within the resources available according to a revenue estimate produced by the emergency manager for the school district.
- (b). The payment in full of the scheduled debt service requirements on all bonds, notes, and municipal securities of the school district and all other uncontested legal obligations of the school district.
- (c). The modification, rejection, termination, and renegotiation of contracts pursuant to Section 19 of the Local Government and School District Fiscal Accountability Act, 2011 PA 4, MCL 141.1519.
- (d). The timely deposit of required payments to the pension fund for the school district or in which the local government participates.
- (e). An academic and educational plan.
- (f). Any other actions considered necessary by the Manager in the Manager's discretion to achieve the objectives of the financial and operating plan, alleviate the financial emergency, and remove the local government from receivership.

Section 1.02. Objectives.

This financial and operating plan for the School District of the City of Muskegon Heights has both of the following objectives:

- (a). Assuring that the School District of the City of Muskegon Heights is able to cause to be provided a system of free public elementary and secondary schools and other public educational services to residents of the School District.
- (b). Assuring the fiscal accountability of the School District of the City of Muskegon Heights.

Section 1.03. Deficit Elimination Plan.

As authorized by the Act, this financial and operating plan also shall serve as a deficit elimination plan for the School District of the City of Muskegon Heights otherwise required by law for the School District, if approved for that purpose by the State Superintendent of Public Instruction.

Part 2

DEFINITIONS

Section 2.01. Definitions.

As used in this financial and operating plan:

- (a). “Academic Plan” means the academic and educational plan for the District required under the Act and included in this Plan.
- (b). “Act” means the Local Government and School District Fiscal Accountability Act, 2011 PA 4, MCL 141.1501 to 141.1531.
- (c). “Board” means the school board of the District.
- (d). “Code” means The Revised School Code, 1976 PA 451, MCL 380.1 to 380.1852.
- (e). “District” means the School District of the City of Muskegon Heights.
- (f). “Manager” means the emergency manager for the District appointed under the Act.
- (g). “Plan” means this financial and operating plan for the District.
- (h). “State Superintendent” means the State Superintendent of Public Instruction.
- (i). “System” means the Muskegon Heights Public School Academy System described in Part 5.
- (j). “Treasurer” means the State Treasurer.

Section 2.02. Singular or Plural Terms.

Every word or defined term in this Plan importing the singular number only may extend to and embrace the plural number, and every word or defined term importing the plural number may be applied and limited to the singular number.

Section 2.03. References to Statutes.

A reference to a statute or portion of a statute in this Plan shall be deemed to include the latest amendments to the statute or portion of a statute.

Section 2.04. Catchlines.

The catch line heading of any section of this Plan shall not be deemed to be a part of the section or the Plan, or be used to construe the section more broadly or narrowly than the text of the section would indicate, but shall be deemed to be inserted for purposes of convenience.

Part 3

FINANCIAL STATUS

Section 3.01. Review Team and District Financial Status.

On April 2, 2012, a financial review team for the District, appointed under the Act, issued a report (attached as Appendix A) detailing financial conditions within the District indicative of a financial emergency, including, without limitation, all of the following:

- (a). *FY 2011 Deficit.* According to the District's FY 2011 fiscal year financial audit, the District's cumulative general fund deficit increased by 102%, from \$4,195,864 to \$8,472,543 as of June 30, 2011. The one-year increase in the District's cumulative general fund deficit resulted from general fund expenditures and transfers out exceeding general fund revenues by \$4,276,679.
- (b). *Projected FY 2012 Deficit.* For the fiscal year ending June 30, 2012, the District is projected to close the fiscal year with a negative general fund balance of \$9,442,778.
- (c). *Declining Pupil Enrollment.* The District's pupil enrollment decreased by 34.3% from 2,142 pupils in FY 2006 to 1,408 pupils in FY 2011. This decline in the number of pupils had a corresponding negative impact on the District's general fund revenue, with general fund revenue declining 27.3% from \$24,224,178 in FY 2006 to \$17,600,387 in FY 2011.
- (d). *State Aid Intercepts.* On August 1, 2011, the District signed documents related to a \$7.9 million state aid note, which included a provision requiring the State Treasurer to intercept a portion of the District's state aid payments beginning in February 2012 to help ensure the timely repayment of the note by the District. The intercepts will continue through July 2012 in the amount of \$113,678.46, approximately 12% of each state aid payment to the District. In addition to the partial intercepts, 100% of the District's August 2012 state aid payment will be intercepted. Even after the intercepts, the District will owe

approximately \$6.3 million on its state aid note, which is due August 20, 2012.

- (e). *Additional Obligations.* As of November 30, 2011, the District was approximately \$1.4 million in arrears to the Michigan Public School Employees Retirement System.
- (f). *Request for Financial Assistance.* By letter dated December 7, 2011, the Board requested that “the Michigan Department of Education assist the District in facilitating the appointment of an Emergency Manager under Public Act 4 of 2011.” The review team noted, “[i]t is noteworthy in this regard that School Board members apparently considered the financial conditions of the School District to be so dire that no real attempt was made by them even after the Review Team was appointed to devise a consent agreement nor actively lobby for consideration of a consent agreement by the Review Team.”
- (g). *Survival of District.* The Review Team also noted that “the severity of the financial emergency is such that the Review Team cannot assure you that the School District can survive as a standalone entity.”

Section 3.02. Annual Audit for District.

In developing this Plan, the Manager has reviewed the most recent annual audit for the District for the fiscal year ending June 30, 2011, and relied upon information included in that audit’s Report on Financial Statements (attached as Appendix B), including, without limitation, all of the following:

- (a). *Negative Net Assets.* As of June 30, 2011, the total liabilities of the District exceeded the total assets of the District by \$8,196,667.
- (b). *Declining General Fund Balance.* The District’s general fund balance decreased by \$4,276,679 in FY 2011, resulting in a general fund deficit of \$8,472,453 as of June 30, 2011.

- (c). *Continuing Declining Enrollment.* The District continues to experience declining enrollment.
- (d). *Continuing Retirement System Cost Increases.* The employer contribution rate mandated by the Office of Retirement Services and payable by the District continues to increase at a substantial rate. In October 2011, the rate increases from 20% to 24.46% for employees hired before July 1, 2010 and 23.23% for employees hired after July 1, 2010.
- (e). *Short-Term Debt.* As of June 30, 2011, the total outstanding short-term debt of the District, consisting entirely of state aid anticipation notes, totaled \$8,525,000.
- (f). *Long-Term Obligations.* The total outstanding long-term obligations of the District totaled \$26,937,309, as of June 30, 2011. Long-term obligations of the District included 2006 General Obligation Refunding Bonds, 0% 2007 Energy Conservation Improvement Bonds, *Durant* obligations payable in annual installments to the extent of annual state school aid appropriations, payments to the School Bond Loan Fund, payments to the School Loan Revolving Fund, Education Interconnection and Consortium Financing, compensated absences, and early retirement obligations.

Section 3.03. Projected Pupil Enrollment.

If the District were to continue to provide public educational services in a manner generally consistent with District activities in FY 2012, the Manager projects that pupil enrollment will continue to decline to 1,200 pupils for FY 2013.

Section 3.04. Projected Net Assets from Operating Results.

If the District were to continue to provide public educational services in a manner generally consistent with District activities in FY 2012, the Manager projects total District revenue to decline to \$12,245,220 in FY 2013. The Manager projects total expenses for the District in FY 2013 to total \$14,959,890, assuming that the District continues to provide public educational services in a manner generally consistent

with District activities in FY 2012. These projections result in a projected operating deficit of \$2,714,670 in FY 2013 and a cumulative fund deficit of \$14,480,903, a projected 23% increase in total debt from FY 2012.

Section 3.05. Outstanding Liabilities.

The outstanding liabilities of the District as of May 23, 2012 total \$4,382,660.20 and are detailed in Appendix C. In addition, the District will owe approximately \$6.3 million on its state aid note, which is due August 20, 2012.

Section 3.06. Impact of Projections.

Based upon Sections 3.03 to 3.05, if in FY 2013 the District were to continue to provide public educational services in FY 2013 in a manner generally consistent with District activities in FY 2012, the District's cumulative deficit would increase by \$2,714,670 from \$11,766,233 to \$14,480,903.

To avoid any further increase in the deficit in FY 2013, the District could reduce salaries by 35% and impose mandatory caps on health insurance (\$5,500/single, \$11,000/double, and \$15,000/family). As a result, the average salary of a teacher in the District would fall to \$34,490, but the outstanding deficit of \$11,766,233 million would remain unresolved. The District's outstanding deficit cannot be eliminated even if the District reduced employment expenditures to zero.

To operate in FY 2013 without increasing the District's cumulative deficit, the District would be required to reduce all discretionary non-payroll expenditures by 20% and reduce salaries by 29%. Even with those reductions, the District's cumulative \$11,766,233 deficit would remain unresolved.

To serve the District's projected student population in FY 2013, 51 general fund teachers and 18 special education teachers would be required. Assuming an average teacher salary of \$56,060 (without wage concessions), to operate in FY 2013 without increasing the District's cumulative deficit, the District would have to eliminate 51 teaching positions, resulting in only 13 general fund teachers and 5 special education teachers to serve 1,200 students. That results in a

student to teacher ratio of 81 to 1 for general fund teachers and 26 to 1 for special education teachers. If such a reduction were to occur, the District's cumulative deficit of \$11,766,233 would remain unresolved.

Given the foregoing, the Manager concludes that the District cannot continue to provide public educational services in FY 2013 in manner that is generally consistent with District activities in FY 2012 while also satisfying the objectives identified in Section 1.02. The District's current financial condition prevents the District from being able to continue current public educational services to District residents for another school year. The District lacks the financial resources to both satisfy existing financial obligations and to pay for the District's on-going direct provision of public educational services. Meeting the dual objectives of assuring the provision of a system of free public elementary and secondary schools to residents of the District while also assuring the District's financial accountability requires the consideration of alternative structures for the delivery of public educational services to District residents.

Part 4

CONSIDERATION OF ALTERNATIVES

The Manager considered several alternatives to address the cumulative and operating deficit that currently exist in the District. The Manager also considered alternatives with the greatest potential to provide a quality standard of education for students in Muskegon Heights. Alternatives detailed in this Part were considered and evaluated in terms of meeting the objectives for the District detailed in Section 1.02.

A major factor in evaluating alternatives is the limited amount of time available to prepare for the school year that begins in September 2012, the feasibility of restructuring the district's debt, and maximizing the use of state aid and other revenue to support a quality educational program for current and future students within the District.

Section 4.01. Consolidation.

Two or more school districts may consolidate under Part 9 of the Code (attached as Appendix D). This consolidation process may be initiated by 10 or more registered voters in each of the school districts or by the boards of the school districts. The State Superintendent must approve any consolidation proposal. If a proposal is approved, the question of uniting the districts to form one district must be submitted to voters in each district at an election held on the same date. Voters in each school district must approve consolidation for the districts to be unified. An approved consolidation takes effect on July 1 after the election. A consolidated district may only assume the bonded indebtedness of another school district if approved by voters in each district.

The Manager determines that consolidation of the District with one or more other school districts is not a viable option for achieving the objectives for the District detailed in Section 1.02 for the following reasons:

- (a). Mandatory timelines included in Part 9 of the Code cannot be met in advance of the 2012-2013 school year, resulting in the inability to assure the provision of public educational services to the residents of the District in the 2012-2013 school year.

- (b). There is no indication of any interest on the part of another school district in consolidating with the District and there is no certainty or indication of any likelihood that voters in another school district would vote to consolidate with the District given the financial emergency in the District.
- (c). While Part 9 of the Code authorizes a consolidated school district to assume the bonded indebtedness of the District, assumption of other outstanding obligations of the District is not authorized.
- (d). Creation of a new consolidated school district would eliminate the ability of the Manager to utilize the provisions of the Act to address the District's financial emergency.

Section 4.02. Annexation.

A school district may annex another school district under Part 10 of the Code (attached as Appendix E), if the board of the annexing district adopts a resolution approving the annexation and a majority of voters in the district to be annexed approve the annexation at an election. Outstanding indebtedness of the annexed district becomes the liability of the annexing district.

The Manager determines that annexation of the District by another school district is not a viable option for achieving the objectives for the District detailed in Section 1.02 for the following reasons:

- (a). Mandatory timelines included in Part 10 of the Code cannot be met in advance of the 2012-2013 school year, resulting in the inability to assure the provision of primary and secondary educational services to the residents of the District in the 2012-2013 school year.
- (b). There is no indication of any interest on the part of another school district in annexing the District and there is no certainty or indication of any likelihood that voters in the District would vote to approve the annexation by another school district.

- (c). Another school district is unlikely to be willing to assume the financial obligations of the District given the financial emergency in the District.
- (d). Annexation of the District would eliminate the ability of the Emergency Manager to utilize the provisions of the Act to address the District's financial emergency.

Section 4.03. Division by Annexation and Transfer.

Under Part 10a of the Code (attached as Appendix F), a school district may be divided by annexation by another school district of a part of the original school district's area consisting of not less than 50% of the dividing school district's assessed value. The remaining area of the dividing school district is then transferred to one or more school districts contiguous to the dividing school district. Division by annexation and transfer requires the approval of the boards of the dividing school district, the annexing school district, and the school district accepting transferred property. The dividing school district and the annexing school district must obtain approval from the State Superintendent. Voters in the dividing district and each school district receiving 25% or more of the state equalized value of the dividing school district must approve the division at an election. The boards of each of the districts involved and the State Superintendent must find that the division, annexation, and transfer are in the best interests of the education of the pupils within the affected school districts. Assets and liabilities of a dividing district become the assets and liabilities of the annexing district. Any employment contracts in effect at the time of the election remain in effect for the duration of the contract and certain employee rights under 1937 (Ex Sess) PA 4, MCL 37.71 to 38.191, are preserved.

The Manager determines that division of the District by annexation and transfer is not a viable option for achieving the objectives for the District detailed in Section 1.02 for the following reasons:

- (a). Mandatory timelines included in Part 10a of the Code cannot be met in advance of the 2012-2013 school year, resulting in the inability to assure the provision of public educational services to the residents of the District in the 2012-2013 school year.

- (b). There is no indication of any interest on the part of another school district in annexing the District or receiving portions of the District by transfer and there is no certainty or indication of any likelihood that voters in the District would vote to approve the division.
- (c). Another school district is unlikely to be willing to assume the financial obligations of the District given the financial emergency in the District.
- (d). There is no certainty that annexation and transfer would be in the best interests of pupils in all affected districts.
- (e). Division of the District by annexation and transfer would eliminate the ability of the Manager to utilize the provisions of the Act to address the District's financial emergency.

Section 4.04. Transfer of District Territory.

An intermediate school district may detach territory from one school district and attach the territory to another school district if requested by the board of an affected school district or if petitioned by 2/3 of the owners and residents of property in an affected area under Part 11 of the Code (attached as Appendix G). An intermediate school district considering a transfer must consider the welfare of each affected pupil. Action of an intermediate school district is subject to appeal by the State Superintendent, who also must consider the welfare of affected pupils.

The Manager determines that the transfer of territory of the District to another school district is not a viable option for achieving the objectives for the District detailed in Section 1.02 for the following reasons:

- (a). Mandatory timelines included in Part 11 of the Code cannot be met in advance of the 2012-2013 school year, resulting in the inability to assure the provision of public educational services to the residents of the District in the 2012-2013 school year.

- (b). There is no indication of any interest on the part of another school district in receiving portions of the District by transfer and there is no certainty or indication of any likelihood that voters in the District would vote to approve the division.
- (c). The requirement for approval of any transfer by an intermediate school district with the right of appeal to the State Superintendent introduces further elements of uncertainty.
- (d). Another school district is unlikely to be willing to assume any financial obligations of the District given the financial emergency in the District.
- (e). Division of the District by annexation and transfer would reduce the ability of the Manager to utilize the provisions of the Act to address the District's financial emergency.

Section 4.05. Bankruptcy.

Under Section 23 of the Act, if, in the judgment of the Manager, no reasonable alternative to rectifying the financial emergency in the District exists, the Manager may recommend to the Governor and the State Treasurer that the District be authorized to initiate bankruptcy proceedings under Title 11 of the United States Code, 11 USC 101 to 1532. The recommendation must include: (a) a determination that no feasible financial plan can be adopted to satisfactorily rectify the District's financial emergency in a timely manner; or (b) a determination that a financial and operating plan for the district in effect for at least 180 days cannot be implemented as written or be amended in a manner to satisfactorily rectify the financial emergency in a timely manner. If the Governor approves of initiating bankruptcy proceedings, the Manager may proceed under Title 11 on behalf of the District as a debtor.

The Manager determines that the initiation of bankruptcy proceedings under the Act is not a viable option for achieving the objectives for the District detailed in Section 1.02 for the following reasons:

- (a). The requirements under the Act for requesting the initiation of bankruptcy proceedings cannot currently be satisfied.
- (b). An alternative to bankruptcy for rectifying the financial emergency exists and is described in Part 5.
- (c). Initiation of bankruptcy proceedings could have negative financial consequences for the District, other school districts, local governments, and the State of Michigan.

Part 5

ESTABLISHING THE MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

Section 5.01. Public School Academy System Option.

After considering and rejecting various alternatives under Part 4, the Manager has decided to discontinue the direct provision of public educational services by the District at the end of the 2011-2012 school year. On July 9, 2012, the Manager issued Order 2012-9, authorizing the issuance of a charter for a public school academy to operate one or more public schools in a unified system of public schools to be known as the Muskegon Heights Public School Academy System. Public educational services will be provided through the System for residents of the District and residents of other school districts beginning in the 2012-2013 and for the duration of the financial emergency in the District. The District is authorized under Part 6A of the Code to grant a charter for the System as a public school academy.

The Manager believes establishment of the System offers several benefits to the District. First, public educational services will continue to be provided to District residents. Second, the District can continue in its legal form and pay the accumulated debt obligations of the District, including the repayment of any state aid note advances or emergency loans from the State. Instead of reorganization or possible bankruptcy as described in Part 4, the System will afford the District and residents of Muskegon Heights an opportunity to return responsibility for the direct provision of public educational services to the District once the District's obligations are fully satisfied and the financial emergency is rectified. Third, the District has the ability to assure the delivery of a high quality education for District residents by appointing and overseeing the System's board of directors and managing the System's compliance with its contract issued by the District, the Code, and other applicable law. Fourth, the Code authorizes the District to include on the System's board of directors persons involved in the local community. Fifth, under state law, district employees and labor organizations may apply to organize and provide public educational services through the System. Sixth, former District employees interested in working in the System can be

provided an opportunity to interview with the System or any educational service provider utilized by the System.

Section 5.02. Application Process.

To use the chartering process and select a person or entity to establish and provide public educational services through the System, the Manager issued a request for applications for interested persons or entities. After selecting an applicant, the Manager appointed a board of directors for the System under Order 2012-8 and issued a contract to the System's board of directors under Order 2012-9. The contract provides for the lease of District property to the System.

Section 5.03. Agreement with System.

Under Section 1228 of the Code, a school district may enter into an intergovernmental agreement with a public school academy for the public school academy to provide services to the school district or pupils of the school district. After establishing the System, the Manager issued Order 2012-10 approving an intergovernmental agreement between the District and the System, effective July 9, 2012, to assure the continued provision of public educational services to residents of the District. Under the intergovernmental agreement, any obligation of the District to provide public educational services to residents of the District or within the geographic boundaries of the District is assumed by the System. If an obligation to provide public educational services is within the scope of the contract initially issued to the System on July 9, 2012, the public educational services will be provided by the System under the contract. If an obligation to provide public educational services is not within the scope of the contract, the public educational services will be provided by the System under the intergovernmental agreement.

Section 5.04. Financing the System.

To assure that the System has the financial resources necessary to deliver public educational services to residents of the District, beginning in the 2012-2013 school year, the System will be eligible to receive aid under The State School Aid Act of 1979, 1979 PA 94, MCL 388.1601 to 388.1896, including, but not limited to, the state

maximum public school academy foundation allowance and federal aid. The District will not receive a state foundation allowance and will not provide financing for the provision of educational services by the System.

Section 5.05. Academic and Educational Plan.

The establishment of the System, the contract granting a charter to the System, and the agreement with the System under Section 5.03, including, but not limited to, included educational goals and programs, curricula, methods of pupil assessment, school improvement plans developed by the System, and measures to assure compliance with state and federal academic requirements included within those documents constitute the Manager's academic and educational plan for the District. The State Superintendent has assisted the State Treasurer in reviewing this component of the Plan. The contract for the System has been filed with the State Superintendent and addresses issues relating to curriculum and other academic matters. The provision of public educational services to residents of the District through the contract, along with the intergovernmental agreement with the System dated July 9, 2012, constitutes the academic and educational plan for the District.

Part 6

DISTRICT ACTIVITIES

Section 6.01. Limited District Activities.

Beginning with the 2012-2013 school year, the System will assume responsibilities relating to the provision of public educational services to residents of the District. Remaining activities of the District will be conducted within the resources available to the District and will be limited to the following functions and responsibilities:

- (a). Assuring the timely payment of financial obligations of the District, including, but not limited to, bonded indebtedness of the District, including any emergency loans from the State.
- (b). Levying and collecting District taxes.
- (c). Budgeting for the District.
- (d). Overseeing the activities of the System as an authorizer of a public school academy under Part 6a of the Code.
- (e). Performing functions of the District relating to school elections.
- (f). Exercising functions and responsibilities of the Manager relating to the District under the Act.

Section 6.02. Debt Service Obligations.

The Manager will assure the payment in full of the scheduled debt service requirements on all bonds, notes, and securities of the District and other uncontested legal obligations for the District, including, but not limited to, any emergency loans. The source of funds for satisfying these obligations will include taxes authorized by the electors of the District and taxes authorized by Section 1211 of the Code.

Section 6.03. Pension Fund Payments.

The Manager will assure the timely deposit of any required District payments to the Michigan Public School Employees' Retirement System under The Public School Employees Retirement Act of 1979, 1980 PA 300, MCL 38.1301 to 38.1467.

Section 6.04. District Staffing Levels.

The Manager may issue an order establishing staffing levels for the District consistent with this Plan. The Manager also may contract for the provision of any remaining services retained by the District under Section 6.01.

Section 6.05. District Reorganization.

The Manager may issue an order establishing, consolidating, or eliminating departments of the District and transferring functions within the District consistent with this Plan.

Section 6.06. Projected Revenue and Expenditures.

The Manager will regularly update the State Treasurer on projected revenue and expenditures of the District consistent with this Plan.

Part 7

IMPLEMENTATION

Sec. 7.01. Public Informational Meeting.

In compliance with Section 18(4) of the Act, the Manager conducted a public informational meeting on the Plan and any modifications to the Plan at 5:30 p.m. on Wednesday May 30, 2012 at the following location:

Muskegon Heights High School Auditorium
2441 Sanford Street
Muskegon Heights, MI 49444

Sec. 7.02. Reexamination of Plan.

This Plan will be reexamined at least every 6 months by the Manager and the Treasurer, or his or her designee.

Sec. 7.03. Modification of Plan.

The Manager may from time to time modify this Plan as the Manager determines necessary to advance the objectives of this Plan. If the Manager reduces revenue estimates for the District, the Manager will modify the plan to conform to the revised revenue estimates. Prior to implementing any modification, the Manager will first notify the Treasurer and the State Superintendent.

Sec. 7.04. Issuance of Orders.

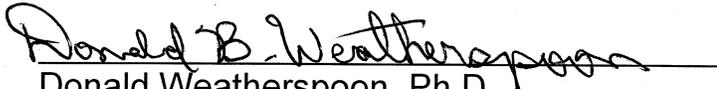
As authorized under Section 17 of the Act, the Manager will issue to the appropriate elected and appointed officials and employees, agents, and contractors of the District the orders the Manager considers necessary for the timely and satisfactory implementation of this Plan.

Sec. 7.05. Submission of Plan.

This Plan was developed after consultation with the State Treasurer and the State Superintendent and is submitted to the State Treasurer as required by Section 18 of the Act. A copy of this Plan will be

transmitted to the State Superintendent, the superintendent of the District, and the Board.

Submitted by:


Donald Weatherspoon, Ph.D.,
Emergency Manager for the School District
of the City of Muskegon Heights

August 6, 2012
Date

This Plan is approved.

Andy Dillon,
State Treasurer

Date

APPENDIX A

Report of the Muskegon Heights School District Financial Review Team



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

DATE: April 2, 2012

TO: Governor Snyder

FROM: Muskegon Heights School District Financial Review Team:
Frederick Headen
David Martell
Dale Nesbary
Doug Ringler
Thomas F. Saxton
Brom Stibitz
John VanWyck
Carol Wolenberg

SUBJECT: Report of the Muskegon Heights School District Financial Review Team

On March 2nd, 7th, 20th and April 2nd, 2012, Muskegon Heights School District Financial Review Team members met and reviewed information relevant to the financial condition of the School District. Based upon those reviews, the Review Team concludes, in accordance with Section 13(4)(d) of Public Act 4 of 2011, the Local Government and School District Fiscal Accountability Act, that a local government financial emergency exists within the Muskegon Heights School District, and that no satisfactory plan exists to resolve that emergency. Therefore, the Review Team recommends the appointment of an emergency manager.

I. Background

A. Preliminary Review

On December 19, 2011, the Michigan Department of Education commenced a preliminary review of the finances of the Muskegon Heights School District to determine whether or not probable financial stress existed. Section 12(1) of the Act permits a preliminary review to be conducted if one, or more, of the conditions enumerated therein occurs. The preliminary review of the Muskegon Heights School District resulted from the condition enumerated in subdivisions (a) and (r) of Section 12(1) having occurred within the School District.¹

¹ Subdivision (a) provides that “[t]he governing body or the chief administrative officer of a local government requests a preliminary review under this act. The request shall be in writing and shall identify the existing or anticipated financial conditions or events that make the request necessary.” Subdivision (r) provides that “[t]he existence of other facts or circumstances that in the state treasurer’s sole discretion for a municipal government are indicative of municipal financial stress, or, that in the superintendent of public instruction’s sole discretion for a school district are indicative of school district financial stress.”

For the purposes of preliminary reviews, the Department of Education developed six critical factors to determine if a finding of probable financial stress was warranted. Those factors are:

1. A school district has a deficit for three or more consecutive years, including the current year.
2. A school district's existing deficit is greater than \$1,000,000.
3. A school district's existing deficit is greater than 15 percent of general fund revenues, excluding incoming transfers.
4. A fiscal review by a program office of the Michigan Department of Education, or an external auditor, reveals one or more material internal control weaknesses as evidenced by notes or findings in the financial audit related to any of the following:
 - (a) A lack of written policies and procedures or a failure to follow the written policies and procedures.
 - (b) Poor cash management.
 - (c) A failure to provide personnel activity reports for employees paid with federal funds.
 - (d) A history of spending outside of appropriations established by the local school board, in violation of Public Act 2 of 1968, Uniform Budgeting and Accounting Act.
 - (e) The use of grant funds on unallowable expenditures.
 - (f) Going concern issue, or qualified financial audit opinions, or both.
5. A school district shows unsatisfactory progress in eliminating a deficit, which was determined by identifying one or more of the following conditions:
 - (a) A deficit increase from the previous year.
 - (b) Lack of cooperation from school district officials in submitting deficit information (i.e., late submission of deficit elimination plans, delinquent return of phone calls or correspondence relating to deficit elimination plans, and chronic late submission of monthly budgetary control reports).
 - (c) A history of supplying the Department with deficit elimination plan information which either was inaccurate or inconsistent with actual revenues and expenditures at year end.
6. The failure by a school district to comply with bond or note covenants or to make pension fund deposits.

Based upon the foregoing six critical factors, the preliminary review found, or confirmed, the following for the Muskegon Heights School District:

- The School District ended fiscal year 2006 with a \$0.9 million deficit. The deficit persisted in each of subsequent fiscal years, with School District officials projecting that the School District will remain in a deficit condition for fiscal years 2012 through 2015.
- The School District had a cumulative general fund deficit of \$8,472,543 as of June 30, 2011. In addition, the cumulative general fund deficit exceeded \$1.0 million since the 2009 fiscal year.
- The fund balance of the School District, expressed as a percentage of general fund revenues, was a negative 48 percent as of June 30, 2011. This negative percentage exceeded the negative 15 percent threshold at which the Department attaches concern.
- The financial audit report of the School District for the 2011 fiscal year included 11 findings of material weaknesses, significant deficiencies, or noncompliance, compared to the financial audit report of the School District for the 2010 fiscal year which included four findings of significant deficiencies.
- The School District demonstrated unsatisfactory progress in eliminating its cumulative general fund deficit. The deficit has increased from \$0.9 million at June 30, 2006, to \$8.5 million at June 30, 2011.
- The School District was approximately \$1.4 million in arrears to the Public School Employees Retirement Service through November 2011.

In addition to the foregoing preliminary review findings, the Michigan Department of Education gave consideration to the following information:

- The School District experienced cash-flow stress despite having received approximately \$7.9 million through the Michigan Department of Treasury for cash flow purposes.
- The School District had been the subject of an ongoing investigation by the Michigan State Police related to the possible misuse of federal Title I funds.
- The School District and its staff had been unable to agree upon concessions.
- The most recent financial audit report and comprehensive financial report of the School District were not submitted to the Department of Education by the statutory due date of November 15, 2011. As a result, the Department withheld the December 20, 2011 State school aid payment. The State school aid payment was released when the reports subsequently were submitted.

Based upon the preliminary review, the Superintendent of Public Instruction concluded and reported to the Governor on January 10, 2012, that probable financial stress existed in the Muskegon Heights School District and recommended the appointment of a financial review team.

B. Review Team Findings

On January 31, 2012, the Governor appointed an eight-member Financial Review Team. The Review Team convened on March 2nd, 7th, 20th, and April 2nd, 2012.

1. Conditions Indicative of a Financial Emergency

The Review Team found, or confirmed, the existence of the following conditions based upon information provided by School District officials, or the School District's audit firm, or other relevant sources:

- According to the School District's 2011 fiscal year financial audit, the School District's cumulative general fund deficit increased by 102 percent, from \$4,195,864 (as restated) as of June 30, 2010 to \$8,472,543 as of June 30, 2011. The one-year increase in the School District's cumulative general fund deficit resulted from general fund expenditures and transfers out exceeding general fund revenues by \$4,276,679.
- Since at least the 2006 fiscal year, the School District has not had a positive year-end fund balance in its general fund. Based upon information on file with the Michigan Department of Education, the negative year-end general fund balance during these years has ranged from \$900,378 for the 2006 fiscal year to a projected \$9,442,788 for the current fiscal year which ends on June 30, 2012.
- Financial audit reports for the School District for its last three fiscal years reflect the following variances between general fund revenues and expenditures, as initially budgeted and as amended, versus general fund revenues and expenditures actually realized:

| | <u>2008-09</u> | <u>%</u> | <u>2009-10</u> | <u>%</u> | <u>2010-11</u> | <u>%</u> |
|---------------------|---------------------|----------|---------------------|----------|---------------------|----------|
| <u>Revenues</u> | | | | | | |
| Original | \$22,481,370 | | \$21,964,880 | | \$19,743,100 | |
| Final | \$22,481,370 | | \$21,048,383 | | \$20,007,464 | |
| Actual | <u>\$22,770,560</u> | | <u>\$20,437,910</u> | | <u>\$17,784,569</u> | |
| Variance | \$289,190 | 1.29 | (\$610,473) | (2.9) | (\$2,222,895) | (11.1) |
| <u>Expenditures</u> | | | | | | |
| Original | \$22,481,370 | | \$21,949,880 | | \$23,230,460 | |
| Final | \$22,481,370 | | \$23,781,642 | | \$21,950,437 | |
| Actual | <u>\$23,608,408</u> | | <u>\$23,032,858</u> | | <u>\$22,061,248</u> | |
| Variance | (\$1,127,038) | (5.01) | \$748,784 | 3.15 | (\$110,811) | (0.50) |

The numbers suggest a mixed picture. There are instances where actual revenue exceeded finally budgeted revenue (i.e., fiscal year 2009) and actual expenditures were less than finally budgeted expenditures (i.e., fiscal year 2010). However, instances of the opposite also are reflected where actual revenue was less than final budgeted revenue (i.e., fiscal years 2010 and 2011) and expenditures exceeded final budgeted expenditures (i.e., fiscal years 2009 and 2011).

- As depicted below, the School District's pupil enrollment decreased by 34.3 percent, from 2,142 pupils for the 2006 fiscal year to 1,408 pupils for the 2012 fiscal year. The decline in the number of pupils in the School District has had a corresponding impact upon the general fund revenues available as school funding continues to be based upon the number of pupils.

| Fiscal Year | Pupil Count | General Fund Revenue |
|-------------|-------------|----------------------|
| 2006 | 2,142 | \$24,224,178 |
| 2007 | 2,046 | \$22,032,907 |
| 2008 | 1,909 | \$21,701,821 |
| 2009 | 1,820 | \$22,033,838 |
| 2010 | 1,599 | \$19,894,627 |
| 2011 | 1,537 | \$17,784,577 |
| 2012 | 1,408 | \$17,600,387 |

- Pursuant to documents School District officials signed on August 1, 2011, related to a \$7.9 million State aid note for the School District, the Department of Treasury was required to intercept a portion of the School District's State aid payments beginning in February 2012 in order to help ensure the timely repayment by the School District of that State aid note. The intercepts are a direct result of the School District's loss of students and associated State aid. These intercepts will continue through July of 2012, in the amount of \$113,678.46 (approximately 12 percent) from each State aid payment. These partial intercepts will be in addition to a 100 percent intercept of the School District's August 2012 State aid payment, which also is required pursuant to the August 1, 2011 documents. Even after the intercepts, the School District still will owe approximately \$6.3 million on its State aid note which is due August 20, 2012.

2. Review Team Meetings²

On March 2, 2012, Review Team members Frederick Headen, Dale Nesbary, Doug Ringler, Thomas F. Saxton, Brom Stibitz, and John VanWyck met with Brian McFarren, of the certified public accounting firm Brickley Delong, P.C.

² On February 9, 2012, the Ingham County Circuit Court issued injunctive relief based upon a verbal ruling from the bench that review teams appointed pursuant to Public Act 4 of 2011, the Local Government and School District Fiscal Accountability Act, are public bodies for purposes of Public Act 267 of 1976, the Open Meetings Act. On February 29, 2012, the court issued an order for declaratory judgment and injunctive relief to the same effect. As a result, all meetings of this Review Team were conducted in public. The ruling by the court currently is on appeal.

On March 7, 2012, Review Team members Frederick Headen, David Martell, Dale Nesbary, Doug Ringler, Carol Wolenberg, and John VanWyck conducted a series of interviews in the School District with David L. Sipka, Muskegon Intermediate School District (and interim Muskegon Heights School District) Superintendent; Marios Demetriou, Muskegon Area Intermediate School District Deputy Superintendent (and interim Muskegon Heights School District Finance Director); Sue McCarty, School District Human Resources Manager; Joy Robinson, President, Muskegon Heights Education Association; Krista Abbott, Director, Michigan Education Association (Uniserv); William Kuiper, Michigan Education Association; Dave Neifer, Title I Director; Avery Burrel, School Board President; Ron Jenkins, School Board Vice President; Franklin Brewer, School Board Secretary; Ivory Morris, School Board Treasurer; and School Board members Nathaniel Johnson, Cassandra Kitchen, and Trinell Scott.

On March 20, 2012, the Review Team discussed in detail the various statutory conclusions provided in Section 13(4) of the Act and, after deliberation and public comment, concluded that a financial emergency existed in the School District.

3. Other Considerations

While the Review Team gave serious consideration to all of the statutory conclusions provided in Section 13(4) of the Act, the Review Team concluded that a financial emergency existed, that no satisfactory plan exists to resolve the emergency, and that appointment of an emergency manager should be recommended. This conclusion was reached for several reasons.

First, the School District has experienced turnover in at least two key positions. As noted earlier, the Intermediate School District Superintendent presently has been serving as the interim Superintendent for the School District since January of this year. In addition, the Intermediate School District Deputy Superintendent has been serving as the interim Finance Director for the School District. Given their detailed involvement in the day-to-day operations of the School District, these two officials likely possess the most comprehensive understanding of the School District's financial condition of anyone associated with the School District. Therefore, it was significant that both officials expressed to the Review Team their unequivocal opinion that an emergency manager would be necessary.

Second, by letter dated December 7, 2011, the School Board requested that "the Michigan Department of Education assist the District in facilitating the appointment of an Emergency Manager under Public Act 4 of 2011." It is noteworthy in this regard that School Board members apparently considered the financial condition of the School District to be so dire that no real attempt was made by them even after the Review Team was appointed to devise a consent agreement nor actively to lobby for consideration of a consent agreement by the Review Team.³

³ At the March 7, 2012 site visit, the Review Team determined that five School Board members had voted in favor of the request that an emergency manager be appointed, one School Board member had voted against it, and one School Board member had been absent. On March 7, several School Board members who voted in favor of the request

Finally, during the March 7, 2011, site visit, several School Board members expressed the need for them to impose more stringent monitoring over School District's administration. However, the actual experience of School Board members in carrying out such monitoring is untested. Therefore, appointment of an emergency manager may allow the School Board to establish and refine its monitoring role, and under the tutelage of an emergency manager, better prepare itself for a transition back to an effective Superintendent-School Board relationship once the financial condition of the School District has been stabilized.

C. Conclusion and Recommendation

Based upon the foregoing meetings and review, the Review Team confirms the findings of the preliminary review, concludes that a local government financial emergency exists within the Muskegon Heights School District, and that no satisfactory plan exists to resolve the emergency. Therefore, the Review Team recommends the appointment of an emergency manager.

II. Section 13(3) Requirements

Section 13(3) of Act 4 requires that this report include the existence or an indication of the likely occurrence of any of the conditions set forth in subdivisions (a) through (l).⁴ The conditions in subdivisions (b)(iii), (e), and (f) of Section 13(3) exist or are likely to occur, as follows:

clarified their position as not favoring such an appointment, but concluding that one was necessary. We concur. Indeed, the severity of the financial emergency is such that the Review Team cannot assure you that the School District can survive as a standalone entity.

⁴ Subdivisions (a) through (l) of Section 13(3) of the Act provide as follows:

- (a) A default in the payment of principal or interest upon bonded obligations, notes, or other municipal securities for which no funds or insufficient funds are on hand and, if required, segregated in a special trust fund.
- (b) Failure for a period of 30 days or more beyond the due date to transfer 1 or more of the following to the appropriate agency:
 - (i) Taxes withheld on the income of employees.
 - (ii) For a municipal government, taxes collected by the municipal government as agent for another governmental unit, school district, or other entity or taxing authority.
 - (iii) Any contribution required by a pension, retirement, or benefit plan.
- (c) Failure for a period of 7 days or more after the scheduled date of payment to pay wages and salaries or other compensation owed to employees or benefits owed to retirees.
- (d) The total amount of accounts payable for the current fiscal year, as determined by the state financial authority's uniform chart of accounts, is in excess of 10% of the total expenditures of the local government in that fiscal year.

- As previously noted, the School District was approximately \$1.4 million in arrears to the Public School Employees Retirement System through November 2011. (Section 13(3)(b)(iii)).
- The School District had a general fund deficit of \$8,472,543 as of June 30, 2011, which was not eliminated within the two-year period preceding the end of the fiscal year of the School District during which this Review Team report is received. (Section 13(3)(e)).
- The School District is projecting a cumulative general fund deficit of \$9,442,788 for the current fiscal year which ends on June 30, 2012, which would exceed 5 percent of the \$17,600,387 in budgeted revenues for the general fund.

III. Review Team Report Transmittal Requirements

Section 13(3) of Act 4 also requires that a copy of this report be transmitted to Interim Superintendent David Sipka, the Muskegon Heights Board of Education, the Speaker of the House of Representatives, and the Senate Majority Leader.

cc: David L. Sipka, Interim Superintendent
Muskegon Heights Board of Education
James Bolger, Speaker of the House of Representatives
Randy Richardville, Senate Majority Leader

(e) Failure to eliminate an existing deficit in any fund of the local government within the 2-year period preceding the end of the local government's fiscal year during which the review team report is received.

(f) Projection of a deficit in the general fund of the local government for the current fiscal year in excess of 5% of the budgeted revenues for the general fund.

(g) Failure to comply in all material respects with the terms of an approved deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan.

(h) Existence of material loans to the general fund from other local government funds that are not regularly settled between the funds or that are increasing in scope.

(i) Existence after the close of the fiscal year of material recurring unbudgeted subsidies from the general fund to other major funds as defined under government accounting standards board principles.

(j) Existence of a structural operating deficit.

(k) Use of restricted revenues for purposes not authorized by law.

(l) Any other facts and circumstances indicative of local government financial stress or financial emergency.

APPENDIX B

School District of the City of Muskegon Heights

REPORT ON FINANCIAL STATEMENTS

Year ended June 30, 2011

School District of the City of Muskegon Heights

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2011

School District of the City of Muskegon Heights

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

This section of Muskegon Heights Public Schools' annual report represents an overall review of the school district's financial activities for the fiscal year ended June 30, 2011. Please review in conjunction with the financial statements and notes to the financial statements to enhance an understanding of the district's financial performance.

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

Overview of the Financial Statements

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

District-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

Financial Analysis of the District as a Whole

Figure A-1 shows a condensed breakdown of the net assets. The decrease in current assets stems from increased cash and cash equivalents, reduced accounts receivable, and reduced receivables from other governmental units when compared to the 2009/10 school year. The decrease in capital assets can be attributed to depreciation expense incurred during the 2010/11 school year.

The increase in total liabilities stems from additional state aid loan borrowing. This borrowing was necessary due to the recognition of lower student enrollment at the beginning of the school year and an increase in retiree legacy costs. In addition, Michigan Public School Employees Retirement System (MPSERS) contributions increased significantly, as well as district-paid contributions toward current employee healthcare and other necessary operational expenses. Please refer to the "General Fund Budgetary Highlights" section of this report for further explanation of these costs.

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

Figure A-1
Condensed Statement of Net Assets

| Governmental Activities | | |
|--|-------------------------------------|-------------------------------------|
| | <u>June 30, 2011</u> | <u>June 30, 2010</u> |
| Current Assets | \$ 5,370,340 | \$ 5,421,245 |
| Capital Assets, net | 25,355,530 | 26,359,054 |
| Other Non Current Assets | 1,060,891 | 912,308 |
| Total Assets | <u>31,786,761</u> | <u>32,692,607</u> |
| Current Liabilities | 13,979,794 | 9,955,861 |
| Non Current Liabilities | 26,003,634 | 26,692,181 |
| Total Liabilities | <u>39,983,428</u> | <u>36,648,042</u> |
| Net Assets | | |
| Invested in Capital Assets, net of related debt | 2,277,308 | 2,621,744 |
| Restricted for: | | |
| Debt Service | 991,620 | 881,795 |
| Unrestricted | <u>(11,465,595)</u> | <u>(7,458,974)</u> |
| Total Net Assets | <u><u>\$ (8,196,667)</u></u> | <u><u>\$ (3,955,435)</u></u> |

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

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

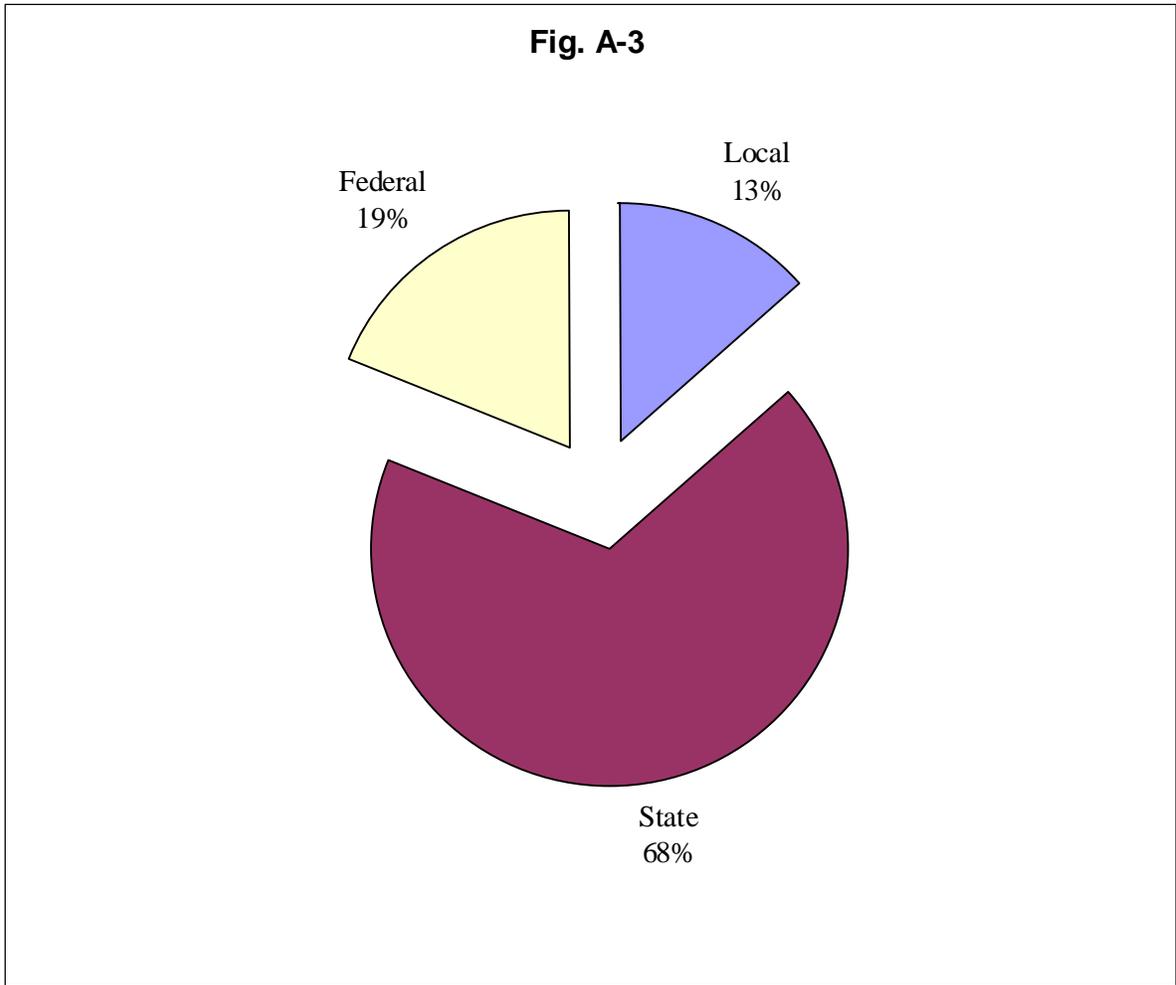
Figure A-2 provides the detail behind the changes in the district's net assets. Revenues classified under "charges for services" include amounts received for special education transportation and other receipts from those who have benefited from the related programs. Revenue generated from operating grant and contribution activities decreased due to lower district participation in those activities. Downward adjustments in unrestricted grants and contributions were the result of lower student enrollment.

Total expenses decreased due to staff retirement, staff layoffs, and increased contracted staffing.

| Figure A-2 | | |
|---|-------------------------------------|-------------------------------------|
| Statement of Net Assets from Operating Results | | |
| For the Period Ending: June 30, | Governmental Activities | |
| | <u>2011</u> | <u>2010</u> |
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$ 465,683 | \$ 478,800 |
| Operating Grants and contributions | 7,476,410 | 9,815,218 |
| General Revenues | | |
| Property taxes | 2,926,825 | 3,036,505 |
| Unrestricted grants and contributions | 9,908,512 | 10,070,016 |
| Other | 25,930 | 23,114 |
| Total revenues | <u>20,803,360</u> | <u>23,423,653</u> |
| Expenses | | |
| Instruction | 12,415,852 | 12,836,169 |
| Support services | 8,765,663 | 9,495,104 |
| Community services | 1,234,905 | 1,377,881 |
| Food services | 1,123,551 | 1,177,598 |
| Athletics | 368,649 | 377,368 |
| Interest on long-term debt | 1,115,088 | 1,136,927 |
| Total expenses | <u>25,023,708</u> | <u>26,401,047</u> |
| Other changes | | |
| Depreciation and amortization | (20,884) | (20,884) |
| Increase (decrease) in net assets | <u>(4,241,232)</u> | <u>(2,998,278)</u> |
| Beginning net assets (deficit) | <u>(3,955,435)</u> | <u>(957,157)</u> |
| Ending net assets (deficit) | <u><u>\$ (8,196,667)</u></u> | <u><u>\$ (3,955,435)</u></u> |

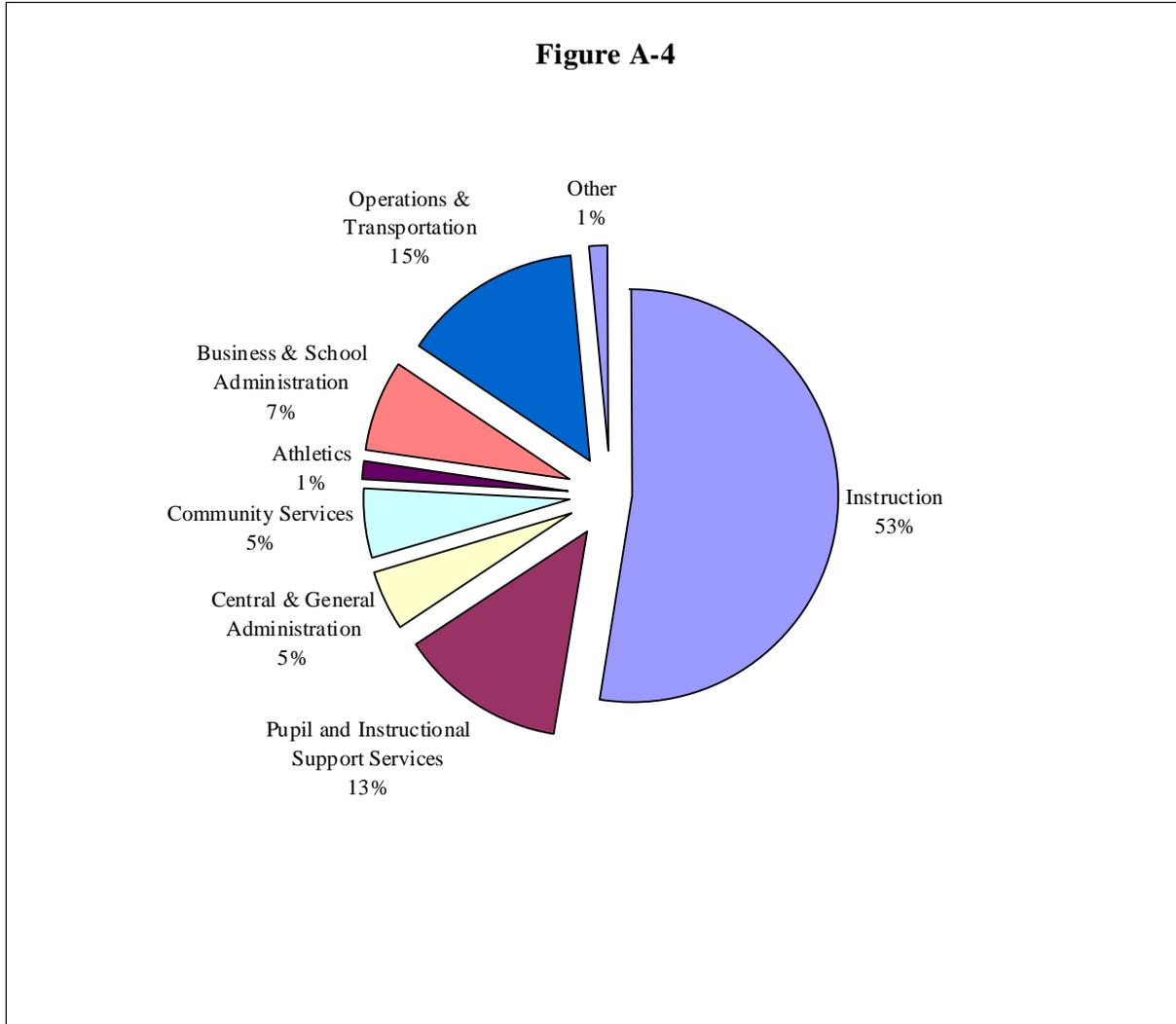
Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

A substantial portion (68%) of the district's General Fund revenue is received from State sources. This means that the financial stability of the district rests primarily with the economic health of the State of Michigan and level of student enrollment. Figure A-3 depicts the General Fund breakdown of the sources of revenue for the district.



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

Figure A-4 depicts 66% of the district's General Fund resources are spent on instruction and pupil support services. Another 12% is spent on administrative and business services necessary to efficiently operate the district, while 15% is spent for building operation and maintenance, including utilities, custodial services and transportation. The final 7% is spent on community and other support services.



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

Financial Analysis of the District's Funds

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

General Fund Budgetary Highlights

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

Original Budget v. Amended Budget

Revenues

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

Expenditures

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

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

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

Amended Budget v. Actual Results

Revenues

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

Expenditures

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

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

Capital Assets and Debt Administration

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

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

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

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

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

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

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

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

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

Requests for Information

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

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 28, 2011

Board of Education
School District of the City of Muskegon Heights
Muskegon Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of Muskegon Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B, the School District has a deficit in the General Fund.

In accordance with *Government Auditing Standards* we have also issued our report dated December 28, 2011, on our consideration of the School District of the City of Muskegon Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Education
December 28, 2011
Page 2

Accounting principles generally accepted in the United States of America required that the management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages i - x and 30 - 31 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Brickley De Long, P.C.

School District of the City of Muskegon Heights
STATEMENT OF NET ASSETS
June 30, 2011

| | <u>Governmental activities</u> |
|---|------------------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 501,110 |
| Investments | 654,000 |
| Receivables | 307,530 |
| Due from other governmental units | 3,878,531 |
| Inventories | 29,169 |
| | <hr/> |
| Total current assets | 5,370,340 |
| NONCURRENT ASSETS | |
| Restricted cash | 645,202 |
| Capital assets, net | |
| Nondepreciable | 1,475,734 |
| Depreciable | 23,879,796 |
| Bond issuance costs, net | 305,935 |
| Note and interest receivable | 109,754 |
| | <hr/> |
| Total noncurrent assets | 26,416,421 |
| | <hr/> |
| Total assets | 31,786,761 |
| LIABILITIES AND NET ASSETS (DEFICIT) | |
| CURRENT LIABILITIES | |
| State aid loan | 8,525,000 |
| Accounts payable and accrued liabilities | 3,824,371 |
| Due to other governmental units | 696,748 |
| Bonds and other obligations, due within one year | 933,675 |
| | <hr/> |
| Total current liabilities | 13,979,794 |
| NONCURRENT LIABILITIES | |
| Bonds and other obligations, less amounts due within one year | 26,003,634 |
| | <hr/> |
| Total liabilities | 39,983,428 |
| NET ASSETS (DEFICIT) | |
| Invested in capital assets, net of related debt | 2,277,308 |
| Restricted for debt service | 991,620 |
| Unrestricted | (11,465,595) |
| | <hr/> |
| Total net assets (deficit) | <u>\$ (8,196,667)</u> |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

| <i>Functions/Programs</i> | <u>Expenses</u> | <u>Program Revenue</u> | | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
|--|-----------------------------|---------------------------------|---|--|
| | | <u>Charges for services</u> | <u>Operating grants and contributions</u> | <u>Governmental activities</u> |
| Governmental activities | | | | |
| Instruction | \$ 12,415,852 | \$ 1,643 | \$ 2,832,763 | \$ (9,581,446) |
| Support services | 8,765,663 | 265,025 | 2,421,193 | (6,079,445) |
| Community services | 1,234,905 | 51,671 | 1,178,112 | (5,122) |
| Food services | 1,123,551 | 86,121 | 1,037,029 | (401) |
| Athletics | 368,649 | 61,223 | - | (307,426) |
| Interest on long-term debt | 1,115,088 | - | 7,313 | (1,107,775) |
| Unallocated amortization | 20,884 | - | - | (20,884) |
| Total governmental activities | <u><u>\$ 25,044,592</u></u> | <u><u>\$ 465,683</u></u> | <u><u>\$ 7,476,410</u></u> | (17,102,499) |
| General revenues | | | | |
| Property taxes | | | | 2,926,825 |
| Grants and contributions not restricted to specific programs | | | | 9,908,512 |
| Investment earnings | | | | 12,452 |
| Miscellaneous | | | | 13,478 |
| Total general revenues | | | | <u>12,861,267</u> |
| Change in net assets | | | | (4,241,232) |
| Net assets (deficit) at beginning of year | | | | <u>(3,955,435)</u> |
| Net assets (deficit) at end of year | | | | <u><u>\$ (8,196,667)</u></u> |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
BALANCE SHEET
 Governmental Funds
 June 30, 2011

| | <u>General Fund</u> | <u>1999 Capital Projects Fund</u> | <u>2007 Energy Conservation Bond Retirement Fund</u> | <u>Other governmental funds</u> | <u>Total governmental funds</u> |
|--------------------------------------|---------------------|---------------------------------------|--|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 483,000 | \$ 3,750 | \$ 14,346 | \$ 14 | \$ 501,110 |
| Investments | 654,000 | - | - | - | 654,000 |
| Receivables | 305,588 | - | - | 1,942 | 307,530 |
| Due from other governmental units | 3,816,524 | - | - | 62,007 | 3,878,531 |
| Due from other funds | - | 5,075 | - | 748,918 | 753,993 |
| Inventories | 22,612 | - | - | 6,557 | 29,169 |
| Restricted cash and cash equivalents | - | - | 645,202 | - | 645,202 |
| | \$ 5,281,724 | \$ 8,825 | \$ 659,548 | \$ 819,438 | \$ 6,769,535 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| State aid loan | \$ 8,525,000 | \$ - | \$ - | \$ - | \$ 8,525,000 |
| Accounts payable | 675,937 | - | - | 333,314 | 1,009,251 |
| Accrued liabilities | 2,667,231 | - | - | 643 | 2,667,874 |
| Due to other governmental units | 696,748 | - | - | - | 696,748 |
| Due to other funds | 753,993 | - | - | - | 753,993 |
| Deferred revenue | 435,358 | - | - | 6,163 | 441,521 |
| | 13,754,267 | - | - | 340,120 | 14,094,387 |
| Fund balances (deficit) | | | | | |
| Nonspendable | | | | | |
| Inventories | 22,612 | - | - | 6,557 | 29,169 |
| Restricted for | | | | | |
| Debt service | - | - | 659,548 | 479,318 | 1,138,866 |
| Capital projects | - | 8,825 | - | - | 8,825 |
| Unassigned | (8,495,155) | - | - | (6,557) | (8,501,712) |
| | (8,472,543) | 8,825 | 659,548 | 479,318 | (7,324,852) |
| | \$ 5,281,724 | \$ 8,825 | \$ 659,548 | \$ 819,438 | \$ 6,769,535 |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2011

| | | |
|--|---------------------|------------------------------|
| Total fund balance (deficit)—governmental funds | | \$ (7,324,852) |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds. | | |
| Cost of capital assets | \$ 42,937,106 | |
| Accumulated depreciation | <u>(17,581,576)</u> | 25,355,530 |
| Bond issuance costs are not capitalized and amortized in the governmental funds. | | |
| Bond issuance costs | 398,504 | |
| Accumulated amortization | <u>(92,569)</u> | 305,935 |
| Other long-term note and interest receivable in governmental activities is not reported in the governmental funds. | | 109,754 |
| Accrued interest in governmental activities is not reported in the governmental funds. | | (147,246) |
| Deferred revenue reported on the balance sheet that does not provide current financial resources is not reported as revenue in the governmental funds. | | 441,521 |
| Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds. | | <u>(26,937,309)</u> |
| Net assets (deficit) of governmental activities in the Statement of Net Assets | | <u><u>\$ (8,196,667)</u></u> |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
 Governmental Funds
 For the year ended June 30, 2011

| | General Fund | 1999 Capital Projects Fund | 2007 Energy Conservation Bond Retirement Fund | Other governmental funds | Total governmental funds |
|---|-----------------------|---------------------------------------|--|---|---|
| REVENUES | | | | | |
| Local sources | | | | | |
| Property taxes | \$ 1,350,638 | \$ - | \$ - | \$ 1,576,187 | \$ 2,926,825 |
| Investment earnings | 1,571 | 89 | 10,645 | 147 | 12,452 |
| Fees and charges | 325,221 | - | - | 86,121 | 411,342 |
| Other | 722,647 | - | - | - | 722,647 |
| Total local sources | 2,400,077 | 89 | 10,645 | 1,662,455 | 4,073,266 |
| State sources | 12,015,636 | - | - | 105,445 | 12,121,081 |
| Federal sources | 3,368,856 | - | - | 983,904 | 4,352,760 |
| Total revenues | 17,784,569 | 89 | 10,645 | 2,751,804 | 20,547,107 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Instruction | 11,557,817 | - | - | - | 11,557,817 |
| Support services | 8,726,326 | - | - | - | 8,726,326 |
| Community services | 1,209,273 | - | - | - | 1,209,273 |
| Food services | - | - | - | 1,058,493 | 1,058,493 |
| Athletics | 292,526 | - | - | - | 292,526 |
| Debt service | | | | | |
| Principal | - | - | - | 810,866 | 810,866 |
| Interest and other charges | - | - | 157 | 953,844 | 954,001 |
| Capital projects | - | 100,748 | - | - | 100,748 |
| Total expenditures | 21,785,942 | 100,748 | 157 | 2,823,203 | 24,710,050 |
| Excess (deficiency) of revenues over (under) expenditures | (4,001,373) | (100,659) | 10,488 | (71,399) | (4,162,943) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | - | 224,494 | 65,313 | 289,807 |
| Transfers out | (275,306) | - | - | (14,501) | (289,807) |
| Total other financing sources (uses) | (275,306) | - | 224,494 | 50,812 | - |
| Net change in fund balances | (4,276,679) | (100,659) | 234,982 | (20,587) | (4,162,943) |
| Fund balances (deficit) at beginning of year, as restated | (4,195,864) | 109,484 | 424,566 | 499,905 | (3,161,909) |
| Fund balances (deficit) at end of year | \$ (8,472,543) | \$ 8,825 | \$ 659,548 | \$ 479,318 | \$ (7,324,852) |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICIT) TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2011

| | | |
|---|----------------|------------------------------|
| Net change in fund balances (deficit)—total governmental funds | | \$ (4,162,943) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively. | | |
| Depreciation and amortization expense | \$ (1,199,372) | |
| Capital outlay | <u>174,964</u> | (1,024,408) |
| Receipts of principal on notes receivable is revenue in the governmental funds, but the receipt reduces notes receivable in the Statement of Net Assets. | | (50,866) |
| Interest income on notes receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received. | | (303) |
| Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds. | | 307,423 |
| Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets. | | 795,132 |
| Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid. | | (145,354) |
| 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. | | <u>40,087</u> |
| Change in net assets (deficit) of governmental activities | | <u><u>\$ (4,241,232)</u></u> |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2011

| | <u>Agency funds</u> |
|---------------------------|-------------------------|
| ASSETS | |
| Cash and cash equivalents | <u><u>\$ 31,285</u></u> |
| LIABILITIES | |
| Accounts payable | \$ 7,924 |
| Deposits held for others | <u>23,361</u> |
| | <u><u>\$ 31,285</u></u> |

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

District-wide and Fund Financial Statements

District-wide Financial Statements

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes, unrestricted state aid, 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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements

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

In the fund financial statements, when expenditures are incurred in governmental fund types for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the School District's policy to consider that restricted amounts have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Governmental funds

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

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *1999 Building Capital Projects Fund* accounts for the use of the proceeds from the 1999 School Building and Site Bonds. The Bonds were approved for issuance on March 9, 1999 and may be used for school building and site purposes.
- The *2007 Energy Conservation Bond Retirement Fund* accounts for the resources accumulated and payments made for principal and interest of the 2007 Energy Conservation bonds.

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

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the financial resources to be used for 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 *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).

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

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

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 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, 2011, the foundation allowance was based on pupil membership counts taken in February and September of 2010.

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 2010 to August 2011. Thus, the unpaid portion at June 30, 2011 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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

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

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

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

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

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.

Inventories

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

Prepaid Items

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

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Restricted Assets

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

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

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

| | |
|----------------------------|-------------|
| Land improvements | 10-15 years |
| Buildings and improvements | 15-40 years |
| Equipment | 5-10 years |
| Vehicles | 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.

Compensated Absences

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

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

Early Retirement Incentives

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

Deferred Revenue

Deferred revenue arises when assets are recorded 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.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations

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

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

Net Assets in District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund and School Loan Revolving Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity in Fund Financial Statements

In the fund financial statements, governmental fund balance is presented in five possible categories:

- a. *Nonspendable*—resources which cannot be spent because they are either 1) not in spendable form; or 2) legally or contractually required to be maintained intact.
- b. *Restricted*—resources with constraints placed on the use of resources which are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation.
- c. *Committed*—resources which are subject to limitations the School District imposes upon its self at its highest level of decision making, and that remain binding unless the limitations are removed in the same manner.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Fund Equity in Fund Financial Statements—Continued

- d. *Assigned*—resources neither restricted nor committed for which the School District has a stated intended use as established by the Board of Education or a body or official to which the Board of Education has delegated the authority to assign amounts for specific purposes.
- e. *Unassigned*—resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Estimates

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

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2011.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

For the year ended June 30, 2011, expenditures in the General Fund exceeded appropriations in the instruction – basic programs function by \$381,641, instructional staff function by \$77,241, general administration function by \$85,510, business function by \$58,690, operations and maintenance function by \$141,957, central function by \$18,996, and athletics by \$27,806.

Fund Deficits

The Michigan State School Aid act states a district receiving money under this act shall not adopt or operate under a deficit budget, and shall not incur an operating deficit in a fund during a school fiscal year. A district having an existing deficit or which incurs a deficit shall not be allotted or paid further sums under this act until the district submits to the Michigan Department of Education for approval a budget for the current fiscal year and a plan to eliminate the deficit not later than the end of the second fiscal year after the deficit was incurred. At June 30, 2011 the General Fund of the District had a deficit of \$8,472,543. This initial budget for the fiscal year ending June 30, 2012 shows expenditures and outgoing transfers, exceeding revenues and incoming transfers by \$1,604,510. The District continues to work with the Michigan Department of Education and is in the process of executing a deficit elimination plan.

School Bond Construction Compliance

The 1999 Building Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan’s School Code.

Following is a summary of the revenue and expenditures in the 1999 Building Capital Projects Fund from the inception of the fund through June 30, 2011.

| | <u>1999 Building Capital Projects Fund</u> |
|---------------------------|--|
| Revenue and bond proceeds | \$29,624,297 |
| Expenditures | 29,615,472 |

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2011, the School District had the following investments:

| Investment Type | Fair value | Weighted average maturity (Days) | Standard & Poor's rating | Percent |
|--|-----------------------|---|---|----------------|
| External investment pool | \$ 674,289 | 52 | not rated | 51% |
| U.S. Treasury Obligations - State and Local Government Series | 654,000 | N/A | not rated | 49% |
| Total fair value | \$ 1,328,289 | | | 100% |

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE C—DEPOSITS AND INVESTMENTS—Continued

The School District voluntarily invests certain excess funds in external investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan school districts. The Pools are not regulated nor are they registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

Interest rate risk

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk

The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2011, \$395,202 of the School District's bank balance of \$745,711 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments

The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk

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

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

| | <u>Balance</u> <u>July 1, 2010</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2011</u> |
|---|---------------------------------------|-----------------------|-------------------|--|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,475,734 | \$ - | \$ - | \$ 1,475,734 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 619,178 | 41,575 | - | 660,753 |
| Buildings and improvements | 37,487,569 | 20,278 | - | 37,507,847 |
| Equipment | 2,591,153 | 82,966 | - | 2,674,119 |
| Vehicles | 588,508 | 30,145 | - | 618,653 |
| Total capital assets, being depreciated | 41,286,408 | 174,964 | - | 41,461,372 |
| Less accumulated depreciation: | | | | |
| Land improvements | 471,493 | 19,431 | - | 490,924 |
| Buildings and improvements | 13,553,732 | 960,150 | - | 14,513,882 |
| Equipment | 1,810,920 | 184,980 | - | 1,995,900 |
| Vehicles | 566,943 | 13,927 | - | 580,870 |
| Total accumulated depreciation | 16,403,088 | 1,178,488 | - | 17,581,576 |
| Total capital assets, being depreciated, net | 24,883,320 | (1,003,524) | - | 23,879,796 |
| Capital assets, net | <u>\$ 26,359,054</u> | <u>\$ (1,003,524)</u> | <u>\$ -</u> | <u>\$ 25,355,530</u> |

Depreciation

Depreciation expense has been charged to functions as follows:

| | |
|--------------------|---------------------|
| Instruction | \$ 903,058 |
| Support services | 108,617 |
| Community services | 76,123 |
| Athletics | 65,058 |
| Food services | 25,632 |
| | <u>\$ 1,178,488</u> |

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2011 was as follows:

| | Balance July 1, 2010 | Additions | Deductions | Balance June 30, 2011 |
|-------------------------------|---------------------------------|--------------------|-------------------|----------------------------------|
| Bond issuance costs | \$ 398,504 | \$ - | \$ - | \$ 398,504 |
| Less accumulated amortization | 71,685 | 20,884 | - | 92,569 |
| | \$ 326,819 | \$ (20,884) | \$ - | \$ 305,935 |

Amortization

Amortization expense has been charged as unallocated amortization.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2011 is as follows:

| Receivable fund | Payable fund | Amount |
|----------------------------|---------------------|-------------------|
| 1999 Capital Projects Fund | General Fund | \$ 5,075 |
| Other governmental funds | General Fund | 748,918 |
| | | \$ 753,993 |

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

Interfund Transfers

The General Fund transferred \$65,313 to the Food Service Fund to finance operations and \$209,993 to the 2007 Energy Conservation Bond Retirement Fund for debt service. The Energy Conservation Capital Projects Fund transferred \$14,501 to the 2007 Energy Conservation Bond Retirement Fund for debt service.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE G—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2011 follows:

| | Balance July 1, 2010 | Additions | Reductions | Balance June 30, 2011 |
|---------------------------------|---------------------------------|---------------------|---------------------|----------------------------------|
| State aid anticipation note | | | | |
| 2009/2010 0.85% due August 2010 | \$ 3,600,000 | \$ - | \$ 3,600,000 | \$ - |
| 2009/2010 0.55% due August 2010 | 1,750,000 | - | 1,750,000 | - |
| 2010/2011 1.46% due August 2011 | - | 1,200,000 | - | 1,200,000 |
| 2010/2011 0.80% due August 2011 | - | 750,000 | - | 750,000 |
| 2010/2011 0.40% due August 2011 | - | 6,575,000 | - | 6,575,000 |
| | \$ 5,350,000 | \$ 8,525,000 | \$ 5,350,000 | \$ 8,525,000 |

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 the School Bond Loan Fund, School Loan Revolving Fund and Education Interconnection and Consortium Financing Agreement.

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2011:

| | Balance July 1, 2010 | Additions | Reductions | Balance June 30, 2011 | Due within one year |
|--------------------------------|---------------------------------|-------------------|-------------------|----------------------------------|--------------------------------|
| Governmental activities | | | | | |
| Bonds | \$ 24,174,939 | \$ - | \$ 790,741 | \$ 23,384,198 | \$ 838,284 |
| Other obligations | 3,080,514 | 150,090 | 4,391 | 3,226,213 | 4,391 |
| Compensated absences | 129,985 | 30,882 | 29,969 | 130,898 | 43,000 |
| Early retirement obligations | 237,000 | 33,000 | 74,000 | 196,000 | 48,000 |
| | \$ 27,622,438 | \$ 213,972 | \$ 899,101 | \$ 26,937,309 | \$ 933,675 |

The additions for other obligations represent \$126,744 of accrued interest on the School Bond Loan Fund and \$23,346 of accrued interest on the School Loan Revolving Fund.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE H—LONG-TERM OBLIGATIONS—Continued

General obligation bonds consist of the following:

| | |
|--|------------------------------------|
| 2006 General Obligation Refunding Bond payable in annual installments ranging from \$785,000 to \$1,580,000 due May 2012 to 2029; plus interest ranging from 3.5% to 5% payable semi- annually | \$ 20,485,000 |
| Less issuance discount | (95,736) |
| Less deferred amount on refunding | (263,171) |
| 0% 2007 Energy Conservation Improvement Bonds requiring annual set aside principal installments of \$209,933 unless a lesser amount will be sufficient to pay the bonds as they mature through December 2022. | 3,149,000 |
| Durant obligations payable in annual installments of \$58,479 including interest at 4.76% due May 2012 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations. | <u>109,105</u> |
| Total bonded debt | 23,384,198 |
| Other obligations | |
| School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements or May 2035, whichever is sooner; interest payable of \$442,014 is included at interest rates ranging from 5.000% to 5.375% | 2,577,624 |
| School Loan Revolving Fund payable as soon as annual tax collections exceed annual debt service payment requirements or May 2035, whichever is sooner; interest payable of \$59,845 is included at interest rates ranging from 3.000% to 4.803% | 639,805 |
| Education Interconnection and Consortium Financing Agreement payable in annual installments of \$4,391 due March 2012 to 2013 | <u>8,784</u> |
| Total other obligations | 3,226,213 |
| Compensated absences | 130,898 |
| Early retirement obligations | <u>196,000</u> |
| | <u><u>\$ 26,937,309</u></u> |

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE H—LONG-TERM OBLIGATIONS—Continued

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

The annual requirements of principal and interest to amortize the bonded debt, Education Interconnection and Consortium Financing Agreement, and early retirement incentives outstanding as of June 30, 2011 follow:

| Year ending June 30, | Principal | Interest | Total |
|---------------------------------|----------------------|---------------------|----------------------|
| 2012 | \$ 890,675 | \$ 884,778 | \$ 1,775,453 |
| 2013 | 914,214 | 852,803 | 1,767,017 |
| 2014 | 876,000 | 817,545 | 1,693,545 |
| 2015 | 912,000 | 775,295 | 1,687,295 |
| 2016 | 941,000 | 739,695 | 1,680,695 |
| 2017-2021 | 5,275,000 | 3,080,913 | 8,355,913 |
| 2022-2026 | 9,589,000 | 1,870,802 | 11,459,802 |
| 2027-2029 | 4,550,000 | 413,306 | 4,963,306 |
| | \$ 23,947,889 | \$ 9,435,137 | \$ 33,383,026 |

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description

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

Office of Retirement Systems
 Michigan Public School Employees Retirement System
 P.O. Box 30171
 Lansing Michigan 48909-7671
 1-800-381-5111

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE I—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan –Continued

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 between January 1, 1990 and June 30, 2008 and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 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. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 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. Actuarial rate of 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 contributions plus interest, if any, are refundable.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3 percent (or 1.5 percent) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school fiscal year and members who were hired on or after July 1, 2010, with a starting salary less than \$18,000 are required to contribute 1.5 percent of the member's compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3 percent of compensation into the health care funding account.

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, 2011 ranged from 16.94 percent to 20.66 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, 2011, 2010 and 2009 were approximately \$2,082,000, \$1,869,000, and \$1,960,000 respectively, and were equal to the required contribution for those years.

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

Other post-employment benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE I—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Contribution Plan

Public Act 75 of 2010 established the Pension Plus Plan which provides all individuals hired on or after July 1, 2010, with a combined Defined Benefit and Defined Contribution benefit structure. Any member of MPSERS who became a member of MPSERS on or after July 1, 2010 is a Pension Plus member. The plan is administered by the MPSERS Board of Trustees and the contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees.

Employees under the Pension Plus Plan are automatically enrolled in the defined contribution component of the plan with a default employee contribution rate of 2 percent of the employee’s pay. Employees may increase their personal contribution up to the annual IRS limit or can elect out of contributing. The School District is required to match 50 percent of the employee contribution up to 1 percent of the employee’s pay. For the year ended June 30, 2011, School District and employee contributions were approximately \$200 and \$400, respectively.

NOTE J—POST-EMPLOYMENT HEALTH CARE PLAN

Plan Description. Pursuant to employment contracts, certain retired employees who elected early retirement are eligible to receive post-retirement health insurance benefits through the Muskegon Heights Public Schools Retiree Medical Plan (Plan), a single employer defined benefit postemployment healthcare plan administered by the School District. Benefits terminate the month the person attains eligibility for full social security benefits, or dies, whichever occurs first; however, no more than ten (10) years of payments will be made. Future retirees' benefits will terminate June 30, 2012.

Funding Policy. Retirees are not required to contribute to the Plan. The School District funds the Plan on a pay-as-you-go basis. The annual cost of these benefits per retiree ranged from \$3,000 to \$28,000, provided to approximately 67 participants.

Annual OPEB Cost and Net OPEB Obligation. The School District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the School District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the School District's net OPEB obligation to the Plan.

| | |
|--|------------|
| Annual required contribution | \$ 636,081 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost (expense) | 636,081 |
| Contributions made | 636,081 |
| Increase in net OPEB obligation | - |
| Net OPEB obligation - beginning of year | - |
| Net OPEB obligation - end of year | \$ - |

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE J—POST-EMPLOYMENT HEALTH CARE PLAN— Continued

Annual OPEB Cost and Net OPEB Obligation.—Continued The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2011 is as follows:

| <u>Year ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------|-------------------------|---|----------------------------|
| 6/30/09 | \$ 557,317 | 100 % | \$ - |
| 6/30/10 | 669,770 | 100 | - |
| 6/30/11 | 636,081 | 100 | - |

Funded Status and Progress. The funded status of the Plan as of July 1, 2008 (the most recent valuation date), was as follows:

| | |
|---|----------------------------|
| Actuarial accrued liability (AAL) | \$ 3,569,097 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability | <u><u>\$ 3,569,097</u></u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0 % |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of Plan members not contributing to the Plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The required contribution was determined as part of the July 1, 2008 actuarial valuation using the Projected Unit Credit (level dollar) actuarial cost method. The actuarial assumptions included 4 percent discount rate, which assumes a 10% percent inflation assumption starting in 2009 graded to 5% in 2014. The Plan's unfunded actuarial accrued liability is being amortized as a level dollar on a closed basis. The remaining amortization period at June 30, 2011 is 2 years.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE K—COMMITMENTS AND CONTINGENCIES

Operating Leases

The School District has lease agreements expiring at various dates through February 2014. Expense for the year ended June 30, 2011 was approximately \$61,000. The following is a schedule of future minimum rental payments required under operating leases for School District office equipment.

| Year ending June 30, | Amount |
|---------------------------------|-------------------|
| 2012 | \$ 122,264 |
| 2013 | 23,264 |
| 2014 | 2,598 |
| | \$ 148,126 |

Grant Programs

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

NOTE L—OTHER INFORMATION

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, 2011 or any of the prior three years.

Related Party Transactions

The School District contracted with an Organization in which a school board member is also a board member of the Organization to provide services totaling approximately \$7,000 during the year. The School District paid approximately \$17,000 for professional services to a family member of a School District employee.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE M—SUBSEQUENT EVENTS

In August 2011, the School District received the proceeds of a \$7,878,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to their maturity in August 2011 and bears interest at the rate of 0.31 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.

In August 2011, the School District terminated one of the operating leases disclosed in Note K and entered into a 60-month capital lease requiring monthly payments of \$9,266.

NOTE N—PRIOR PERIOD ADJUSTMENT

On July 1, 2010, the School District adopted Governmental Accounting Standards Board (GASB) Statement 54—Fund Balance Reporting and Governmental Fund Type Definitions. Under GASB 54, the Athletics Fund no longer qualifies as a special revenue fund type and all athletics revenues and expenditures are reported in the General Fund. The June 30, 2010 Athletics Fund fund deficit is required to be reclassified to the General Fund. The School District's restated General Fund and Other governmental funds beginning fund balances (deficits) are as follows:

| | <u>General Fund</u> | <u>Other governmental funds</u> |
|---|------------------------------------|--|
| Beginning fund balance (deficit) | \$(3,935,660) | \$ 55,056 |
| Reclassification of Athletics Fund fund deficit | <u>(260,204)</u> | <u>260,204</u> |
| Beginning fund balance (deficit), as restated | <u><u>\$(4,195,864)</u></u> | <u><u>\$ 315,260</u></u> |

REQUIRED SUPPLEMENTARY INFORMATION

School District of the City of Muskegon Heights
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2011

| | <u>Budgeted amounts</u> | | <u>Actual</u> | Variance with final budget- positive (negative) |
|---|-------------------------|-----------------------|-----------------------|--|
| | <u>Original</u> | <u>Final</u> | | <u>(negative)</u> |
| REVENUES | | | | |
| Local sources | \$ 2,570,190 | \$ 2,605,313 | \$ 2,400,077 | \$ (205,236) |
| State sources | 12,261,530 | 11,975,256 | 12,015,636 | 40,380 |
| Federal sources | 4,911,380 | 5,426,895 | 3,368,856 | (2,058,039) |
| Total revenues | 19,743,100 | 20,007,464 | 17,784,569 | (2,222,895) |
| EXPENDITURES | | | | |
| Instruction | | | | |
| Basic programs | 7,933,880 | 7,377,180 | 7,758,821 | (381,641) |
| Added needs | 4,450,740 | 4,039,320 | 3,689,744 | 349,576 |
| Adult and continuing education | 61,310 | 132,090 | 109,252 | 22,838 |
| Support services | | | | |
| Pupil | 1,738,060 | 1,606,600 | 1,576,280 | 30,320 |
| Instructional staff | 1,363,120 | 1,247,680 | 1,324,921 | (77,241) |
| General administration | 445,890 | 447,460 | 532,970 | (85,510) |
| School administration | 915,160 | 978,310 | 940,166 | 38,144 |
| Business | 812,440 | 626,630 | 685,320 | (58,690) |
| Operations and maintenance | 2,174,750 | 2,153,600 | 2,295,557 | (141,957) |
| Pupil transportation services | 908,850 | 882,630 | 840,936 | 41,694 |
| Central | 594,270 | 511,180 | 530,176 | (18,996) |
| Athletics | 265,220 | 265,220 | 292,526 | (27,306) |
| Community services | 1,351,080 | 1,343,040 | 1,209,273 | 133,767 |
| Outgoing transfers and other transactions | 215,690 | 339,497 | 275,306 | 64,191 |
| Total expenditures | 23,230,460 | 21,950,437 | 22,061,248 | (110,811) |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ (3,487,360)</u> | <u>\$ (1,942,973)</u> | (4,276,679) | <u>\$ (2,333,706)</u> |
| Fund balance at beginning of year, as restated | | | (4,195,864) | |
| Fund balance at end of year | | | <u>\$ (8,472,543)</u> | |

School District of the City of Muskegon Heights
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
RETIREE MEDICAL PLAN
 For the year ended June 30, 2011

| <u>Actuarial valuation date</u> | <u>Actuarial value of assets (a)</u> | <u>Actuarial accrued liability (AAL) (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded ratio (a/b)</u> | <u>Covered payroll (c)</u> | <u>UAAL as a percentage of covered payroll [(b-a)/c]</u> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 7/1/2008 | \$ - | \$ 3,569,097 | \$ 3,569,097 | - | N/A | N/A |

Factors Significantly Affecting Trends

1. Assumption or method changes - first GASB 45 report issued.

N/A-not applicable.

School District of the City of Muskegon Heights

**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2011

C O N T E N T S

FINANCIAL REPORT AND INDEPENDENT AUDITORS' REPORTS

INTERNAL CONTROL AND COMPLIANCE REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

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

December 28, 2011

Board of Education
School District of the City of Muskegon Heights
Muskegon Heights, Michigan

We have audited the financial statements of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2011 and have issued our report thereon dated December 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District of the City of Muskegon Heights' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses, as **Findings 2011-2, 2011-3 and 2011-4**.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies, as **Findings 2011-1, 2011-5, 2011-6 and 2011-7**.

Board of Education
December 28, 2011
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of the City of Muskegon Heights' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed **one** instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which **is** described as **Finding 2011-1** in Section II of the accompanying Schedule of Findings and Responses.

The School District of the City of Muskegon Heights' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the School District of the City of Muskegon Heights' responses and, accordingly, we express no opinion on them.

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

Brickley De Long, P.C.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 28, 2011

Board of Education
School District of the City of Muskegon Heights
Muskegon Heights, Michigan

Compliance

We have audited the School District of the City of Muskegon Heights' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District of the City of Muskegon Heights' major federal programs for the year ended June 30, 2011. The School District of the City of Muskegon Heights' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District of the City of Muskegon Heights' management. Our responsibility is to express an opinion on the School District of the City of Muskegon Heights' compliance based on our audit.

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

As described in **Findings 2011-1, 2011-8 and 2011-9** in Section III of the accompanying Schedule of Findings and Responses, the School District of the City of Muskegon Heights did not comply with requirements regarding **suspension and debarment, allowable costs/cost principles and eligibility compliance requirements** that are applicable to its **U.S. Department of Education Title I, Part A Cluster and Special Education Cluster and U.S. Department of Health and Human Services TANF program**. Compliance with such requirements is necessary, in our opinion, for the School District of the City of Muskegon Heights to comply with requirements applicable to those programs.

Compliance—Continued

In our opinion, except for noncompliance described in the preceding paragraph, the School District of the City of Muskegon Heights complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described as **Findings 2011-10 and 2011-11** in Section III of the accompanying Schedule of Findings and Responses.

Internal Control Over Compliance

Management of the School District of the City of Muskegon Heights is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of Muskegon Heights' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Responses, as **Findings 2011-1, 2011-8, 2011-9, 2011-10 and 2011-11**. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The School District of the City of Muskegon Heights' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the School District of the City of Muskegon Heights' responses and, accordingly, we express no opinion on them.

Board of Education
December 28, 2011
Page 3

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Brickley De Long, P.C.

School District of the City of Muskegon Heights
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2011

| Federal grantor/pass-through grantor/program title | Federal CFDA number | Program or award amount | Accrued (deferred) revenue July 1, 2010 | Cash/ payments in kind received (cash basis) | Expenditures (accrual basis) | | | Accrued (deferred) revenue June 30, 2011 | Notes |
|---|---------------------------|-------------------------------|--|--|---------------------------------|------------------|------------------|---|-------|
| | | | | | Prior year (s) | Current year | Total | | |
| <i>U.S. Department of Education</i> | | | | | | | | | |
| Passed through Michigan Department of Education | | | | | | | | | |
| Title I Cluster | | | | | | | | | |
| Title I | | | | | | | | | |
| | 84.010 | | | | | | | | |
| 091530 0809 | | \$ 2,495,055 | \$ - | \$ (70,782) | \$ 2,115,849 | \$ - | \$ 2,115,849 | \$ 70,782 | 3 |
| 101530 0910 | | 2,335,518 | 295,123 | 439,981 | 1,830,917 | 144,858 | 1,975,775 | - | |
| 101550 0910 | | 23,000 | 14,552 | 16,371 | 14,552 | 1,819 | 16,371 | - | |
| 111530 1011 | | 2,437,660 | - | 781,293 | - | 1,279,086 | 1,279,086 | 497,793 | |
| 111550 1011 | | 60,000 | - | - | - | 8,163 | 8,163 | 8,163 | |
| | | <u>7,351,233</u> | <u>309,675</u> | <u>1,166,863</u> | <u>3,961,318</u> | <u>1,433,926</u> | <u>5,395,244</u> | <u>576,738</u> | |
| ARRA-Title I, Part A | 84.389 | | | | | | | | |
| 101535 0910 | | 1,232,175 | 174,425 | 255,376 | 620,596 | 29,256 | 649,852 | (51,695) | |
| 101555 0910 | | 179,221 | - | - | - | 73,557 | 73,557 | 73,557 | |
| 111535 1011 | | 530,163 | - | 2,329 | - | 111,987 | 111,987 | 109,658 | |
| | | <u>1,941,559</u> | <u>174,425</u> | <u>257,705</u> | <u>620,596</u> | <u>214,800</u> | <u>835,396</u> | <u>131,520</u> | |
| Total Title I Cluster | | <u>9,292,792</u> | <u>484,100</u> | <u>1,424,568</u> | <u>4,581,914</u> | <u>1,648,726</u> | <u>6,230,640</u> | <u>708,258</u> | |
| Title II A | | | | | | | | | |
| | 84.367 | | | | | | | | |
| 100520 0910 | | 355,017 | 31,157 | 129,958 | 188,274 | 98,801 | 287,075 | - | |
| 110520 1011 | | 361,011 | - | - | - | 91,707 | 91,707 | 91,707 | |
| | | <u>716,028</u> | <u>31,157</u> | <u>129,958</u> | <u>188,274</u> | <u>190,508</u> | <u>378,782</u> | <u>91,707</u> | |
| ARRA-Title II, Part D | 84.386 | | | | | | | | |
| 104295 0910 | | 43,018 | 13,220 | 14,903 | 32,863 | 1,683 | 34,546 | - | |
| 114295 1011 | | 8,561 | - | - | - | 3,360 | 3,360 | 3,360 | |
| | | <u>51,579</u> | <u>13,220</u> | <u>14,903</u> | <u>32,863</u> | <u>5,043</u> | <u>37,906</u> | <u>3,360</u> | |
| ARRA-Education Stabilization Fund | 84.394 | | | | | | | | |
| 112525 1011 | | 185,733 | - | 185,733 | - | 185,733 | 185,733 | - | |
| Education Jobs Fund | 84.410 | | | | | | | | |
| 112545 1011 | | 292,039 | - | 292,039 | - | 292,039 | 292,039 | - | |
| | | <u>292,039</u> | <u>-</u> | <u>292,039</u> | <u>-</u> | <u>292,039</u> | <u>292,039</u> | <u>-</u> | |
| Total passed through Michigan Department of Education | | <u>10,538,171</u> | <u>528,477</u> | <u>2,047,201</u> | <u>4,803,051</u> | <u>2,322,049</u> | <u>7,125,100</u> | <u>803,325</u> | |
| Passed through Muskegon Area Intermediate School District | | | | | | | | | |
| Adult Basic Education | | | | | | | | | |
| | 84.002 | | | | | | | | |
| 101130-101587 | | 27,756 | 27,756 | 27,756 | 27,756 | - | 27,756 | - | |
| 111130-101587 | | 26,884 | - | - | - | 26,884 | 26,884 | 26,884 | |
| | | <u>54,640</u> | <u>27,756</u> | <u>27,756</u> | <u>27,756</u> | <u>26,884</u> | <u>54,640</u> | <u>26,884</u> | |

School District of the City of Muskegon Heights
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2011

| Federal grantor/pass-through grantor/program title | Federal CFDA number | Program or award amount | Accrued (deferred) revenue July 1, 2010 | Cash/ payments in kind received (cash basis) | Expenditures (accrual basis) | | | Accrued (deferred) revenue June 30, 2011 | Notes |
|---|---------------------------|-------------------------------|--|--|---------------------------------|------------------|------------------|---|-------|
| | | | | | Prior year (s) | Current year | Total | | |
| <i>U.S. Department of Education—Continued</i> | | | | | | | | | |
| Passed through Muskegon Area Intermediate School District—Continued | | | | | | | | | |
| Special Education Cluster | | | | | | | | | |
| IDEA 101-476 Flowthrough | 84.027 | | | | | | | | |
| 100450 0910 | | \$ 480,368 | \$ 134,654 | \$ 134,654 | \$ 480,368 | \$ - | \$ 480,368 | \$ - | |
| 110450 1011 | | 464,613 | - | 438,038 | - | 464,613 | 464,613 | 26,575 | |
| | | <u>944,981</u> | <u>134,654</u> | <u>572,692</u> | <u>480,368</u> | <u>464,613</u> | <u>944,981</u> | <u>26,575</u> | |
| IDEA 101-476 Preschool | 84.173 | | | | | | | | |
| 090460 0809 | | 10,503 | (983) | - | 9,520 | 983 | 10,503 | - | |
| 110460 1011 | | 25,022 | - | 21,228 | - | 25,022 | 25,022 | 3,794 | |
| | | <u>35,525</u> | <u>(983)</u> | <u>21,228</u> | <u>9,520</u> | <u>26,005</u> | <u>35,525</u> | <u>3,794</u> | |
| ARRA - IDEA Preschool | 84.392 | | | | | | | | |
| 100465 0910 | | 20,385 | 20,385 | 20,385 | 20,385 | - | 20,385 | - | |
| Total Special Education Cluster | | <u>1,000,891</u> | <u>154,056</u> | <u>614,305</u> | <u>510,273</u> | <u>490,618</u> | <u>1,000,891</u> | <u>30,369</u> | |
| Drug Free Schools and Communities Act | 84.186 | | | | | | | | |
| 102860 0910 | | 24,411 | 24,411 | 24,411 | 24,411 | - | 24,411 | - | |
| Total passed through Muskegon Area Intermediate School District | | <u>1,079,942</u> | <u>206,223</u> | <u>666,472</u> | <u>562,440</u> | <u>517,502</u> | <u>1,079,942</u> | <u>57,253</u> | |
| Total U.S. Department of Education | | <u>11,618,113</u> | <u>734,700</u> | <u>2,713,673</u> | <u>5,365,491</u> | <u>2,839,551</u> | <u>8,205,042</u> | <u>860,578</u> | |
| <i>U.S. Department of Agriculture</i> | | | | | | | | | |
| Passed through Michigan Department of Education | | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | | |
| 101970 Breakfast | 10.553 | 241,051 | - | 19,887 | 221,164 | 19,887 | 241,051 | - | |
| 111970 Breakfast | | 248,231 | - | 236,599 | - | 248,231 | 248,231 | 11,632 | |
| | | <u>489,282</u> | <u>-</u> | <u>256,486</u> | <u>221,164</u> | <u>268,118</u> | <u>489,282</u> | <u>11,632</u> | |
| 101950 All Lunches | 10.555 | 59,478 | - | 6,137 | 53,341 | 6,137 | 59,478 | - | |
| 111950 All Lunches | | 52,183 | - | 50,016 | - | 52,183 | 52,183 | 2,167 | |
| 101960 Free and Reduced | | 508,867 | - | 42,272 | 466,595 | 42,272 | 508,867 | - | |
| 111960 Free and Reduced | | 443,952 | - | 425,120 | - | 443,952 | 443,952 | 18,832 | |
| 111980 Snack Program | | 2,157 | - | 2,157 | - | 2,157 | 2,157 | - | |
| Entitlement Commodities | | 56,601 | - | 56,601 | - | 56,601 | 56,601 | - | |
| Bonus Commodities | | 1,353 | - | 1,353 | - | 1,353 | 1,353 | - | |
| | | <u>1,124,591</u> | <u>-</u> | <u>583,656</u> | <u>519,936</u> | <u>604,655</u> | <u>1,124,591</u> | <u>20,999</u> | |
| Summer Food Service Program for Children | 10.559 | | | | | | | | |
| 100900 Summer Food Meals | | 104,876 | 23,288 | 104,876 | 23,288 | 81,588 | 104,876 | - | |
| 101900 Summer Food Sponsor Admin | | 8,875 | 1,968 | 8,875 | 1,968 | 6,907 | 8,875 | - | |
| 110900 Summer Food Meals | | 12,231 | - | - | - | 12,231 | 12,231 | 12,231 | |
| 111900 Summer Food Sponsor Admin | | 1,036 | - | - | - | 1,036 | 1,036 | 1,036 | |
| | | <u>127,018</u> | <u>25,256</u> | <u>113,751</u> | <u>25,256</u> | <u>101,762</u> | <u>127,018</u> | <u>13,267</u> | |
| Total Child Nutrition Cluster | | <u>1,740,891</u> | <u>25,256</u> | <u>953,893</u> | <u>766,356</u> | <u>974,535</u> | <u>1,740,891</u> | <u>45,898</u> | |

School District of the City of Muskegon Heights
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2011

| Federal grantor/pass-through grantor/program title | Federal CFDA number | Program or award amount | Accrued (deferred) revenue July 1, 2010 | Cash/ payments in kind received (cash basis) | Expenditures (accrual basis) | | | Accrued (deferred) revenue June 30, 2011 | Notes |
|---|---------------------------|-------------------------------|--|--|---------------------------------|-----------------|-----------|---|-------|
| | | | | | Prior year (s) | Current year | Total | | |
| <i>U.S. Department of Agriculture—Continued</i> | | | | | | | | | |
| Passed through Michigan Department of Education—Continued | | | | | | | | | |
| Child Care Food Program | 10.558 | | | | | | | | |
| 101920 CCFP Meals | | \$ 17,684 | \$ - | \$ 2,815 | \$ 14,869 | \$ 2,815 | \$ 17,684 | \$ - | |
| 102010 Child Care Cash in Lieu | | 668 | - | 117 | 551 | 117 | 668 | - | |
| 111920 CCFP Meals | | 5,992 | - | 4,322 | - | 5,992 | 5,992 | 1,670 | |
| 112010 Child Care Cash in Lieu | | 446 | - | 322 | - | 446 | 446 | 124 | |
| | | 24,790 | - | 7,576 | 15,420 | 9,370 | 24,790 | 1,794 | |
| Fresh Fruit and Vegetable Program | 10.582 | | | | | | | | |
| 110950 | | 6,163 | - | - | - | 6,163 | 6,163 | 6,163 | |
| Total passed through Michigan Department of Education | | 1,771,844 | 25,256 | 961,469 | 781,776 | 990,068 | 1,771,844 | 53,855 | |
| Passed through County of Muskegon, Michigan | | | | | | | | | |
| Supplemental Nutrition Assistance Program FY11 Food Assistance | 10.561 | 23,517 | - | 3,024 | - | 6,889 | 6,889 | 3,865 | |
| Total U.S. Department of Agriculture | | 1,795,361 | 25,256 | 964,493 | 781,776 | 996,957 | 1,778,733 | 57,720 | |
| <i>U.S. Department of Labor</i> | | | | | | | | | |
| Passed through County of Muskegon, Michigan | | | | | | | | | |
| Wagner Peyser Labor Exchange | 17.207 | | | | | | | | |
| 402222/WP-09 | | 23,127 | 11,565 | 11,565 | 23,127 | - | 23,127 | - | |
| 402222/WP-10 | | 2,943 | - | 2,943 | - | 2,943 | 2,943 | - | |
| 402222/REI-ARRA-REEMPLOYMENT | | 18,178 | 8,165 | 10,018 | 16,325 | 1,853 | 18,178 | - | |
| 402222/ES-ARRA-WP-ECAR | | 519 | - | 469 | 50 | 469 | 519 | - | |
| | | 44,767 | 19,730 | 24,995 | 39,502 | 5,265 | 44,767 | - | |
| Workforce Investment Act Cluster | | | | | | | | | |
| WIA Adult Program | 17.258 | | | | | | | | |
| 402222/WIA-09 | | 39,219 | 20,599 | 20,599 | 39,219 | - | 39,219 | - | |
| 402222/WIA-10 | | 18,098 | - | 13,066 | - | 18,098 | 18,098 | 5,032 | |
| 402222/WIA-ARRA | | 6,065 | 2,801 | 2,801 | 6,065 | - | 6,065 | - | |
| | | 63,382 | 23,400 | 36,466 | 45,284 | 18,098 | 63,382 | 5,032 | |
| WIA Youth Program | 17.259 | | | | | | | | |
| 402222/WIA-09 | | 16,238 | 1,731 | 1,731 | 16,238 | - | 16,238 | - | |
| 402222/WIA-10 | | 23,542 | - | 16,996 | - | 23,542 | 23,542 | 6,546 | |
| 402222/WIA-ARRA | | 44,298 | 10,923 | 10,923 | 44,298 | - | 44,298 | - | |
| | | 84,078 | 12,654 | 29,650 | 60,536 | 23,542 | 84,078 | 6,546 | |

School District of the City of Muskegon Heights
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2011

| Federal grantor/pass-through grantor/program title | Federal CFDA number | Program or award amount | Accrued (deferred) revenue July 1, 2010 | Cash/ payments in kind received (cash basis) | Expenditures (accrual basis) | | | Accrued (deferred) revenue June 30, 2011 | Notes |
|---|---------------------------|-------------------------------|--|--|---------------------------------|---------------------|----------------------|---|-------|
| | | | | | Prior year (s) | Current year | Total | | |
| <i>U.S. Department of Labor—Continued</i> | | | | | | | | | |
| Passed through County of Muskegon, Michigan—Continued | | | | | | | | | |
| Workforce Investment Act Cluster—Continued | | | | | | | | | |
| WIA Dislocated Workers | 17.260 | | | | | | | | |
| 402222/WIA-09 | | \$ 25,197 | \$ 11,732 | \$ 11,732 | \$ 25,197 | \$ - | \$ 25,197 | \$ - | |
| 402222/WIA-10 | | 8,242 | - | 5,951 | - | 8,242 | 8,242 | 2,291 | |
| 402222/WIA-ARRA | | 15,765 | 7,280 | 7,280 | 15,765 | - | 15,765 | - | |
| | | 49,204 | 19,012 | 24,963 | 40,962 | 8,242 | 49,204 | 2,291 | |
| Total Workforce Investment Act Cluster | | 196,664 | 55,066 | 91,079 | 146,782 | 49,882 | 196,664 | 13,869 | |
| Total passed through County of Muskegon, Michigan and U.S. Department of Labor | | 241,431 | 74,796 | 116,074 | 186,284 | 55,147 | 241,431 | 13,869 | |
| <i>U.S. Department of Health and Human Services</i> | | | | | | | | | |
| Passed through County of Muskegon, Michigan | | | | | | | | | |
| Temporary Assistance for Needy Families | 93.558 | | | | | | | | |
| 402222 FY10 JET-TANF | | 344,432 | 173,848 | 173,848 | 344,432 | - | 344,432 | - | |
| 402222 FY11 JET-TANF | | 337,134 | - | 213,006 | - | 337,134 | 337,134 | 124,128 | |
| | | 681,566 | 173,848 | 386,854 | 344,432 | 337,134 | 681,566 | 124,128 | |
| Passed through Muskegon Area Intermediate School District | | | | | | | | | |
| Head Start Cluster | | | | | | | | | |
| Head Start | 93.600 | | | | | | | | |
| 05CH8258/11 | | 649,969 | 27,182 | 299,325 | 377,826 | 272,143 | 649,969 | - | |
| 05CH8258/12 | | 345,714 | - | 158,741 | - | 345,714 | 345,714 | 186,973 | |
| | | 995,683 | 27,182 | 458,066 | 377,826 | 617,857 | 995,683 | 186,973 | |
| ARRA-Head Start Quality Improvement | 93.708 | | | | | | | | |
| 05SE8258/01 | | 29,566 | 13,283 | 23,475 | 19,374 | 10,192 | 29,566 | - | |
| ARRA-Early Head Start | 93.709 | | | | | | | | |
| 05SA8258/01 | | 34,694 | 10,361 | 23,792 | 21,263 | 9,407 | 30,670 | (4,024) | |
| 05SA8258/02 | | 44,456 | - | 27,843 | - | 44,456 | 44,456 | 16,613 | |
| | | 79,150 | 10,361 | 51,635 | 21,263 | 53,863 | 75,126 | 12,589 | |
| Total Head Start Cluster | | 1,104,399 | 50,826 | 533,176 | 418,463 | 681,912 | 1,100,375 | 199,562 | |
| Medical Assistance Program Title XIX | 93.778 | | | | | | | | |
| 393 | | 2,918 | - | 2,918 | - | 2,918 | 2,918 | - | |
| Total passed through Muskegon Area Intermediate School District | | 1,107,317 | 50,826 | 536,094 | 418,463 | 684,830 | 1,103,293 | 199,562 | |
| Total U.S. Department of Health and Human Services | | 1,788,883 | 224,674 | 922,948 | 762,895 | 1,021,964 | 1,784,859 | 323,690 | |
| TOTAL FEDERAL ASSISTANCE | | \$ 15,443,788 | \$ 1,059,426 | \$ 4,717,188 | \$ 7,096,446 | \$ 4,913,619 | \$ 12,010,065 | \$ 1,255,857 | |

The accompanying notes are an integral part of this schedule.

School District of the City of Muskegon Heights
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2011

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the CMS Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards (SEFA).
3. The Michigan Department of Education determined Muskegon Heights Public Schools was not in compliance with certain requirements, noted in Findings 2010-1, 2010-2 and 2010-3 in the June 30, 2010 single audit, related to Suspension and Debarment, Eligibility, and Allowable Costs/Cost Principles and the Michigan Department of Education took the funds back.
4. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2011

Governmental Funds financial statements

| | | |
|---|----------------|--------------|
| General Fund | \$ 3,368,856 | |
| Other governmental funds (includes Food Service Fund) | <u>983,904</u> | \$ 4,352,760 |

Plus:

| | |
|---|---------|
| Expenditures reported on SEFA as of June 30, 2011, however, the corresponding revenue is deferred in the governmental funds financial statements under GASB 33. | 441,521 |
|---|---------|

| | |
|---|---------|
| June 30, 2011 single audit questioned costs removed from financial statement federal revenues while awaiting management decisions from pass-through entities. | 305,608 |
|---|---------|

| | |
|--|-----|
| IDEA current year expense recognized as revenue in prior year. | 983 |
|--|-----|

| | |
|----------|---|
| Rounding | 1 |
|----------|---|

Less:

| | |
|--|-----------|
| Expenditures reported on SEFA as of June 30, 2010, however, the corresponding revenue was deferred in the governmental funds financial statements under GASB 33. | (134,098) |
|--|-----------|

| | |
|--|-----------------|
| WIA and TANF local match recorded as federal revenue | <u>(53,156)</u> |
|--|-----------------|

Expenditures per single audit report

| | |
|--|----------------------------|
| Schedule of Expenditures of Federal Awards | <u>\$ 4,913,619</u> |
|--|----------------------------|

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
 Year ended June 30, 2011

SECTION I—SUMMARY OF AUDITORS' RESULTS

A. Financial Statements

1. Type of auditors' report issued: **Unqualified**
2. Internal control over financial reporting:
 - Material weakness(es) identified? X yes no
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? X yes none reported
3. Noncompliance material to financial statements noted? X yes no

B. Federal Awards

1. Internal control over major programs:
 - Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? X yes none reported

2. Type of auditors' report issued on compliance for major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program/Cluster</u> | <u>Type of Auditors' Report</u> |
|----------------------------------|---|---------------------------------|
| 10.553, 10.555 and 10.559 | U.S. Department of Agriculture Child Nutrition Cluster | Unqualified |
| 84.010 and 84.389 | U.S. Department of Education Title I, Part A Cluster | Qualified |
| 84.027 and 84.173 | Special Education Cluster | Qualified |
| 93.558 | U.S. Department of Health and Human Services TANF | Qualified |
| 93.600, 93.708 and 93.709 | Head Start Cluster | Unqualified |

3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X yes no

4. Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program/Cluster</u> |
|----------------------------------|---|
| 10.553, 10.555 and 10.559 | U.S. Department of Agriculture Child Nutrition Cluster |
| 84.010 and 84.389 | U.S. Department of Education Title I, Part A Cluster |
| 84.027 and 84.173 | Special Education Cluster |
| 93.558 | U.S. Department of Health and Human Services TANF |
| 93.600, 93.708 and 93.709 | Head Start Cluster |

5. Dollar threshold used to distinguish between type A and type B programs: **\$300,000**

6. Auditee qualified as low-risk auditee? yes X no

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2011-1: Suspension and Debarment Compliance

U.S. Department of Education

Title I, Part A Cluster

Pass-through entity: Michigan Department of Education

CFDA: 84.010 and 84.389

Award Numbers: 1115301011 and 10155550910

Award Year Ends: September 30, 2011

Special Education Cluster

Pass-through entity: Muskegon Area Intermediate School District

CFDA: 84.027

Award Numbers: 1104501011

Award Year Ends: September 30, 2011

U.S. Department of Health and Human Services

Temporary Assistance for Needy Families (TANF)

Pass-through entity: County of Muskegon

CFDA: 93.558

Award Numbers: 402222 JET-TANF

Award Year Ends: June 30, 2011

Specific Requirement: Suspension and Debarment

Criteria: Per 2 CFR section 180, Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services that are expected to equal or exceed \$25,000 or meet certain other specified criteria. The non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Condition: We noted that the documentation of the School District's verification checks of the *EPLS* was missing for all transactions, for which we tested with vendors contracted for services greater than \$25,000.

Cause: The School District's procedures require the Human Resources Office to perform *EPLS* checks on all new vendors to the accounting system. During fiscal 2010-11, the Human Resource Office also performed checks on existing vendors. The School District's established procedures provide that the *EPLS* results screen is printed and bound in a three-ring binder maintained in the Human Resource Office. That three-ring binder was taken as evidence by the Michigan State Police in March 2011, and School District officials stated that it has not yet been returned to the School District. Therefore, we could not perform audit tests on the three-ring binder's supporting documentation to determine whether the appropriate *EPLS* checks were performed by School District personnel for the vendors identified.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
 Year ended June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS—CONTINUED

Finding 2011-1: Suspension and Debarment Compliance—Continued

Questioned Costs: In lieu of performing audit tests on documentation in the three-ring binder, we verified each vendor selected for testing against the EPLS. The selected vendors and its principals were not found to be suspended or debarred. The amounts paid to the selected vendors by federal program are as follows:

| <u>Program</u> | <u>Number of vendors</u> | <u>Amount</u> |
|---------------------------|--------------------------|------------------|
| Title I, Part A | 1 | \$ 76,353 |
| Special Education Cluster | 3 | 145,701 |
| TANF | 1 | 37,061 |
| | | <u>\$259,115</u> |

Context: We selected for testing all five vendors we identified as contracted for greater than \$25,000 to a federal grant we were auditing as a major program.

Effect: The School District could have contracted with a vendor that is suspended or debarred or whose principals are suspended or debarred.

Recommendation: The School District should follow its established procedures to ensure compliance with suspension and debarment requirements.

Views of Responsible Officials and Planned Corrective Actions: The relevant documentation in regard to this issue is in possession of the Michigan State Police. The vendors and principals in question have not been suspended or debarred as indicated by the EPLS system. These vendors were also specifically tested for suspension and debarment in both 2010/11 and the beginning of 2011/12 by an independent CPA firm prior to the School District requesting reimbursement of those funds as required by the Michigan Department of Education. The results of those tests produced no findings. Muskegon Heights Public Schools is currently updating its policies and procedures to address this potential issue moving forward.

Finding 2011-2: MATERIAL WEAKNESS—Procedures for Budgeting Act Compliance and Deficit Reduction Plan Compliance

Criteria: Per the Michigan Uniform Budgeting and Accounting Act, Section 18(3), “An administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body.”

Condition: The School District did not comply with provisions of the aforementioned Michigan budgeting act, and also the School District did not comply with its deficit elimination plan filed with the State of Michigan. Both conditions are reported in this finding, since they are closely related to each other.

Cause: During the year ended June 30, 2011, School District management authorized and executed expenditures in excess of the Board of Education’s budgetary appropriations.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS—CONTINUED

Finding 2011-2: MATERIAL WEAKNESS—Procedures for Budgeting Act Compliance and Deficit Reduction Plan—Continued

Effect: The School District was not in compliance with its authorized budgetary appropriations and, correspondingly, did not comply with its deficit reduction plan filed with the State of Michigan.

Recommendation: The School District should establish policies and internal controls which will ensure administrative compliance with the Michigan Uniform Budgeting and Accounting Act, the Board of Education’s approved budgetary appropriations, and the deficit reduction plan filed with the State of Michigan.

Views of Responsible Officials and Planned Corrective Actions: The fund balance deficit increased due to greater than projected general fund instructional costs, general administration costs, utility costs, and state aid note interest costs. In addition, there were numerous federal program cost disallowances that were absorbed by the general fund. Deferred revenue related to unclaimed allowable federal costs was equal to \$441,521, and an additional \$305,608 is currently listed as a contingent liability subject to review by pass-through entities.

Finding 2011-3: MATERIAL WEAKNESS—General Ledger Account Balance Reconciliations

Criteria: General ledger account balances should be reconciled to detailed supporting documentation on a timely basis.

Condition: There were material account balances including accrued health insurance, accrued retirement, accrued workman’s compensation and accounts payable that were not reconciled to supporting documentation on a timely basis during the year ended June 30, 2011.

Cause: Business Office staff positions had been reduced, creating periods of time in which account balances were not reconciled timely.

Effect: Failure to reconcile general ledger account balances timely can adversely affect the accuracy of internally-prepared monthly financial statements, and, correspondingly, adversely affect the analysis and conclusions as to the School District’s financial position and results of operations by management and other users of such monthly financial statements. Additionally, this condition significantly increases the amount of year end general ledger account analysis and adjusting journal entries by School District personnel, causing significant delays in closing fiscal year financial records and issuing audited financial statements.

Recommendation: The utilization of a monthly closing checklist and written procedures would encourage personnel to review the accuracy of month end balances through analysis of account activity, comparison to supporting documentation and/or reconciliation with detailed schedules.

Views of Responsible Officials and Planned Corrective Actions: General ledger account balances will be reconciled quarterly. Appropriate schedules will be maintained by the preparer.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS—CONTINUED

Finding 2011-4: MATERIAL WEAKNESS—Cash Disbursement Check Release Procedures

Criteria: All vendor and payroll withholding cash disbursement checks should be mailed timely after preparation.

Condition: During our tests of bank reconciliations and other documents, we noted several vendor and payroll withholding cash disbursement checks listed as outstanding on the year end bank account reconciliations had not been released to check payees, as such checks were being held by School District personnel.

Cause: Checks were held due to cash flow limitations.

Effect: Since the School District's accounting software records cash disbursement checks prepared as reductions of bank account balances, trade accounts payable balances, and payroll-related liability balances, interim and year-end internally-prepared financial statements are not accurate, since cash and the associated liabilities are understated by the amount of the checks being held and not released. Further, cash disbursement checks being held could be stolen or misplaced, increasing the opportunity for School District funds to be misappropriated.

Recommendation: The School District should follow established internal control procedures over the preparation and mailing of vendor and payroll withholding cash disbursement checks.

Views of Responsible Officials and Planned Corrective Actions: The district will submit checks to vendors within one week of processing. Checks will no longer be held by the district.

Finding 2011-5: Procedures for Timely Deposit and Posting of Cash Receipt Transactions

Criteria: All cash receipt transactions should be deposited and posted to the general ledger timely.

Condition: We noted that cash receipts are not always deposited and posted to the general ledger timely, since the conversion to a new accounting software on July 1, 2011.

Cause: Business Office staff positions had been reduced, creating periods of time in which cash receipts transactions were not deposited and posted to the general ledger timely.

Effect: Financial accounting records and associated interim financial statements do not accurately report cash receipts and account balances.

Recommendation: The School District personnel should comply with established internal control procedures over the timely depositing and posting of cash receipt transactions to the general ledger.

Views of Responsible Officials and Planned Corrective Actions: Cash receipts will be deposited into the district bank account on Tuesdays and Fridays. They will be recorded to the ledger on the next Monday following bank deposit. EFT wires will be posted to the ledger by the 15th day of the following month, coinciding with the bank reconciliation schedule.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS—CONTINUED

Finding 2011-6: Accounts Payable Cut-off Procedures

Criteria: The School District should have adequate accounts payable cut-off procedures to ensure that all associated expenditures are reported in the proper period.

Condition: During our year end audit test of accounts payable cut-off, we noted several open purchase orders as of June 30, 2011, were recorded as accounts payable in the wrong fiscal accounting period.

Cause: School District personnel incorrectly recorded the open purchase orders as accounts payable as of June 30, 2011, even though the goods had not been received by June 30, 2011.

Effect: Expenditures and accounts payable were overstated.

Recommendation: The School District should improve the effectiveness of its established accounts payable cut-off procedures, including staff training to improve the accounts payable cut-off to help ensure expenditures are reported in the proper period.

Views of Responsible Officials and Planned Corrective Actions: Goods received within the reporting year will be recorded to accounts payable. Goods not received by June 30 will be recorded in the next fiscal year.

Finding 2011-7: Procedures for the Establishment of Authorized Bank Accounts

Criteria: New School District bank accounts should be established only as authorized in accordance with School District policy.

Condition: During our year end audit testing of cash balances, we confirmed the year end bank account balances with the School District's bank. We noted a new account on the confirmation received from the bank. Business Office personnel had no knowledge of the existence of this account.

Cause: A School District employee within the Athletic Department established an unauthorized checking account for the Athletic Department, because the employee wanted to be able to pay vendor bills without waiting for expenditure requests to be processed by the Business Office within its established procedures and internal controls.

Effect: None of the cash receipts or cash disbursements processed through the checking account were recorded in the School District's financial records. Therefore, such transactions were not included in the School District's internally-prepared financial statements. This condition also enabled the individual to bypass the internal controls as established by the School District and reduced the opportunity for School District personnel to prevent unauthorized transactions.

Recommendation: The School District should notify its banking institutions to only establish new bank accounts when properly authorized by the School District. Further, the School District should communicate to employees they are not allowed to establish bank accounts on behalf of the School District without authorization.

Views of Responsible Officials and Planned Corrective Actions: The district will contact its banking institution and inquire as to how this may have happened. Furthermore, the district will communicate this issue to staff.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2011-1 in Section II above.

Finding 2011-8: Allowable Costs/Cost Principles

U.S. Department of Education

Title I, Part A Cluster

Pass-through entity: Michigan Department of Education

CFDA: 84.010 and 84.389

Award Numbers: 1015300910, 1015350910, 1115301011, 1115501011, and 1015550910

Award Year End: September 30, 2010 and September 30, 2011

Special Education Cluster

Pass-through entity: Muskegon Area Intermediate School District

CFDA: 84.027 and 84.173

Award Number: 1104501011 and 1104601011

Award Year End: September 30, 2011

U.S. Department of Health and Human Services

Temporary Assistance for Needy Families (TANF)

Pass-through entity: County of Muskegon

CFDA: 93.558

Award Number: 402222 JET-TANF

Award Year End: June 30, 2011

Head Start Cluster

Pass-through entity: Muskegon Area Intermediate School District

CFDA: 93.600

Award Number: 05CH8258/10 and 05CH8258/11

Award Year End: November 30, 2010 and November 30, 2011

Specific Requirement: Allowable Costs/Cost Principles

Criteria: Per OMB Circular A-87, to be allowable under federal awards, costs must be adequately documented.

Condition: During the course of our audit of the School District's financial statements and single audit of federal award programs for the year ended June 30, 2011, we requested documentation supporting expenditure transactions. After selecting and requesting documentation, such as voucher packages, vendor invoices and time cards, we were notified by School District personnel that supporting documentation could not be provided for all selected cash disbursement and payroll transactions.

Cause: We were instructed by School District personnel that 1) many of the missing documents were taken as evidence by the Michigan State Police in March 2011 and have not yet been returned to the School District and 2) the two voucher packages missing vendor receipts were purchases requiring payment by check at the time of purchase and the receipt was not subsequently turned into the Business Office to include with the voucher package.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
 Year ended June 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS—CONTINUED

Finding 2011-8: Allowable Costs/Cost Principles—Continued

Questioned Costs: Since we were not able to perform audit tests for these selected transactions, we have categorized 100% of the associated expenditures as questioned costs for the following grants and amounts:

| | |
|---------------------------|-----------------|
| Title I, Part A Cluster | \$30,261 |
| Special Education Cluster | 4,018 |
| TANF | 7,022 |
| Head Start Cluster | <u>1,946</u> |
| Total | <u>\$43,247</u> |

Context: The following chart shows the number of transactions by grant selected for testing and the number of transactions for which voucher packages, vendor invoices and time cards could not be located.

| <u>Program</u> | <u>Number of Transactions</u> | <u>Number with Missing Documentation</u> |
|---------------------------|-------------------------------|--|
| Title I, Part A Cluster | | |
| Cash disbursements | 52 | 14 |
| Payroll | 15 | 1 |
| Special Education Cluster | | |
| Cash disbursements | 25 | 0 |
| Payroll | 10 | 5 |
| TANF | | |
| Cash disbursements | 30 | 3 |
| Payroll | 5 | 2 |
| Head Start Cluster | | |
| Cash disbursements | 28 | 2 |
| Payroll | 6 | 1 |

Effect: The expenditures could be disallowed, and the funds may be required to be returned to the associated grantor agency.

Recommendation: The School District should follow its established procedures regarding documentation for all transactions.

Views of Responsible Officials and Planned Corrective Actions: This is an isolated incident directly attributable to the ongoing criminal investigation by the Michigan State Police (MSP). Muskegon Heights Public Schools (MHPS) has never had an instance of missing voucher packages or employee time records prior to this investigation. MHPS was able to provide everything requested subsequent to the seizure of documentation by the MSP.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS—CONTINUED

U.S. Department of Education

Finding 2011-9: Title I, Part A Cluster Eligibility

Pass-through entity: Michigan Department of Education

CFDA: 84.010 and 84.389

Award Numbers: 1115301011 and 1115351011

Award Year End: September 30, 2011

Specific Requirement: Eligibility

Criteria: Per Title I, Section 1113(c) of ESEA, a local educational agency shall allocate funds received under this part to eligible school attendance areas or eligible schools, identified under subsections (a) and (b), in rank order, on the basis of the total number of children from low-income families in each area or school.

Condition: We noted that the allocation to one of six schools was in error due to using an incorrect low-income student count.

Cause: There was a misunderstanding between School District personnel and Michigan Department of Education (MDE) Office of Field Services personnel during the preparation of the school selection and allocation worksheet. The School District Title I Director believed that she was instructed to include the preschool students housed in the same building with the kindergarten students in the counts used to allocate Title I funds to eligible attendance areas.

Questioned Costs: \$3,246

Per documentation obtained by us, the low-income pupil count would have been approximately 144 students instead of 260 used by the School District. The Title I allocation to the kindergarten building should have been \$209,952 instead of \$379,080 using the same per pupil allocation of \$1,458 per low-income pupil. The kindergarten building spent \$213,198. The questioned costs being reported is the excess of the actual expenditures over the corrected building allocation (\$213,198 - \$209,952).

Context: For 2009-10 and previous years, the elementary schools served K-6 grade spans in their geographic area. For 2010-11, the LEA changed the grade span groupings so those elementary buildings no longer had overlapping grade spans. The three elementary schools served the following unique grade spans for the entire LEA for 2010-11: kindergarten, grades 1 and 2, and grades 3 through 5. Grade 6 was moved to the middle school. In planning the 2010-11 Title I grant, the 2009-10 grade/building count data had to be converted to the new grade span groupings. The ‘converted’ data was reasonable for all buildings, except for the kindergarten building. The resident and low-income student counts were approximately double of what they should have been.

Effect: The kindergarten building was allocated approximately double the amount of Title I funds that it was eligible to receive.

Recommendation: The School District should continue to work with the Michigan Department of Education Office of Field Services to ensure the allocations to eligible schools are properly determined.

Views of Responsible Officials and Planned Corrective Actions: Due to the seizure of records by the MSP and turnover of key district Title I related staff, MHPS was not able to locate written communications and/or detail in regard to the calculation of individual school Title I fund allocations. MHPS has been in constant contact with the MDE Office of Field Services who monitors the Title I program and this issue has been corrected for 2011/12.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS—CONTINUED

U.S. Department of Agriculture

Finding 2011-10: Child Nutrition Cluster-Summer Food Service Program

Pass-through entity: Michigan Department of Education

CFDA: 10.559

Award Numbers: 1009000910, 1009001010, 1009001110, 1019000910, 1019001010, and 1019001110

Award Year End: September 30, 2010

Specific Requirement: Reporting

Criteria: All claims for reimbursement must be supported by accurate meal count records indicating the number of meals served by category and type per 7 CFR Section 210.7(c).

Condition: During our reporting compliance tests, we noted that not all claims for reimbursement were supported by accurate meal counts by category.

Cause: Summer Food Service Program meal counts are done manually on Daily Meal Count forms and are then transferred to a summary sheet which is used for the monthly claims reporting. There were errors in transferring the number of meals served from the Daily Meal Count forms to the summary sheets.

Questioned Costs (under-reimbursement): \$(4,744)

Context: We selected a 40% sample of all site counts reported on the three monthly claims for reimbursement. We compared the Daily Meal Count Forms (Forms) to the summary sheet used for the monthly claims reporting. We noted that for 8 of 10 sites tested the sum of the Forms did not agree to the totals on the summary sheet used to file claim for reimbursement.

Effect: For the Daily Meal Count forms tested, the claims for reimbursement filed with the Michigan Department of Education had both overstatements and understatements of meals served by site, netting to an under-reporting of 670 breakfasts and 1301 lunches in the aggregate amount of \$4,744.

Recommendation: Monthly Summer Food Service Program summary reports should be reconciled with Daily Meal Count forms, and monthly claims for reimbursement should be reviewed for accuracy.

Views of Responsible Officials and Planned Corrective Actions: The MHPS Food Service contractor will have a district employee review the forms before they are submitted. The documents will also be signed by the preparer and reviewer going forward.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS—CONTINUED

U.S. Department of Agriculture

Finding 2011-11: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553 and 10.555

Award Numbers: 111950, 111970, and 111960

Award Year End: September 30, 2011

Specific Requirement: Special tests and Provisions, Verification of Free and Reduced Price Applications

Criteria: The SFA must report their verification activity and results to their respective State agencies per the September 11, 2003 final rule entitled ‘Determining Eligibility for Free and Reduced Price Meals in Schools – Verification Reporting and Recordkeeping Requirements.’

Condition: We noted that the verification results reported were not accurate.

Cause: The results of verification are not properly summarized nor are they reviewed by an appropriate person.

Questioned Costs: None

Context: Verification findings have been reported three of the last five years.

Effect: The Michigan Department of Education forwards the information to the Food and Nutrition Service (FNS). This information is used by FNS to make decisions regarding the National School Lunch Program and if the information is inaccurate, it may adversely affect those decisions.

Recommendation: The School District should review its verification reporting procedures and provide additional training for staff who perform verification. The School District should also implement a procedure for reviewing both the results of verification and the verification report when completed.

Views of Responsible Officials and Planned Corrective Actions: This test will not be necessary in future years. The district has been informed that it qualifies for the Community Eligibility Option for 2011/12 and subsequent years. All students attending Muskegon Heights Public Schools will receive free meals regardless of household income.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 28, 2011

Michigan Department of Education
Lansing, Michigan

The School District of the City of Muskegon Heights respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2010 dated December 1, 2010.

SECTION II – FINANCIAL STATEMENT FINDINGS

There were **no** findings in relation to the financial statements.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Education

Finding 2010-1: Title I, Part A Cluster Suspension and Debarment

Pass-through entity: Michigan Department of Education

CFDA: 84.010 and 84.389

Award Numbers: 0915300809 and 1015300910

Award Year End: September 30, 2009 and September 30, 2010

Specific Requirement: Suspension and Debarment

Condition: We noted that a vendor used to provide parent workshop activities was contracted for services greater than \$25,000 and the School District did not perform a verification check for covered transactions, by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the covered transactions with the entity.

Recommendation: The School District should develop procedures for staff to follow and perform staff training to ensure compliance with suspension and debarment requirements.

Current Status: See Finding 2011-1 for a similar finding reported during the single audit of federal awards for the year ended June 30, 2011.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS—CONTINUED

U.S. Department of Education

Finding 2010-2: Title I, Part A Cluster Eligibility

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 0915300809

Award Year End: September 30, 2009

Specific Requirement: Eligibility

Condition: We noted that the funds were not allocated to eligible schools in rank order.

Recommendation: The School District should continue to work with the Michigan Department of Education Office of Field Services to ensure the allocations to eligible schools are in rank order.

Current Status: See Finding 2011-9 for a similar finding reported during the single audit of federal awards for the year ended June 30, 2011.

U.S. Department of Education

Finding 2010-3: Title I, Part A Cluster Allowable Costs/Cost Principles

Pass-through entity: Michigan Department of Education

CFDA: 84.010 and 84.389

Award Numbers: 0915300809, 1015300910 and 1015350910

Award Year End: September 30, 2009 and September 30, 2010

Specific Requirement: Allowable Costs/Cost Principles

Condition: We noted that three of five parent involvement expenditure allocations to schools were not based on sign-in sheets for the parent involvement event.

Recommendation: The School District should allocate costs to eligible schools based on the sign-in sheets as those should be the most representative documentation of where the relative benefits received.

Current Status: See Finding 2011-8 for a similar finding reported during the single audit of federal awards for the year ended June 30, 2011.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS—CONTINUED

Finding 2010-4: Documentation of Equipment Management Procedures

U.S. Department of Education

Title I, Part A Cluster

Pass-through entity: Michigan Department of Education
CFDA: 84.010 and 84.389
Award Numbers: 1015300910 and 1015350910
Award Year End: September 30, 2010

Special Education Cluster

Pass-through entity: Muskegon Area Intermediate School District
CFDA: 84.027, 84.173, 84.391 and 84.392
Award Numbers: 1004500910, 1004600910, 1004550910 and 1004650910
Award Year End: September 30, 2010

U.S. Department of Agriculture

Child Nutrition Cluster

Pass-through entity: Michigan Department of Agriculture
CFDA: 10.553, 10.555 and 10.559
Award Numbers: 101970, 101950, 101960, 101980, 090900 and 091900
Award Year End: June 30, 2010

U.S. Department of Health and Human Services

Head Start Cluster

Pass-through entity: Muskegon Area Intermediate School District
CFDA: 93.600, 93.708 and 93.709
Award Numbers: 05CH8258/10, 05CH8258/11 and 05SE8258/01
Award Year End: November 30, 2009 and November 30, 2010

TANF

Pass-through entity: County of Muskegon
CFDA: 93.558
Award Numbers: 402222 JET-TANF
Award Year End: June 30, 2010

Specific Requirement: Equipment and Real Property Management

Condition: During our detailed testing, we noted the School District did not have documented procedures to ensure compliance with the Equipment and Real Property Management requirement and not all equipment purchased in the current year was labeled or tagged in a manner to identify that it was purchased with federal funds.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS—CONTINUED

Finding 2010-4: Documentation of Equipment Management Procedures—Continued

Recommendation: The School District should document their procedures for equipment management and tag all equipment purchased with federal funds.

Current Status: This recommendation was implemented during the year ended June 30, 2011. **No** similar finding was reported during the single audit of federal awards during the year ended June 30, 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "Dana M. Bryant". The signature is fluid and cursive, with a large loop at the beginning and a long, sweeping tail.

Dr. Dana M. Bryant
Superintendent

CORRECTIVE ACTION PLAN

December 28, 2011

Michigan Department of Education
Lansing, Michigan

The School District of the City of Muskegon Heights respectfully submits the following Corrective Action Plan for the year ended June 30, 2011.

Name and address of independent public accounting firm:

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

Audit period: June 30, 2011

The findings from the Schedule of Findings and Responses for the year ended June 30, 2011 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2011-1: Suspension and Debarment Compliance

U.S. Department of Education

Title I, Part A Cluster

Pass-through entity: Michigan Department of Education

CFDA: 84.010 and 84.389

Award Numbers: 1115301011 and 10155550910

Award Year Ends: September 30, 2011

Special Education Cluster

Pass-through entity: Muskegon Area Intermediate School District

CFDA: 84.027

Award Numbers: 1104501011

Award Year Ends: September 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS—CONTINUED

Finding 2011-1: Suspension and Debarment Compliance—Continued

***U.S. Department of Health and Human Services
Temporary Assistance for Needy Families (TANF)***

Pass-through entity: County of Muskegon

CFDA: 93.558

Award Numbers: 402222 JET-TANF

Award Year Ends: June 30, 2011

Specific Requirement: Suspension and Debarment

Recommendation: The School District should follow its established procedures to ensure compliance with suspension and debarment requirements.

Action Taken: Muskegon Heights Public Schools are currently updating their policies and procedures to address this potential issue moving forward.

Finding 2011-2: MATERIAL WEAKNESS—Procedures for Budgeting Act Compliance and Deficit Reduction Plan Compliance

Recommendation: The School District should establish policies and internal controls which will ensure administrative compliance with the Michigan Uniform Budgeting and Accounting Act, the Board of Education's approved budgetary appropriations, and the deficit reduction plan filed with the State of Michigan.

Action Taken: The School District is currently working with the Michigan Department of Education and the Muskegon Area Intermediate School District to develop a plan to eliminate its fund deficit.

Finding 2011-3: MATERIAL WEAKNESS—General Ledger Account Balance Reconciliations

Recommendation: The utilization of a monthly closing checklist and written procedures would encourage personnel to review the accuracy of month end balances through analysis of account activity, comparison to supporting documentation and/or reconciliation with detailed schedules.

Action Taken: General ledger account balances will be reconciled quarterly. Appropriate schedules will be maintained by the preparer.

SECTION II – FINANCIAL STATEMENT FINDINGS—Continued

Finding 2011-4: MATERIAL WEAKNESS—Cash Disbursement Check Release Procedures

Recommendation: The School District should follow established internal control procedures over the preparation and mailing of vendor and payroll withholding cash disbursement checks.

Action Taken: The district will submit checks to vendors within one week of processing. Checks will no longer be held by the district.

Finding 2011-5: Procedures for Timely Deposit and Posting of Cash Receipt Transactions

Recommendation: The School District personnel should comply with internal control procedures over the timely depositing and posting of cash receipt transactions to the general ledger.

Action Taken: Cash receipts will be deposited into the district bank account on Tuesdays and Fridays. They will be recorded to the ledger on the next Monday following bank deposit. EFT wires will be posted to the ledger by the 15th day of the following month, coinciding with the bank reconciliation schedule.

Finding 2011-6: Accounts Payable Cut-off Procedures

Recommendation: The School District should improve the effectiveness of its established accounts payable cut-off procedures, including staff training to improve the accounts payable cut-off to help ensure expenditures are reported in the proper period.

Action Taken: Goods received within the reporting year will be recorded to accounts payable. Goods not received by June 30 will be recorded in the next fiscal year.

Finding 2011-7: Procedures for the Establishment of Authorized Bank Accounts

Recommendation: The School District should notify its banking institutions to only establish new bank accounts when properly authorized by the School District. Further, the School District should communicate to employees they are not allowed to establish bank accounts on behalf of the School District without authorization.

Action Taken: The district will contact its banking institution and inquire as to how this may have happened. Furthermore, the district will communicate this issue to staff.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2011-1 in Section II above.

Finding 2011-8: Allowable Costs/Cost Principles

U.S. Department of Education

Title I, Part A Cluster

Pass-through entity: Michigan Department of Education

CFDA: 84.010 and 84.389

Award Numbers: 1015300910, 1015350910, 1115301011, 1115501011, and 1015550910

Award Year End: September 30, 2010 and September 30, 2011

Special Education Cluster

Pass-through entity: Muskegon Area Intermediate School District

CFDA: 84.027 and 84.173

Award Number: 1104501011 and 1104601011

Award Year End: September 30, 2011

U.S. Department of Health and Human Services

Temporary Assistance for Needy Families (TANF)

Pass-through entity: County of Muskegon

CFDA: 93.558

Award Number: 402222 JET-TANF

Award Year End: June 30, 2011

Head Start Cluster

Pass-through entity: Muskegon Area Intermediate School District

CFDA: 93.600

Award Number: 05CH8258/10 and 05CH8258/11

Award Year End: November 30, 2010 and November 30, 2011

Specific Requirement: Allowable Costs/Cost Principles

Recommendation: The School District should follow its established procedures regarding documentation for all transactions.

Action Taken: This is an isolated incident directly attributable to the ongoing criminal investigation by the Michigan State Police (MSP). Muskegon Heights Public Schools (MHPS) has never had an instance of missing voucher packages or employee time records prior to this investigation. MHPS was able to provide everything requested subsequent to the seizure of documentation by the MSP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS—Continued

U.S. Department of Education

Finding 2011-9: Title I, Part A Cluster Eligibility

Pass-through entity: Michigan Department of Education
CFDA: 84.010 and 84.389
Award Numbers: 1115301011 and 1115351011
Award Year End: September 30, 2011

Specific Requirement: Eligibility

Recommendation: The School District should continue to work with the Michigan Department of Education Office of Field Services to ensure the allocations to eligible schools are properly determined.

Action Taken: MHPS has been in constant contact with the MDE Office of Field Services who monitors the Title I program and this issue has been corrected for 2011/12.

U.S. Department of Agriculture

Finding 2011-10: Child Nutrition Cluster-Summer Food Service Program

Pass-through entity: Michigan Department of Education
CFDA: 10.559
Award Numbers: 1009000910, 1009001010, 1009001110, 1019000910, 1019001010, and 1019001110
Award Year End: September 30, 2010

Specific Requirement: Reporting

Recommendation: Monthly Summer Food Service Program summary reports should be reconciled with Daily Meal Count forms, and monthly claims for reimbursement should be reviewed for accuracy.

Action Taken: The MHPS Food Service contractor will have a district employee review the forms before they are submitted. The documents will also be signed by the preparer and reviewer going forward.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS—Continued

U.S. Department of Agriculture

Finding 2011-11: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553 and 10.555

Award Numbers: 111950, 111970, and 111960

Award Year End: September 30, 2011

Specific Requirement: Special tests and Provisions, Verification of Free and Reduced Price Applications

Recommendation: The School District should review its verification reporting procedures and provide additional training for staff who perform verification. The School District should also implement a procedure for reviewing both the results of verification and the verification report when completed.

Action Taken: This test will not be necessary in future years. The district has been informed that it qualifies for the Community Eligibility Option (CEO) for 2011/12 and subsequent years. All students attending Muskegon Heights Public Schools will receive free meals regardless of household income.

If the Michigan Department of Education has questions regarding this plan, please call Dr. Dana M. Bryant at (231) 830-3221.

Sincerely,

A handwritten signature in black ink, appearing to read "Dana M. Bryant". The signature is fluid and cursive, with a large initial "D" and a long, sweeping underline.

Dr. Dana M. Bryant
Superintendent

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

December 28, 2011

To the Board of Education
School District of the City of Muskegon Heights

We have audited the financial statements of the School District of the City of Muskegon Heights for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you during our conference on July 13, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District of the City of Muskegon Heights are described in Note A to the financial statements. As described in Note A to the fund financial statements, the School District of the City of Muskegon Heights changed accounting policies related to presentation of fund balance by adopting Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, during the year ended June 30, 2011. The accounting change affected the presentation of fund balance in the governmental funds but did not change total beginning or ending equity. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of depreciation is based on estimated service lives of the specific assets utilizing straight-line methods.

Management's estimates for Act 18 revenue, Special Education Billback expense and Special Education Transportation revenue and expense were determined by the Muskegon Area Intermediate School District (MAISD) based on member school district estimated expenditures and the number of students receiving services from each district. Adjustments are made by the MAISD in the subsequent fiscal year for final audited expenditures and pupil counts.

Board of Education
School District of the City of Muskegon Heights
December 28, 2011
Page 2

Management's estimate of the liability for OPEB under GASB 45 was based upon certain actuarial assumptions.

Management's estimate of the liability for compensated absences is based on accumulated sick days at current contract rates.

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

The disclosure of related party transactions in Note L to the financial statements.

The disclosure of General Fund fund deficit in Note B.

Difficulties Encountered in Performing the Audit

We encountered difficulties in obtaining documentation that management stated was in the possession of the Michigan State Police. We were able to perform alternative procedures related to some of the missing documentation and other missing documentation was treated as it did not exist and an audit finding was issued for those items.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During our audit, we noted five uncorrected misstatements with an aggregate effect to overstate fund balance and net assets by \$103,738. Management has determined that this effect is immaterial to the financial statements taken as a whole. In addition, as a result of audit procedures, cash and liabilities totaling \$675,096 were grossed up due to held checks.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 28, 2011.

Management Consultations with Other Independent Accountants

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

Board of Education
School District of the City of Muskegon Heights
December 28, 2011
Page 3

Other Audit Findings or Issues

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

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

Sincerely,

Brickley De Long, P.C.

APPENDIX C

**Outstanding Liabilities
as of April 30, 2012**

Muskegon Heights Public Schools
Outstanding Payables

As of 05/23/12

| | <u>Vendor</u> | <u>Invoice No.</u> | <u>Invoice Date</u> | <u>Invoice Amount</u> | <u>Total</u> | <u>0-30</u> | <u>31-60</u> | <u>61-90</u> | <u>91-120</u> | <u>Over 120</u> | |
|---------------------------|-----------------------------------|--------------------|---------------------|-----------------------|--------------------|-------------------|--------------|--------------|--------------------|--------------------|--------------------|
| Ameritas | | Balance Forward | 10/17/11 | 2,767.60 | | - | - | - | - | 2,767.60 | |
| | | | 11/15/11 | 684.44 | | - | - | - | 684.44 | - | |
| | | | 12/15/11 | 908.64 | | - | - | 908.64 | - | - | |
| | | | 1/16/12 | 793.04 | | - | 793.04 | - | - | - | |
| | | | | <u>(1,075.76)</u> | | <u>4,077.96</u> | | - | - | - | <u>(1,075.76)</u> |
| Brickley DeLong | | 1121430 | 1/9/12 | 9,835.00 | | - | 9,835.00 | - | - | - | |
| | | 1121429 | 1/9/12 | <u>16,450.00</u> | <u>26,285.00</u> | - | 16,450.00 | - | - | - | |
| Britton & Bossenbroek PLC | | | 4/4/12 | <u>5,187.00</u> | <u>5,187.00</u> | | 5,187.00 | | | | |
| Chartwells | | X109481111 | 8/31/11 | 32,167.21 | | - | - | - | - | 32,167.21 | |
| | | | | <u>(32,167.21)</u> | | | | | | <u>(32,167.21)</u> | |
| | | | X109481211 | 9/30/11 | 77,631.14 | | - | - | - | - | 77,631.14 |
| | | | | <u>(77,631.14)</u> | | | | | | | <u>(77,631.14)</u> |
| | | | X109480112 | 10/31/11 | 84,769.62 | | - | - | - | 84,769.62 | - |
| | | | | <u>(22,368.86)</u> | | | | | | <u>(22,368.86)</u> | |
| | | | | <u>(62,400.76)</u> | | | | | | <u>(62,400.76)</u> | |
| | | | X109480212 | 11/30/11 | 89,059.46 | | - | - | 89,059.46 | - | - |
| | | | | <u>(45,165.52)</u> | | | | | <u>(45,165.52)</u> | | |
| | | | X109480312 | 12/31/11 | 72,977.93 | | - | 72,977.93 | - | - | - |
| | 1/31/12 | 78,399.65 | | | 78,399.65 | | | | | | |
| | <u>(78,399.65)</u> | | | | <u>(78,399.65)</u> | | | | | | |
| | 2/29/12 | 81,186.13 | | | 81,186.13 | | | | | | |
| | 3/31/12 | 107,788.37 | | | 107,788.37 | | | | | | |
| | 4/30/12 | <u>86,566.84</u> | <u>392,413.21</u> | <u>86,566.84</u> | | | | | | | |
| Comtron Service | | 17662 | 10/24/11 | 177.00 | | - | - | - | - | 177.00 | |
| | | 12240 | 12/5/11 | <u>1,601.00</u> | <u>1,778.00</u> | - | - | - | 1,601.00 | - | |
| City of Muskegon Heights | | | | | | | | | | | |
| | Edgewood Elm. Acct #1 | Balance Forward | 4/30/12 | 2,011.13 | | | 2,011.13 | | - | - | |
| | 3028 Howden Street Acct #2 | Balance Forward | 4/30/12 | 328.47 | | | 328.47 | | - | - | |
| | Glendale School | Balance Forward | 4/30/12 | 1,833.67 | | | 1,833.67 | | - | - | |
| | King Elm Acct #1 | Balance Forward | 4/30/12 | 711.92 | | | 711.92 | | - | - | |
| | 2200 Dyson Street | Balance Forward | 4/30/12 | 1,642.24 | | | 1,642.24 | | - | - | |
| | 220 Dyson Street Acct #2 | Balance Forward | 4/30/12 | 128.94 | | | 128.94 | | - | - | |
| | Lindbergh Elementary 2245 Hoyt St | Balance Forward | 4/30/12 | 16,120.98 | | | 16,120.98 | | - | - | |
| | Roosevelt School 3001 Temple St | Balance Forward | 4/30/12 | 4,859.90 | | | 4,859.90 | | - | - | |
| | MHMS 55 E. Sherman | Balance Forward | 4/30/12 | 206.84 | | | 206.84 | | - | - | |
| | MHMS 55 E. Sherman Acct #2 | Balance Forward | 4/30/12 | 2,284.83 | | | 2,284.83 | | - | - | |
| | MHHS 2437 Sanford | Balance Forward | 4/30/12 | 11,515.36 | | | 11,515.36 | | - | - | |
| | Muskegon Hts Bd of Ed | Balance Forward | 4/30/12 | <u>2,708.99</u> | <u>44,353.27</u> | | 2,708.99 | | - | - | |
| Consumers Energy | | | | | | | | | | | |
| | 400 | Balance Forward | 5/4/2012 | 2,184.19 | | 2,184.19 | | | | | |
| | 1393 | Balance Forward | 5/4/2012 | 70.94 | | 70.94 | | | | | |
| | 1534 | Balance Forward | 5/4/2012 | <u>(1,507.03)</u> | | <u>(1,507.03)</u> | | | | | |
| | 3092 | Balance Forward | 5/4/2012 | 2,601.04 | | 2,601.04 | | | | | |
| | 3282 | Balance Forward | 5/4/2012 | 1,488.33 | | 1,488.33 | | | | | |

Muskegon Heights Public Schools
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| <u>Vendor</u> | <u>Invoice No.</u> | <u>Invoice Date</u> | <u>Invoice Amount</u> | <u>Total</u> | <u>0-30</u> | <u>31-60</u> | <u>61-90</u> | <u>91-120</u> | <u>Over 120</u> |
|----------------------------------|-----------------------|---------------------|-----------------------|------------------|---------------------|-----------------|--------------|---------------|-----------------|
| | 3468 | Balance Forward | 5/4/2012 | 19,633.23 | | 19,633.23 | | | |
| | 3921 | Balance Forward | 5/4/2012 | 11,521.68 | | 11,521.68 | | | |
| | 4142 | Balance Forward | 5/4/2012 | 305.66 | | 305.66 | | | |
| | 4882 | Balance Forward | 5/4/2012 | 1,144.40 | | 1,144.40 | | | |
| | 5094 | Balance Forward | 5/4/2012 | (10.24) | | (10.24) | | | |
| | 5561 | Balance Forward | 5/4/2012 | 68.34 | | 68.34 | | | |
| | 6673 | Balance Forward | 5/4/2012 | 272.43 | | 272.43 | | | |
| | 6863 | Balance Forward | 5/4/2012 | 57.82 | | 57.82 | | | |
| | 7085 | Balance Forward | 5/4/2012 | 12,131.62 | | 12,131.62 | | | |
| | 7299 | Balance Forward | 5/4/2012 | 37.80 | | 37.80 | | | |
| Consumers Grand Total | 9397 | Balance Forward | 5/4/2012 | <u>(117.51)</u> | <u>49,882.70</u> | <u>(117.51)</u> | | | |
| DTE Energy | | | | | | | | | |
| | 462586200018 | Balance Forward | 5/2/2012 | \$70,382.47 | | | | | \$70,382.47 |
| | 459010800017 | Balance Forward | 5/2/2012 | \$9,969.11 | | | | | \$9,969.11 |
| | 458338300015 | Balance Forward | 5/2/2012 | \$23,543.86 | | | | | \$23,543.86 |
| | 462580500017 | Balance Forward | 5/2/2012 | \$77,747.66 | | | | | \$77,747.66 |
| | 462577800032 | Balance Forward | 5/2/2012 | \$12,132.47 | | | | | \$12,132.47 |
| | 461278000017 | Balance Forward | 5/2/2012 | \$16,359.98 | | | | | \$16,359.98 |
| | 461434900019 | Balance Forward | 5/2/2012 | \$21,278.25 | | | | | \$21,278.25 |
| | 462585900014 | Balance Forward | 5/2/2012 | \$17,444.93 | | | | | \$17,444.93 |
| | 462577800024 | Balance Forward | 5/2/2012 | \$661.64 | | | | | \$661.64 |
| | | | | | <u>\$249,520.37</u> | | | | |
| Frontier | | | | | | | | | |
| | 231-189-0623-112303-5 | Balance Forward | 5/1/12 | (61.11) | | (61.11) | | - | - |
| | 616-040-5381-032180-5 | Balance Forward | 5/1/12 | 945.33 | | 945.33 | | - | - |
| | 231-737-7044-010165-5 | Balance Forward | 5/1/12 | <u>2,907.92</u> | <u>3,792.14</u> | <u>2,907.92</u> | | - | - |
| Heinemann | | | | | | | | | |
| | | Balance Forward | 11/2/12 | <u>15,333.10</u> | <u>15,333.10</u> | - | - | - | 15,333.10 |
| Houghton Mifflin Harcourt | | | | | | | | | |
| | 948134179 | | 3/1/12 | 1,289.96 | | 1,289.96 | - | - | - |
| | 948134180 | | 3/1/12 | 651.88 | | 651.88 | - | - | - |
| | 948134181 | | 3/1/12 | 162.97 | | 162.97 | - | - | - |
| | 948253103 | | 4/9/12 | <u>197.00</u> | <u>2,301.81</u> | 197.00 | | | |
| MAISD | | | | | | | | | |
| | 03635 | | 11/14/2011 | 100.00 | | - | - | - | 100.00 |
| | 03661 | | 11/14/2011 | 45.00 | | - | - | - | 45.00 |
| | 03798 | | 12/14/11 | 796.00 | | - | - | 796.00 | - |
| | 03824 | | 12/14/11 | 20.00 | | - | - | 20.00 | - |
| | 03863 | | 1/9/12 | 3,031.56 | | | | 3,031.56 | - |
| | 03922 | | 1/23/12 | 11,700.00 | | - | 11,700.00 | - | - |
| | 03947 | | 1/23/12 | 30.00 | | - | 30.00 | - | - |
| | 03960 | | 1/30/12 | 8,710.00 | | - | 8,710.00 | - | - |
| | 03968 | | 1/30/12 | 50.00 | | - | 50.00 | - | - |
| | 04037 | | 2/29/2012 | 300.00 | | 300.00 | - | - | - |
| | 04045 | | 2/29/2012 | 15.00 | | 15.00 | - | - | - |
| | 04046 | | 2/29/2012 | 5,000.00 | | 5,000.00 | - | - | - |
| | 04047 | | 2/29/2012 | 20.00 | | 20.00 | - | - | - |

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| <u>Vendor</u> | <u>Invoice No.</u> | <u>Invoice Date</u> | <u>Invoice Amount</u> | <u>Total</u> | <u>0-30</u> | <u>31-60</u> | <u>61-90</u> | <u>91-120</u> | <u>Over 120</u> |
|----------------------------------|--------------------|---------------------|-----------------------|------------------|---------------------|--------------|--------------|---------------|-----------------|
| | 04110 | 3/23/2012 | 2,958.80 | | 2,958.80 | | | | |
| | 04116 | 3/23/2012 | 5,000.00 | 37,776.36 | 5,000.00 | | | | |
| MEBS | Balance Forward | 7/1/11 | 21,068.88 | | - | - | - | - | 21,068.88 |
| | | 8/1/11 | 21,069.00 | | - | - | - | - | 21,069.00 |
| | | 9/1/11 | 21,069.00 | | - | - | - | - | 21,069.00 |
| | | 10/1/11 | 26,583.36 | | - | - | - | - | 26,583.36 |
| | | 11/1/11 | 18,930.40 | | - | - | - | 18,930.40 | - |
| | | 12/1/11 | 21,085.99 | | - | - | 21,085.99 | - | - |
| | | 1/1/12 | 21,085.99 | | - | 21,085.99 | - | - | - |
| | | 2/7/12 | 21,264.85 | | 21,264.85 | - | - | - | - |
| | | | (78,074.12) | | | | | | (78,074.12) |
| | | 4/16/2012 | (22,360.18) | 71,723.17 | | | | | (22,360.18) |
| MESSA (e-mail summary) | MESSA | Balance Forward | 6/1/11 | 1,851.69 | - | - | - | - | 1,851.69 |
| | | | 4/16/12 | (32,783.96) | | | | | (32,783.96) |
| | | | 6/20/11 | 113,904.98 | - | - | - | - | 113,904.98 |
| | | | 7/18/11 | 219,130.84 | - | - | - | - | 219,130.84 |
| | | | 8/15/11 | 221,871.37 | - | - | - | - | 221,871.37 |
| | | | 9/12/11 | 222,765.06 | - | - | - | - | 222,765.06 |
| | | | 10/17/11 | 173,288.75 | - | - | - | - | 173,288.75 |
| | | | 11/14/11 | 198,904.00 | - | - | - | 198,904.00 | - |
| | | | 12/12/11 | 195,849.62 | - | - | 195,849.62 | - | - |
| | | | 1/18/12 | 193,069.91 | - | 193,069.91 | - | - | - |
| | | | 2/13/2012 | 137,652.34 | 1,645,504.60 | 137,652.34 | - | - | - |
| | COBRA | | 12/12/11 | 2,278.96 | - | - | 2,278.96 | - | - |
| | | | 1/18/12 | 1,656.94 | - | 1,656.94 | - | - | - |
| | | | 1/18/12 | 1,757.78 | 1,757.78 | - | - | - | - |
| | | | 1/18/12 | 312.06 | 6,005.74 | 312.06 | - | - | - |
| MET Life | Balance Forward | 10/25/11 | (771.35) | | - | - | - | - | (771.35) |
| | | 10/25/11 | 8,738.96 | | - | - | - | - | 8,738.96 |
| | | 4/16/12 | (1,865.12) | | | | | | (1,865.12) |
| | | 11/14/11 | 10,044.10 | | - | - | - | 10,044.10 | - |
| | | 12/13/11 | 9,959.72 | | - | - | 9,959.72 | - | - |
| | | 2/13/12 | 375.00 | | - | 375.00 | - | - | - |
| | | | (9,664.78) | 16,816.53 | | | | (9,664.78) | - |
| Michigan Office Solutions | Balance Forward | 12/14/2011 | 1,256.37 | 1,256.37 | | | | 1,256.37 | |
| MPSERS | Credit Forward | 5/1/11 | (5,491.23) | | - | - | - | - | (5,491.23) |
| | | 6/1/11 | 224,212.68 | | - | - | - | - | 224,212.68 |
| | | 6/1/11 | 7,113.47 | | - | - | - | - | 7,113.47 |
| | | 7/1/11 | 189,941.08 | | - | - | - | - | 189,941.08 |
| | | 8/1/11 | 177,717.59 | | - | - | - | - | 177,717.59 |
| | | 8/1/11 | 6,565.83 | | - | - | - | - | 6,565.83 |
| | | 9/1/11 | 285,420.31 | | - | - | - | - | 285,420.31 |
| | | 9/1/11 | 6,515.83 | | - | - | - | - | 6,515.83 |
| | | 10/1/11 | 234,925.37 | | - | - | - | - | 234,925.37 |

Muskegon Heights Public Schools
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|--|---------------------------|---------------------|-----------------------|---------------------|-------------|--------------|--------------------|--------------------|--------------------|
| | | 10/1/11 | 8,086.82 | | - | - | - | - | 8,086.82 |
| | | 11/1/11 | 234,695.26 | | - | - | - | - | 234,695.26 |
| | | 11/1/11 | 4,728.25 | | - | - | - | - | 4,728.25 |
| | | 12/1/11 | 238,185.30 | | - | - | - | - | 238,185.30 |
| | | 12/1/11 | 25,270.52 | | - | - | - | - | 25,270.52 |
| | | 11/1/11 | (123,058.66) | | - | - | - | (123,058.66) | - |
| | | 12/1/11 | <u>(238,600.37)</u> | <u>1,276,228.05</u> | - | - | (238,600.37) | - | - |
| Muskegon Public Schools | 00134 | 12/12/11 | 68,993.00 | | - | - | - | 68,993.00 | - |
| | 00164 | 2/15/12 | <u>68,993.00</u> | <u>137,986.00</u> | 68,993.00 | - | - | - | - |
| Pacific Pride | | 2/20/12 | 6,451.97 | | | 6,451.97 | | | |
| | 1209101 | 3/31/12 | <u>6,748.13</u> | <u>13,200.10</u> | 6,748.13 | | | | |
| Pearson | Balance Forward | 2/1/12 | 15,112.53 | | | | | | 15,112.53 |
| | | | <u>(801.00)</u> | <u>14,311.53</u> | | | | | <u>(801.00)</u> |
| Priority Health | Balance Forward | 10/13/11 | 89,294.54 | | - | - | - | - | 89,294.54 |
| | 113190001758 | 11/14/11 | 65,756.31 | | - | - | - | 65,756.31 | - |
| | 113470001544 | 12/13/11 | 86,241.06 | | - | - | 86,241.06 | - | - |
| | | | <u>(86,241.06)</u> | | | | <u>(86,241.06)</u> | | |
| | 120130001325 | 1/13/12 | 70,683.74 | | - | 70,683.74 | - | - | - |
| | | | <u>(56,243.08)</u> | | | | | | <u>(56,243.08)</u> |
| | | | <u>(33,051.46)</u> | | | | | | <u>(33,051.46)</u> |
| | | | <u>(65,756.31)</u> | | | | | <u>(65,756.31)</u> | |
| | 12045000044.00 | 2/12/2012 | <u>76,861.65</u> | <u>147,545.39</u> | | 76,861.65 | | | - |
| QDS | 20945860.00 | 2/21/2012 | <u>1,257.96</u> | <u>1,257.96</u> | 1,257.96 | - | - | - | - |
| Quill | Balance Forward | 7/1/2011 | <u>5,546.01</u> | <u>5,546.01</u> | | | | | 5,546.01 |
| Riddell | | | | | | | | | |
| | Junior High School | 93612232 | 7/1/11 | 1,324.09 | - | - | - | - | 1,324.09 |
| | High School | 93604564 | 7/1/11 | 3,597.55 | - | - | - | - | 3,597.55 |
| | | 93903475 | 9/8/11 | 2,657.89 | - | - | - | - | 2,657.89 |
| | | 93952880 | 9/22/11 | 36.42 | - | - | - | - | 36.42 |
| | | 93963194 | 9/24/11 | 70.79 | - | - | - | - | 70.79 |
| | | 94053834 | 9/28/11 | (767.52) | - | - | - | - | (767.52) |
| | | 93980339 | 9/30/11 | 25.46 | - | - | - | - | 25.46 |
| | | 94008340 | 10/12/11 | 876.52 | - | - | - | - | 876.52 |
| | | 94026367 | 10/19/11 | 95.09 | - | - | - | - | 95.09 |
| | | 94026368 | 10/19/11 | <u>40.96</u> | - | - | - | - | <u>40.96</u> |
| | | | | <u>7,957.25</u> | | | | | |
| Special Payment Plan Unemployment | Balance Forward | | <u>67,717.82</u> | <u>67,717.82</u> | - | - | - | - | 67,717.82 |
| Superior Groundcover | 10445 | 8/31/11 | <u>7,245.00</u> | <u>7,245.00</u> | - | - | - | - | 7,245.00 |
| Thyssenkrupp Elevator Corp | 3000082691 | 10/1/11 | 1,562.44 | | - | - | - | - | 1,562.44 |
| | 3000104949 | 1/1/12 | <u>1,648.38</u> | <u>3,210.82</u> | - | - | - | 1,648.38 | |

Muskegon Heights Public Schools
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|---|--------------------|---------------------|-----------------------|---------------------|------------------|--------------|--------------|---------------|-----------------|
| Waste Management Acct #2333-8 | Balance Forward | 5/4/12 | 4,868.20 | <u>4,868.20</u> | | | | 4,868.20 | |
| Wholesale School Supply, Inc. | 09-W-040 | 9/13/11 | <u>1,330.74</u> | <u>1,330.74</u> | | | | | 1,330.74 |
| Xerox Corporation | Balance Forward | 11/17/11 | 19,643.92 | | - | - | - | 19,643.92 | - |
| | | | (1,111.92) | | - | - | - | (1,111.92) | - |
| | 11619 | 11/17/11 | 10,960.56 | | - | - | - | 10,960.56 | - |
| | | | (567.96) | | - | - | - | (567.96) | - |
| | 13278 | 12/18/11 | 10,748.56 | | - | - | - | 10,748.56 | - |
| | | | (555.96) | | - | - | - | (555.96) | - |
| | 14727 | 1/7/12 | (1,853.20) | | - | - | (1,853.20) | - | - |
| | 15122 | 1/18/12 | 10,214.39 | | - | - | 10,214.39 | - | - |
| | | | (21.79) | | - | - | (21.79) | - | - |
| | 16974 | 2/13/2012 | 28,527.28 | | 28,527.28 | - | - | - | - |
| | 17084 | 2/16/2012 | <u>37,793.28</u> | <u>113,777.16</u> | <u>37,793.28</u> | - | - | - | - |
| | | | 4,376,189.36 | 4,376,189.36 | 458,039.16 | 731,350.75 | 47,563.46 | 228,801.75 | 2,910,434.24 |
| Outstanding Healthcare Reimbursement's | | | | | | | | 0.00 | difference |
| Total Healthcare Reimbursements | | | <u>6,470.84</u> | | | | | | |
| | | | | 4,382,660.20 | | | | | |

APPENDIX D

**Part 9 of
The Revised School Code, 1976 PA 451, MCL 380.851 to 380.871**

CONSOLIDATION OF SCHOOL DISTRICTS

THE REVISED SCHOOL CODE (EXCERPT)
Act 451 of 1976

PART 9
CONSOLIDATION OF SCHOOL DISTRICTS

380.851 Consolidation of school districts to form single school district.

Sec. 851. Two or more school districts may consolidate to form a single school district.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1995, Act 289, Eff. July 1, 1996.

Popular name: Act 451

380.852 Request to initiate consolidation proceedings; referral of question by intermediate superintendent; approval, denial, or other action by state board.

Sec. 852. (1) If the intermediate superintendent is requested in writing by not less than 10 school electors of each of 2 or more school districts to initiate proceedings for consolidation of the districts, the intermediate superintendent shall refer the question of consolidating the districts to the state board for its approval. A resolution of the board requesting this action by the intermediate superintendent shall have the same effect as a written request by the school electors of a district.

(2) The state board may approve or deny the proposal to initiate proceedings to effectuate the proposed consolidation, or the state board may require that 1 or more of the school districts be excluded from the proposed consolidation. The action of the state board in the matter shall be final.

(3) If the school districts proposed to be consolidated are located in more than 1 intermediate school district, the request to initiate consolidation proceedings shall be filed with the intermediate superintendent of the intermediate school district containing the largest portion of the assessed valuation of the proposed consolidated school district. The intermediate superintendent shall refer the question to the state board. Upon approval of the state board the intermediate superintendent shall perform the duties of an intermediate superintendent in connection with the consolidation.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.853 Petitions; preparation; form; contents; signature; circulation; return of petitions to school district filing official; expiration date.

Sec. 853. (1) Within 30 days after the receipt of the approval of the state board to the consolidation, the intermediate superintendent shall notify the school district filing official, who shall have petitions prepared for circulation within the designated school districts. The petitions shall be printed or duplicated.

(2) A petition under this section shall be substantially in the form prescribed for other petitions under this act and is subject to section 14.

(3) Upon the request of a school elector of the district proposed to be consolidated, the school district filing official shall provide a petition for consolidation to the school elector. A petition shall be circulated only by a school elector of the district. The statement appearing below the signatures of petitioners shall be dated and signed on each page before filing the petition with the school district filing official.

(4) A school elector circulating a petition under this section shall return the petition to the school district filing official before the expiration date stated on the petition that is the sixtieth day after the school district filing official certifies the number of registered general electors residing in each of the affected school districts. The expiration date shall be not later than 180 days after the date of approval by the state board.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1992, Act 263, Eff. Jan. 1, 1993;—Am. 1998, Act 406, Eff. Mar. 23, 1999;—Am. 2003, Act 299, Eff. Jan. 1, 2005.

Popular name: Act 451

380.854 Certification of number of registered general electors; basis for determining required number of signatures; registration after date of certification; effect of additional registrations; eligibility to sign petition.

Sec. 854. (1) Immediately upon receipt of the approval of the state board to the consolidation, the intermediate superintendent shall request the school district filing official to certify the number of registered general electors residing in each of the affected school districts. The number of registered general electors certified is the basis for determining the required number of signatures for calling an election on the question of consolidation.

(2) The signature of a person registering after the date of certification by the school district filing official is

a valid signature if the person is registered at the time of signing the petition. Additional registrations do not affect the number of registered general electors originally certified. Only a registered school elector is eligible to sign a petition and to vote on the question of consolidation.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1992, Act 263, Eff. Jan. 1, 1993;—Am. 2003, Act 299, Eff. Jan. 1, 2005.

Popular name: Act 451

380.855 Canvass of petitions; purpose; determining validity of signatures.

Sec. 855. The school district filing official shall canvass the petitions to determine the number of school electors who have signed them. For the purpose of determining the validity of doubtful signatures, the school district filing official may have the signatures checked against the registration records by the clerk of a political subdivision in which petitions were circulated or may use other methods to determine the validity of doubtful signatures.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 2003, Act 299, Eff. Jan. 1, 2005.

Popular name: Act 451

380.856 Submitting question of consolidation to school electors at next regular school election or special election; petitions not required in certain school districts.

Sec. 856. (1) If the school district filing official is presented with petitions signed by school electors in each school district in a number at least equal to 5% of the number of school electors residing in each school district, the school district filing official shall submit the question of consolidation to be submitted to the vote of the school electors of the school districts at the next regular school election or a special election.

(2) Petitions are not required in a school district operating 12 grades if a resolution adopted by the board of the school district requesting consolidation of school districts has been filed with the intermediate superintendent.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 2003, Act 299, Eff. Jan. 1, 2005.

Popular name: Act 451

380.857 Submitting question of establishing consolidated school district to school electors at regular school election or special election; voting as unit; day and hours of elections.

Sec. 857. (1) The question of establishing a consolidated school district shall be submitted to the school electors at a regular school election or at a special election held for that purpose. In voting to form the consolidated school district, a school district operating 12 grades shall vote separately as a unit. The remaining school districts to be included in the consolidation shall vote together as a unit.

(2) The elections shall be held on the same day and during the same hours.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1992, Act 263, Eff. Jan. 1, 1993;—Am. 2003, Act 299, Eff. Jan. 1, 2005.

Popular name: Act 451

380.858 Election notices.

Sec. 858. The school district filing official shall give written notice to the secretary of the board of each affected school district of the date of the consolidation election at least 60 days before the election.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1992, Act 263, Eff. Jan. 1, 1993;—Am. 2003, Act 299, Eff. Jan. 1, 2005.

Popular name: Act 451

380.859 Form of ballot question; affirmative vote of majority required; effective date of consolidation; reimbursements; expenses.

Sec. 859. (1) The ballot question shall be in substantially the following form:

"Shall the territory of the following school districts be united to form 1 school district?"

(Names of school districts to be consolidated listed here)

Yes ()

No ()".

(2) The affirmative vote of a majority of the school electors voting on the question in each of the election units is necessary to effect the consolidation of the school districts. The consolidation takes effect July 1 after the election.

(3) If the consolidation becomes effective, expenses incurred for the election in each election unit shall be certified to the board of the consolidated school district. The school board of the consolidated school district shall pay election reimbursements from the funds of the consolidated school district. If the proposition to consolidate is not approved, the intermediate school board shall determine the expenses of the election held in

the election unit operating less than 12 grades and apportion the required reimbursements equally among the school districts of the election unit. Each school board of the election unit shall pay the apportionment to the local unit of government that conducted the election.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 2002, Act 509, Imd. Eff. July 23, 2002;—Am. 2003, Act 299, Eff. Jan. 1, 2005;—Am. 2008, Act 1, Imd. Eff. Jan. 11, 2008.

Popular name: Act 451

380.860 Submitting questions of assuming bonded indebtedness or increasing constitutional limitation on taxes; form; payment of bonded indebtedness; applicability of MCL 380.864.

Sec. 860. (1) If the petitions filed with a school district filing official under section 853 request submission of the question of assuming the bonded indebtedness of 1 or more of the school districts proposing consolidation, or the question of increasing the constitutional limitation on taxes of the consolidated school district for operating purposes to the school electors at the consolidation election, the school district filing official shall include the question or questions in the notice of the election ballot questions filed with each of the election units.

(2) A request for including assumption by the consolidated school district of the bonded indebtedness of 1 or more of the districts proposing consolidation shall be stated on the petition after the names of the school districts to be consolidated in substantially the following form:

"We petition that the question of assumption and payment by the proposed consolidated school district of the bonded indebtedness of _____ be
(name of school district or districts)
submitted to the electors at the same election in which the proposed consolidation is submitted", and if applicable,

"We petition that the question of increasing the constitutional limitation on taxes which may be assessed against all property in the proposed consolidated school district by _____ mills for a period of _____ years, ___ to ___, inclusive, for operating purposes, be submitted to the electors at the same election with the question of consolidating the above listed districts".

(3) If the school electors approve the consolidation of school districts and the assumption of the bonded indebtedness of an original district, the consolidated school district shall assume the obligation of the bonded indebtedness. The consolidated school district shall pay the bonded indebtedness by spreading debt retirement taxes uniformly over the territory of the consolidated district. Section 864 applies to the debt retirement tax levies, the continuing obligations of the original school districts, and the rights and remedies of a bondholder.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 2003, Act 299, Eff. Jan. 1, 2005.

Popular name: Act 451

380.861 Appointment of board; filing acceptance of office and affidavit of eligibility; election and terms of board members.

Sec. 861. Within 10 days after the date of the official canvass of the consolidation election, the intermediate school board of the intermediate school district containing the territory of the consolidated school district shall appoint school electors of the school district in the number required by section 11a to act as a board for the school district. This board shall continue to operate the affected school districts as separate school districts until the effective date of the consolidation. If a consolidated school district includes territory in more than 1 intermediate school district, the appointment shall be made by the intermediate school board of each intermediate school district acting jointly as a single board. Within 7 days after appointment, each member shall file with the intermediate superintendent an acceptance of the office, accompanied by a written affidavit setting forth the fact of eligibility for office. Each appointed board member shall hold office until January 1, or, if the consolidated school district's regular election is in May, until July 1, next following appointment. A new board shall be elected at the first regular school election held after the effective date of consolidation in the manner prescribed by law for the election of a first board.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1977, Act 43, Imd. Eff. June 29, 1977;—Am. 2003, Act 299, Eff. Jan. 1, 2005;—Am. 2008, Act 1, Imd. Eff. Jan. 11, 2008.

Popular name: Act 451

380.862 Accounting for records, funds, and property; release from liability; termination of offices.

Sec. 862. Within 20 days after the effective date of a consolidation the board of each of the original school

districts shall account to the board of the consolidated school district for all records, funds, and property belonging to the original school district and shall turn over the same to the board of the consolidated school district. Upon receipt of records, funds, and property by the board of the consolidated school district, the officers of the original school districts shall be released from liability therefor and their offices terminated.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.862a Repealed. 1995, Act 289, Eff. July 1, 1996.

Compiler's note: The repealed section pertained to mergers of joint high school districts into consolidated school districts.

Popular name: Act 451

380.863 Bonded indebtedness or outstanding tax anticipation notes of original school district; territory of original school district as assessing unit; board of trustees; officers; certification and levy of taxes; commingling; uniform spread of taxes.

Sec. 863. (1) If a school district becoming part of a consolidated school district has bonded indebtedness, or has outstanding tax anticipation notes at the time of consolidation, the identity of the district shall not be lost by virtue of the consolidation. Territory of the original school district shall remain as an assessing unit for purposes of bonded indebtedness and tax anticipation notes until the indebtedness is retired or the outstanding bonds are refunded by the consolidated school district. The board of the consolidated school district shall constitute the board of trustees for the original school district having bonded indebtedness or tax anticipation notes. The officers of the consolidated school district shall be the officers for the original school district for this purpose.

(2) The board of the consolidated school district shall certify and order the levy of taxes for the bonded indebtedness and tax anticipation notes in the name of the original school district and shall not commingle the debt retirement funds of the original school district with funds of the consolidated school district. The board of the consolidated school district shall do all things relative to the bonded indebtedness and tax anticipation notes required by law and by the terms under which the issue and sale of the bonds and tax anticipation notes were originally authorized.

(3) Other taxes of any nature for purposes of the consolidated school district shall be spread uniformly over the entire area of the consolidated school district.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.864 Assumption of bonded indebtedness of consolidated school district; payment; liability; certification and levy of taxes; election.

Sec. 864. (1) Beginning 3 years after the consolidation election, a consolidated school district may assume and pay the obligation of the bonded indebtedness of an original school district which joined the consolidation from the proceeds of a debt retirement tax levy spread uniformly over the territory of the consolidated school district if the school electors of the district approve the assumption of the bonded indebtedness. Assumption of bonded indebtedness of an original school district shall not release the territory of the original school district from the final responsibility of paying the obligation to bondholders.

(2) If the bonded indebtedness of an original school district is assumed, the board of the consolidated school district shall certify and order the levy of taxes for the bonded indebtedness equivalent in terms of money to those required by the terms under which the indebtedness was originally incurred, and shall carry out provisions of the original bond contract. Following the effective date of consolidation a question of assuming bonded indebtedness of an original school district may be presented at an election to issue new bonds of the consolidated school district.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.871 Expired. 1976, Act 451, Eff. Jan. 1, 1978.

Compiler's note: The expired section pertained to disbandment of consolidated school district.

Popular name: Act 451

APPENDIX E

**Part 10 of
The Revised School Code, 1976 PA 451, MCL 380.901 to 380.933**

ANNEXATION

THE REVISED SCHOOL CODE (EXCERPT)
Act 451 of 1976

PART 10
ANNEXATION

380.901 Annexation of school district; resolution; approval; ballot vote; election; filing certified statement of vote; funds, property, and outstanding indebtedness; liability; effective date of annexation; annexation by concurrent proceedings; annexation by separate proceedings.

Sec. 901. (1) A school district shall be annexed to another school district if the board of the annexing school district adopts a resolution approving the annexation and a majority of the school electors of the district to be annexed approve the annexation. The resolution may specify an effective date for the annexation. The vote on the question shall be by ballot. Before the election is held, the board of the annexing school district shall obtain the approval of the state board of the proposed annexation. The election shall be held within 120 days after passage of the resolution by the board of the annexing school district.

(2) Within 10 days after the election the secretary of the board of the school district in which the election was held shall file a certified statement of the vote for annexation with the secretary of the board of the annexing school district.

(3) Within 15 days after the effective date of the annexation, the officers of the board of the annexed school district shall account to the board of the annexing school district for funds and property of the district. Property and money belonging to the annexed school district shall be the property of the annexing school district. Outstanding indebtedness of the annexed school district shall become the liability of the annexing school district. Upon receipt of the funds and property by the board of the annexing school district, the officers of the annexed school district shall be released from liability for the funds and property and their offices terminated.

(4) The annexation is effective on the date of the annexation election or the date specified in the board resolution as the effective date of the annexation, whichever is later, except that if an election is required in the annexing school district under section 904, the annexation is effective on the date of the official canvass in the annexing school district or the date specified in the board resolution as the effective date of the annexation, whichever is later.

(5) Except as provided in this section, the annexation of 2 or more school districts may be by concurrent proceedings. Elections in the annexed school districts may be held on the same or different days.

(6) If the annexing school district and 1 or more of the school districts to be annexed have bonded indebtedness that is to be mutually assumed at the time of annexation under section 907, the annexation of each district having bonded debt shall be by separate proceedings that shall not be concurrent with the proceedings for annexation of another school district.

(7) If a school district to be annexed has bonded debt that is to be assumed by an annexing school district, annexation of the district shall be by separate proceedings that shall not be concurrent with proceedings by which another school district is annexed.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1992, Act 140, Imd. Eff. July 15, 1992.

Popular name: Act 451

380.902 Notice of annexation.

Sec. 902. Within 15 days after the effective date of an annexation the secretary of the board of the annexing school district shall give written notice of the annexation to the intermediate superintendent of each of the intermediate school districts in which the territory of the combined school district is situated and to the state board.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

***** 380.902a THIS SECTION DOES NOT APPLY AFTER JUNE 30, 1988: See (5) of 380.902a *****

380.902a Merger of teachers for purpose of making layoff and recall determinations; standards and procedures; applicability of subsection (1); altering provisions of subsection (1); applicability of section.

Sec. 902a. (1) Upon the annexation of 1 school district by another, the teachers of the annexed and annexing school districts shall be merged for the purpose of making determinations in the layoff and recall of

those teachers. The teachers of the annexed school district shall be merged with the teachers of the annexing school district as if those teachers had been employed in the annexing school district for the length of time equal to their accumulated seniority with the annexed school district at the date of the annexation, according to the applicable standards in the annexed school district for acquired seniority. Layoff and recall determinations shall then be made according to the standards and procedures in effect in the annexing school district. A teacher on layoff in the annexed or the annexing district on the date of the annexation shall not displace any teacher who is actively employed with either school district at the time of the annexation. Teachers on layoff in the annexed and annexing school district at the time of the annexation shall be merged with each other in the same manner as those actively employed and shall be considered for assignment for the next available vacancy for which they are certified, if applicable, and qualified. This subsection shall not apply to teachers of annexed and annexing school districts in which the annexation takes place after June 30, 1986.

(2) The provisions of subsection (1) may be altered by a future collective bargaining agreement after the annexation has been complete for 2 years.

(3) This section shall not apply to any school district in which annexation has been complete for 3 years.

(4) This section shall only apply to school districts located in a county with a population of more than 2,000,000.

(5) This section shall not apply after June 30, 1988.

History: Add. 1982, Act 284, Imd. Eff. Oct. 7, 1982;—Am. 1985, Act 11, Imd. Eff. Apr. 24, 1985.

Popular name: Act 451

380.903 Bonded indebtedness of annexed school district at time of annexation; territory of annexed district as separate assessing unit; board of trustees; officers.

Sec. 903. (1) If a school district which is annexed to another school district has bonded indebtedness at the time of annexation, the identity of the district shall not be lost by virtue of annexation. Its territory shall remain as a separate assessing unit for purposes of bonded indebtedness until the indebtedness has been retired or the outstanding bonds refunded by the annexing school district. The board of the annexing school district shall constitute the board of trustees for the annexed school district having bonded indebtedness. The officers of the annexing school district are the officers for the annexed district.

(2) The board of the annexing school district shall certify and order the levy of taxes for bonded indebtedness in the name of the annexed school district, shall not commingle the debt retirement funds of the annexed school district with those of the annexing school district, and shall do all things relative to the indebtedness required by law and by the terms under which the issuance and sale of the bonds were originally authorized.

(3) Other taxes of any nature levied for purposes of the combined school district shall be spread uniformly over the entire area of the combined school district.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.904 Assumption of bonded indebtedness; resolution; approval; payment; final responsibility; uniform tax spread.

Sec. 904. (1) If a school district which has bonded indebtedness proposes to annex to a school district which has no outstanding bonded indebtedness, the resolution of the board of the annexing school district prescribed by section 901 may provide that the annexation shall not become effective unless the school electors of the annexing school district approve the assumption of the indebtedness.

(2) If the assumption of bonded indebtedness is approved by the school electors, the annexing school district shall assume the obligation of the bonded indebtedness of the annexed school district and pay the same by levying debt retirement taxes uniformly over the territory of the combined school district. The assumption of bonded indebtedness of an annexed school district shall not release the territory of the annexed school district from the final responsibility of paying the bonded debt.

(3) If an annexing school district has bonded indebtedness at the time of the annexation of another school district, the territory of the annexing school district shall remain as a separate assessing unit for purposes of the bonded indebtedness until the indebtedness is retired or the outstanding bonds are refunded by the combined school district.

(4) Other taxes of any nature for purposes of the combined school district shall be spread uniformly over the entire area of the district.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.905 Assumption of bonded indebtedness; resolution; approval; uniform levy of debt retirement taxes; final responsibility.

Sec. 905. (1) If a school district which has bonded indebtedness proposes to annex a school district which has no bonded indebtedness, the resolution of the board of the annexing school district prescribed by section 901 may provide that the annexation shall become effective only if the school electors of the district to be annexed approve the assumption of the bonded indebtedness at the same election at which the school electors of the district to be annexed approve the annexation.

(2) If the assumption of bonded indebtedness and annexation are approved by the school electors, the annexing school district shall levy debt retirement taxes uniformly over the territory of the combined school district. The assumption of the bonded indebtedness by the district shall not release the original territory from the final responsibility of paying the bonded obligation.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.906 Bonded indebtedness of both annexing and annexed school districts; identity of annexed school district; territory as separate assessing unit; board of trustees; officers; certification and levy of taxes; commingling; uniform spread of taxes.

Sec. 906. (1) If a school district which has bonded indebtedness is annexed to another school district which has bonded indebtedness, the identity of the annexed school district shall not be lost by virtue of the annexation. The territory of each district shall remain as a separate assessing unit for the purposes of bonded indebtedness until the indebtedness of each is refunded or retired. The board of the annexing school district is the board of trustees for the annexed school district having bonded indebtedness. The officers of the annexing school district are the officers for the annexed school district.

(2) The board of the annexing school district shall certify and order the levy of taxes for the bonded indebtedness in the name of the annexed school district and shall not commingle the debt retirement funds of the annexed school district with those of the annexing school district and shall do all things relative to the bonded indebtedness required by law and by the terms under which the issuance and sale of the bonds were originally authorized.

(3) Other taxes of whatever nature levied for the purposes of the combined school district shall be spread uniformly over the entire area of the combined school district.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.907 Annexation of school districts both having bonded indebtedness; resolution; approval; assumption and payment of bonded indebtedness; final responsibility.

Sec. 907. (1) If a school district which has bonded indebtedness proposes to annex a school district which has bonded indebtedness, the resolution of the annexing board prescribed by section 901 may provide that the annexation shall become effective only if the school electors of the annexing school district approve the assumption of the bonded indebtedness of the school district to be annexed and the school electors of the school district to be annexed at the same election approve the assumption of the bonded indebtedness of the annexing school district and approve the annexation.

(2) If the annexation is effective, the combined school district shall assume the obligation of the bonded indebtedness of both the annexing and annexed school districts and shall pay the same by levying debt retirement tax levies uniformly over the territory of the district. The assumption of the bonded indebtedness by the annexing school district shall not operate to release the territory of the annexing school district or of the annexed school district from the final responsibility of paying the bonded obligation.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.908 Annexation of school districts both having bonded indebtedness; resolution; approval.

Sec. 908. If a school district which has bonded indebtedness proposes to annex a school district which has bonded indebtedness, the resolution of the annexing board prescribed by section 901 may provide that the annexation shall become effective only if the school electors of the district to be annexed approve both the assumption of the bonded indebtedness of the annexing school district and annexation at the same election.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.911 Assumption and payment of bonded indebtedness by combined school district; final responsibility; election to issue new bonds; refunding bonds; vote by school electors.

Sec. 911. (1) Beginning 3 years after the effective date of an annexation in which 1 or more of the school districts forming the combined school district have outstanding bonded indebtedness, the combined school district may assume the obligation of the bonded indebtedness and pay the same by levying debt retirement tax levies uniformly over the territory of the combined school district if the school electors of the combined school district approve the assumption of the bonded indebtedness. The assumption of the indebtedness shall not release the territory of the district originally incurring the bonded indebtedness from the final responsibility of paying the bonded obligation.

(2) After the effective date of annexation, the election may be held when a proposal to issue new bonds of the combined school district is submitted to the school electors. The assumption of indebtedness, if approved, shall become effective immediately.

(3) At an election to issue new bonds of the combined school district, outstanding bond issues of 1 or more of the original school districts may be refunded as a part of the new bond issue. It shall not be necessary to present the question of assumption of the indebtedness as a separate proposition.

(4) If a school district is attached to another school district under section 921, the vote by the school electors of the combined school district may be held at any time after the effective date of annexation.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.912 Annexation of school district; increase in tax limitation.

Sec. 912. If a school district which has voted to increase the constitutional limitation on taxes for either building and site or general fund purposes and the term of years for which the millage was voted has not expired proposes to annex a school district, the resolution of the annexing board prescribed by section 901 may provide that the annexation shall become effective only if the school electors of the district to be annexed approve an increase in the constitutional limitation on taxes for the same amounts, for the same purposes, and for the same years as are in effect in the annexing school district.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.921 Constituent districts not operating schools; list; compliance; duties.

Sec. 921. Annually on June 1 each intermediate superintendent shall compile a list of constituent districts which did not operate school within the district during the preceding 2 or more years. Not later than June 10 the intermediate superintendent shall direct in writing the board of each constituent district to comply with this section and section 922. Before the expiration of 1 year following this official notification the constituent district shall either:

- (a) Attach itself either totally or in part to 1 or more operating school districts.
- (b) Reopen and operate its own school.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.922 Noncompliance with MCL 380.921; total or partial annexation or attachment; procedures; appeal; hearing; order; taxes; forfeiture of financial benefits.

Sec. 922. (1) If a constituent district fails to comply with either of the requirements of section 921, the intermediate school board, upon the approval of the state board, shall annex or attach the district either totally or in part to 1 or more operating school districts pursuant to the following procedures:

(a) Not later than 30 days after the expiration of the 1-year period described in section 921, the intermediate school board shall hold a hearing to determine facts and shall make recommendations regarding the attachment of the constituent district, or parts of the constituent district, to 1 or more operating school districts. At least 5 days before the hearing, notice of the hearing shall be given to the secretary of the board of each school district whose boundaries are affected by the proposed attachment of territory of the closed school district.

(b) Not later than 30 days after the hearing described in subdivision (a), the intermediate school board shall issue a written order regarding the attachment of the closed school district either totally or in part to 1 or more operating school districts. The order shall indicate the date on which the annexation or property attachment is to take place. The intermediate school board shall transmit a copy of the order to the secretary of the board of

each school district whose boundaries are changed by the order. The order has full effect in law on all affected school districts unless an appeal is taken under this section.

(c) Not later than 20 days after receipt of the order described in subdivision (b), a school district affected by the order shall comply with the order made by the intermediate school district or appeal to the state board for a review of the order.

(2) Not later than 90 days after the receipt of an appeal from 1 or more of the affected school districts, the state board shall confirm the order made under subsection (1) or hold a hearing on the basis of the appeal. Not later than 60 days after the hearing, the state board shall ratify or amend the order of the intermediate school board. An order issued by the state board under this subsection shall have full effect in law.

(3) As of the date of attachment, territory attached to an operating school district is a part of that district for all purposes, including the levy of all taxes, except taxes levied for the retirement of outstanding bonded indebtedness. For territory attached to an operating school district after January 1, 1990, the territory is subject to the levy of taxes levied for the retirement of outstanding bonded indebtedness and all other taxes levied by the operating school district.

(4) In addition to any applicable penalty under article 4, a school district that fails to comply with an order of the intermediate school board or the state board under this section shall forfeit all financial benefits to which the district might be entitled under legislative appropriations for school aid purposes.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1990, Act 113, Imd. Eff. June 21, 1990.

Popular name: Act 451

380.931 Division of district; resolution; petition; election; certifying number of registered school electors; effective date of division; description of division.

Sec. 931. (1) An intermediate school board may divide a constituent district that has no bonded indebtedness and attach the parts thereof to 2 or more operating school districts if requested to do so by resolution of the board of the school district to be divided, or if petitioned by not less than 5% of the registered school electors residing in the district on the date the petition is received, and if the school electors of the school district, voting on the question at a regular or special school election, approve the division.

(2) The school district filing official shall certify the number of registered school electors residing in a school district as needed for voting on the ballot question.

(3) The resolution of the board of the school district to be divided or the petition of the registered school electors residing in the district may specify the effective date of the division of the school district, which date shall not be later than the end of the fiscal year in which the election takes place.

(4) The resolution of the intermediate school board to which the school district to be divided is constituent shall clearly describe the division. The description of the division shall be based on the resolution of the board of the school district to be divided or on the petition of the school electors.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 2003, Act 299, Eff. Jan. 1, 2005.

380.932 Division of district; election; submission of question; ballot; approval; ratification; territory; taxes; certified statement of vote; declaration of division; attachment to operating district; distribution of money and property; effective date.

Sec. 932. (1) The board of the school district to be divided shall call an election at which the question of the division of the school district shall be submitted to the school electors. Vote on the ballot question shall be by ballot in the form determined by the school district filing official and shall clearly describe the division. Before an election is held, the superintendent of public instruction shall approve the proposed division and the attachment of the parts to existing operating school districts. The election in the school district to be divided shall be held not later than the next available day for a regular school election or special school election following the date of approval by the superintendent of public instruction.

(2) The affirmative vote of a majority of the school electors voting on the question is necessary to ratify the action of the intermediate school board.

(3) Territory attached to an existing operating school district shall be a part of that school district for all purposes, including the levy of all taxes the school district to which the territory is attached is authorized to levy.

(4) Within 5 days after the election, the school district filing official shall file a certified statement of the vote for division with the intermediate superintendent.

(5) Within 30 days after the filing of the certified statement of the vote approving the division, the intermediate school board, by resolution, shall declare the school district divided, attach the territory to the specified operating school districts, and make an equitable distribution of the money, property, and other

material belonging to the school district among the school districts to which the territory is attached.

(6) If the effective date is determined by the resolution of the board or by the petition of the school electors under section 931, the intermediate school board shall declare the school district divided on that date.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 2003, Act 299, Eff. Jan. 1, 2005.

Popular name: Act 451

380.933 Notice of boundary change; map.

Sec. 933. The intermediate superintendent shall notify the secretaries of the school districts whose boundaries are changed, the affected township supervisors or city assessors, and the state board of the division of the school district. The notification shall contain a map clearly indicating in detail the boundaries of the affected school districts before the alteration in boundaries and the boundaries of the affected school districts as altered by the division of the school district.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

APPENDIX F

**Part 10a of
The Revised School Code, 1976 PA 451, MCL 380.941 to 380.949**

DIVISION BY ANNEXATION AND TRANSFER

THE REVISED SCHOOL CODE (EXCERPT)
Act 451 of 1976

PART 10A
ANNEXATION AND TRANSFER

380.941 Division of school district by annexation and transfer; resolution; approval; election; ballot; majority required.

Sec. 941. A school district shall be divided by annexation of a part of its area consisting of not less than 50% of its assessed value to another school district and the transfer of the remaining area of the school district to 1 or more school districts contiguous to the dividing school district if the boards of the school district to be divided, the annexing school district, and the school district or districts to which territory will be transferred each adopt a resolution approving the annexation and transfer and, except as provided in this section, a majority of the school electors of the school district to be divided approve the annexation and transfer at a regular or special election to be called by the board of the dividing school district. The vote on the question shall be by ballot. Before the election is held, the boards of the school district to be divided and the annexing school district shall obtain the approval of the state superintendent of public instruction pursuant to section 944. The election shall be held not more than 180 days after the last date of passage of a resolution by the board of either the dividing school district or the annexing school district. Effective January 1, 1986, a school district shall not be divided by annexation and transfer unless a majority of the school electors of each school district which receives 25% or more of the state equalized value of the school district being annexed and transferred approve the annexation and transfer at a regular or special election to be called by the board of the appropriate school district.

History: Add. 1984, Act 154, Imd. Eff. June 25, 1984.

Popular name: Act 451

380.942 Resolution; minimum specifications.

Sec. 942. The resolution adopted by the boards of the school district being divided and the annexing school district pursuant to section 941 shall specify at a minimum all of the following:

- (a) The effective date of the division, annexation, and transfer.
- (b) The territory that is to be annexed to the annexing school district.
- (c) The territory or territories that are to be transferred and the school districts to which they are to be transferred.
- (d) A finding that the division, annexation, and transfer are in the best interests of the education of the pupils within the affected school districts.
- (e) The manner in which the annexing and dividing school districts propose to assign employees of the dividing school district to bargaining units pursuant to section 948.

History: Add. 1984, Act 154, Imd. Eff. June 25, 1984.

Popular name: Act 451

380.943 Filing resolution; hearing; notice; designation of representative.

Sec. 943. Upon adoption, a copy of the resolutions adopted by the annexing and the dividing school districts pursuant to section 941 promptly shall be filed with the superintendent of public instruction. Upon receipt of the resolutions, the superintendent of public instruction shall schedule and hold or cause to be held a hearing concerning the division of the school district by annexation and transfer. The hearing shall be held within 30 days after receipt by the superintendent of public instruction of the resolutions from the boards of the annexing and dividing school districts. The superintendent of public instruction shall give 10 days' notice of the time and place of the hearing and of the proposed division and alterations in school district boundaries to be considered by posting notice in at least 5 public places in each of the school districts whose territory will be affected, by publication at least once before the meeting in a newspaper of general circulation in the territory of the affected school districts, and by mailing a copy of the notice to the secretary of the board of each school district whose territory will be affected. The board of each school district whose territory will be affected by the proposed division and transfer shall designate a representative to attend the hearing.

History: Add. 1984, Act 154, Imd. Eff. June 25, 1984.

Popular name: Act 451

380.944 Written order approving or disapproving division; transmittal.

Sec. 944. If, within 30 days after the hearing, the superintendent of public instruction determines that the

division would be in the best interest of the education of the pupils in the school districts affected by the division, including but not limited to consideration of such matters as class size, certified and noncertified staff, physical plants, transportation, curriculum, administration, labor relations, racial makeup, and cost effectiveness, he or she shall issue a written order approving the division of the school district. If the superintendent of public instruction determines that the division would not be in the best interest of the education of the pupils in the school districts affected by the division, he or she shall issue a written order disapproving the division. A copy of the order shall be transmitted to the secretary of the board of education of each school district whose boundaries are to be affected by the division.

History: Add. 1984, Act 154, Imd. Eff. June 25, 1984.

Popular name: Act 451

380.945 Election; resolution; conduct; canvass; question.

Sec. 945. Upon receipt of an order transmitted as prescribed by section 944 and approving the division of the school district, the board of the school district to be annexed, divided, and transferred shall provide by resolution for the election on the question of annexing, dividing, and transferring the school district. The election shall be conducted and canvassed in the dividing district as provided in the Michigan election law. The question to be submitted to the electors shall be whether the territory of the dividing school district shall be annexed and transferred in the manner specified in the resolution of the dividing school district.

History: Add. 1984, Act 154, Imd. Eff. June 25, 1984;—Am. 2003, Act 299, Eff. Jan. 1, 2005.

Popular name: Act 451

380.946 Filing certified statement of vote.

Sec. 946. Within 10 days after the election required by section 945, the secretary of the board of the school district in which the election was held shall file a certified statement of the vote for annexation and transfer with the secretary of the board of the annexing school district and with the secretary of the board of each school district to which some portion of the dividing school district is to be transferred.

History: Add. 1984, Act 154, Imd. Eff. June 25, 1984.

Popular name: Act 451

380.947 Bonded indebtedness; taxation; recertification of taxes by resolution; filing certified copy of resolution; effect of reduction in taxes.

Sec. 947. (1) If the dividing school district has bonded indebtedness at the time of annexation and transfer, the identity of the school district shall not be lost by virtue of annexation or transfer. The territory of the dividing school district shall remain as a separate assessing unit for purposes of bonded indebtedness until the indebtedness has been retired or the outstanding bonds refunded by the annexing school district. The board of the annexing school district shall constitute the board of trustees for the divided school district having bonded indebtedness. The officers of the annexing school district shall be the officers for the divided district for the purpose of bonded indebtedness.

(2) The board of the annexing school district shall certify and order the levy of taxes for bonded indebtedness in the name of the dividing school district, shall not commingle the debt retirement funds of the dividing school district with those of the annexing school district, and shall do all things relating to the indebtedness required by law and by the terms under which the issuance and sale of the bonds originally were authorized.

(3) Other taxes of any nature levied for the purposes of any of the combined school districts formed by annexation or transfer shall be spread uniformly over the entire area of the combined school district levying the tax.

(4) If the electors of the dividing school district approve the annexation and transfer after September 15 but before December 1 of any year, the boards of the newly formed school districts by resolution shall recertify the taxes to be levied on the taxable property within the newly formed district to reflect any resulting reduction or increase in millage caused or authorized by the division, annexation, and transfer. The secretary of the board shall file a certified copy of the resolution with the county clerk and each city and township clerk in which the newly formed district is situated. If a dividing school district, an annexing school district, or a transferee school district has collected a portion of the taxes for the year in which the reduction occurs, the amount of the reduction shall be applied in whole to the second levy for that year in that affected school district.

History: Add. 1984, Act 154, Imd. Eff. June 25, 1984.

Popular name: Act 451

380.948 Assets and liabilities; employment contracts and agreements; applicability of subsection (2); rights and benefits.

Sec. 948. (1) Upon the effective date of the division of the school district, all assets and liabilities of the divided school district, with the exception of its bonded indebtedness, shall become the assets and liabilities of the annexing school district except as provided in subsection (2).

(2) Except as provided in subsection (3), all employment contracts and agreements with authorized bargaining agents in effect at the time of the annexation-transfer election with the annexing school district, the annexed school district, and the school district or districts to which portions of the territory of the dividing school district are to be transferred shall remain in full force and effect for the duration of those contracts for the employees covered by them even after division of the district until representatives of employees, for the purposes of collective bargaining, have been certified by the Michigan employment relations commission and a successor agreement has been ratified by the bargaining agent of each bargaining unit and the boards of education of the annexing school district or the district or districts to which portions of the territory of the dividing school district have been transferred, as the case may be.

(3) In the event of an agreement of the authorized bargaining agents and the board of a district in which employees are to be employed, not less than 60 days prior to the annexation-transfer election, the provisions of subsection (2) shall not apply. All personnel employed under the provisions of this act shall be entitled to all the rights and benefits to which they otherwise would be entitled had they been employed by the newly formed school district originally.

(4) Employees of the dividing school district employed by the annexing school district or any district to which a portion of the territory of the dividing school district has been transferred shall be entitled to all rights provided by Act No. 4 of the Public Acts of the Extra Session of 1937, being sections 38.71 to 38.191 of the Michigan Compiled Laws, to which they would have been entitled if they had been employed originally by the annexing school district or any school district to which a portion of the territory of the dividing school has been transferred, as the case may be, including tenure status.

History: Add. 1984, Act 154, Imd. Eff. June 25, 1984.

Popular name: Act 451

380.949 Division effective when school in session; pupils; tuition; closing schools.

Sec. 949. If the division of a school district becomes effective at a time when school is in session, each pupil may complete the school year at the school the pupil was attending before the division occurred without payment of tuition, regardless of the school district to which that school may have been annexed or transferred. The boards of the newly formed school districts may agree to permit nonresident pupils who attended school in the dividing school district to attend school in the newly formed school districts without payment of tuition for the 2 school fiscal years after the effective date of the division. This section shall not prevent the annexing school district from closing any schools included in the annexation the fiscal year immediately following the effective date of the division.

History: Add. 1984, Act 154, Imd. Eff. June 25, 1984.

Popular name: Act 451

APPENDIX G

**Part 11 of
The Revised School Code, 1976 PA 451, MCL 380.951 to 380.976**

TRANSFER OF DISTRICT TERRITORY

THE REVISED SCHOOL CODE (EXCERPT)
Act 451 of 1976

PART 11
TRANSFER OF TERRITORY

380.951 Transfer of territory between school districts; resolution or petition; final action; territory being detached to be contiguous; approval of electors; request by board of condominium association.

Sec. 951. (1) An intermediate school board may detach territory from 1 school district and attach the territory to another school district if requested to do so by resolution of the board of a school district whose boundaries would be changed by the action; subject to subsection (2), by resolution of the board of a condominium association acting pursuant to a petition signed by not less than 2/3 of the co-owners of the condominium association who reside on the land to be transferred; or if petitioned by not less than 2/3 of the persons who own and reside on the land to be transferred. The intermediate school board shall take final action within 60 days after the receipt of the resolution or petition. The territory to be detached shall be contiguous to the school district to which it is attached. If the latest assessed valuation of the territory to be detached is more than 10% of the latest assessed valuation of the entire school district from which the territory is to be detached, the action of the intermediate school board shall not be effective unless approved by an affirmative vote of a majority of the school electors of the school district from which the territory is to be detached.

(2) The board of a condominium association may request that an intermediate school board detach territory from 1 school district and attach the territory to another school district as described in subsection (1) only if the board of the condominium association represents the co-owners of a condominium project that is completed and not less than 75% of the units are sold and occupied.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1988, Act 508, Imd. Eff. Dec. 29, 1988;—Am. 1990, Act 147, Imd. Eff. June 27, 1990.

Popular name: Act 451

380.952 Notice of meeting and of proposed alterations in school district boundaries.

Sec. 952. The intermediate superintendent shall give 10 days' notice of the time and place of the meeting of the intermediate school board and of the proposed alterations in school district boundaries to be considered by publication once before the meeting in newspapers of general circulation in the territory of the affected school districts.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1982, Act 370, Imd. Eff. Dec. 28, 1982.

Popular name: Act 451

380.953 Territory extending into 2 or more school districts; joint meeting of boards; filing resolution or petition; notice of meeting; action on resolution or petition; quorum; election of chairperson and secretary.

Sec. 953. If the territory of school districts the boundaries of which are affected by the proposed alteration extends into 2 or more intermediate school districts, the intermediate school board of each intermediate school district shall meet jointly and sit as a single board to act upon the request for the transfer of territory. The resolution or petition for the transfer of territory may be filed with the intermediate school board of 1 of the intermediate school districts. The intermediate superintendent shall call the joint meeting of the affected intermediate school boards and give the notice of the intermediate school districts' meeting under section 952. Action on the resolution or petition for transfer of territory shall be taken only at a meeting attended by at least a quorum of each of the intermediate school boards. The intermediate school boards meeting jointly shall elect 1 of their members chairperson and another secretary of the meeting.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.953a Transfer of territory; basis for decision.

Sec. 953a. In making a decision on a proposed transfer of territory under this part, the intermediate school board, or the intermediate school boards meeting jointly, shall consider the welfare of the affected pupil, including, but not limited to, the length of the pupil's commute to and from school, on a school bus or otherwise.

History: Add. 1995, Act 289, Eff. July 1, 1996.

Popular name: Act 451

380.954 Map; preparation; contents; filing certified copy.

Sec. 954. If the intermediate school board or the joint intermediate school boards approve alterations in the boundaries of school districts, the board or joint boards shall cause a map to be prepared showing in detail the boundaries of the affected school districts before alteration and the boundaries of territory attached or detached. A copy of the map bearing the certification of the intermediate superintendent or the chairperson of the joint boards shall be filed with the secretary of each affected school district and with each affected township supervisor or city assessor.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.955 Effective date of transfer; transfer of personal property; payment for loss of property; accounting; adjournment.

Sec. 955. The intermediate school board or joint intermediate school boards shall determine the effective date of the transfer, which shall not be less than 10 days after the date of the determination, and shall determine whether personal property of a school district is to be transferred. If real property owned by a school district is transferred to another school district, the intermediate school board shall determine an equitable payment for the loss of the property. The intermediate school board or joint intermediate school boards may require an accounting from the affected boards of education and, for the purpose of making the determination, may adjourn subject to the call of the president of the intermediate school board or chairperson of the joint intermediate school boards.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.961 Territory detached from school district having bonded indebtedness; taxes; bond issue; exemptions; collections; payment of present value of pro rata bonded indebtedness; certifications; settlement of bonded indebtedness.

Sec. 961. (1) If territory is detached from a school district which has bonded indebtedness and transferred to another school district, the territory shall remain as part of the district from which detached for the purpose of levying debt retirement taxes for the bonded indebtedness until the bonds are redeemed or sufficient funds are available in the debt retirement fund for that purpose. The transferred territory shall not be part of the school district from which detached for the purpose of a subsequent bond issue, nor shall the detached territory be part of the school district from which detached for tax levies imposed for the purpose of bonded indebtedness created or assumed at a time when the portion of detached territory was not a part of the district or territory approving or assuming the bonded indebtedness. The territory shall be a part of the school district to which transferred for all other purposes.

(2) The territory shall not be subject to debt retirement tax levies for bonded indebtedness of the school district to which transferred existing at the time of transfer until the bonded indebtedness of the school district from which the territory was transferred existing at the time of the transfer is retired or sufficient funds are available and earmarked in the debt retirement fund for that purpose. The board of the school district to which the property is attached, by resolution, may exempt the property from the debt tax levies for not more than 3 years. The school officials of the district to which the territory is attached shall certify required debt retirement levies for the bonds of the school district from which the territory was detached, and the territory over which the levies are to be spread, to the proper taxing officials when certifying other taxes to be levied by the school district. The tax collecting officials shall remit the collections with other tax collections to the school district to which the property is attached. The officials of that school district shall immediately transmit the collections to the school district from which the territory was detached.

(3) The school district to which territory is attached may pay to the school district from which the land is detached the present value of the pro rata bonded indebtedness of the detached territory. The intermediate school board shall certify to the department of treasury the fact of the transfer, the description of the territory transferred, the bonded indebtedness of the school district from which the territory is detached, the assessed valuation of the school district from which the territory is detached, the assessed valuation of the detached territory, and other information the department of treasury may require. The department of treasury shall determine the pro rata share of the bonded indebtedness of the detached territory to the board of the school district from which the territory is detached. The department of treasury shall certify the amount determined to the intermediate school board. The intermediate school board shall certify the amounts to the boards of the school districts affected. The school district to which the territory is transferred may pay the sum to the school

district from which the territory has been detached. Settlement of the bonded indebtedness shall be made on the state equalized valuation in the year of transfer. The school district receiving the money shall apply it under the terms and tenor of the bond issue.

(4) A transfer made after September 1 in a given year shall be a part of the territory from which detached for the purpose of the succeeding December tax levy in the year of transfer. Upon settlement of the bonded indebtedness by the school district to which the territory has been attached, the territory is subject to the bond debt retirement tax levy for bonded indebtedness of the school district to which attached existing at the time of transfer. For the purpose of making the settlement, the school district to which the territory is attached may use up to 15% of state school aid in 1 year.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1983, Act 118, Imd. Eff. July 18, 1983.

Popular name: Act 451

380.966 Levy of school operational millage; certification.

Sec. 966. If territory is attached to a school district effective before September 1 of a year, school operational millage for that year shall be levied on property in the territory by the attaching school district. If territory is attached to a school district effective on or after September 1 of a year, school operational millage for that year shall be levied on property in the territory by the school district from which the territory is detached. The school officials of the district entitled to levy school operational millage upon the transferred territory shall certify the school operational millage, and the territory over which it is to be spread, to the proper taxing officials when certifying the taxes to be levied by the school district.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451

380.971 Appeal to state board of education.

Sec. 971. (1) One or more resident owners of land considered for transfer from 1 school district to another, or the board of a school district whose territory is affected, may appeal the action of the intermediate school board or joint intermediate school boards in transferring the land, the failure to transfer the land, or action relative to the accounting determination to the state board within 10 days after the action or determination by the intermediate school board or the joint intermediate school boards. If the intermediate school board or the joint intermediate school boards fail to take action within the time limit under section 951, the appeal may be made to the state board within 10 days following the termination of the period. The pendency of an appeal shall suspend the action or determination of the intermediate school board or joint intermediate school boards.

(2) The state board may confirm, modify, or set aside the order of the intermediate school board or the joint intermediate school boards. In considering an appeal, the state board shall consider the welfare of the affected pupil, including, but not limited to, the length of the pupil's commute to and from school, on a school bus or otherwise. The action of the state board on the appeal is final.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977;—Am. 1995, Act 289, Eff. July 1, 1996.

Popular name: Act 451

380.976 Change in boundaries; continued attendance of twelfth grade pupils without payment of tuition.

Sec. 976. If the boundaries of a school district are changed pursuant to this part, a pupil in the twelfth grade at the time of the change or entering twelfth grade at the beginning of the school year immediately following the change shall be allowed to continue attending school in the school district which the pupil attended before the change without payment of tuition.

History: 1976, Act 451, Imd. Eff. Jan. 13, 1977.

Popular name: Act 451