

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.

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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**

<b>Governmental Activities</b>		
	<u><b>June 30, 2011</b></u>	<u><b>June 30, 2010</b></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
<b>Total Assets</b>	<u><b>31,786,761</b></u>	<u><b>32,692,607</b></u>
Current Liabilities	13,979,794	9,955,861
Non Current Liabilities	26,003,634	26,692,181
<b>Total Liabilities</b>	<u><b>39,983,428</b></u>	<u><b>36,648,042</b></u>
<b>Net Assets</b>		
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>
<b>Total Net Assets</b>	<u><u><b>\$ (8,196,667)</b></u></u>	<u><u><b>\$ (3,955,435)</b></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

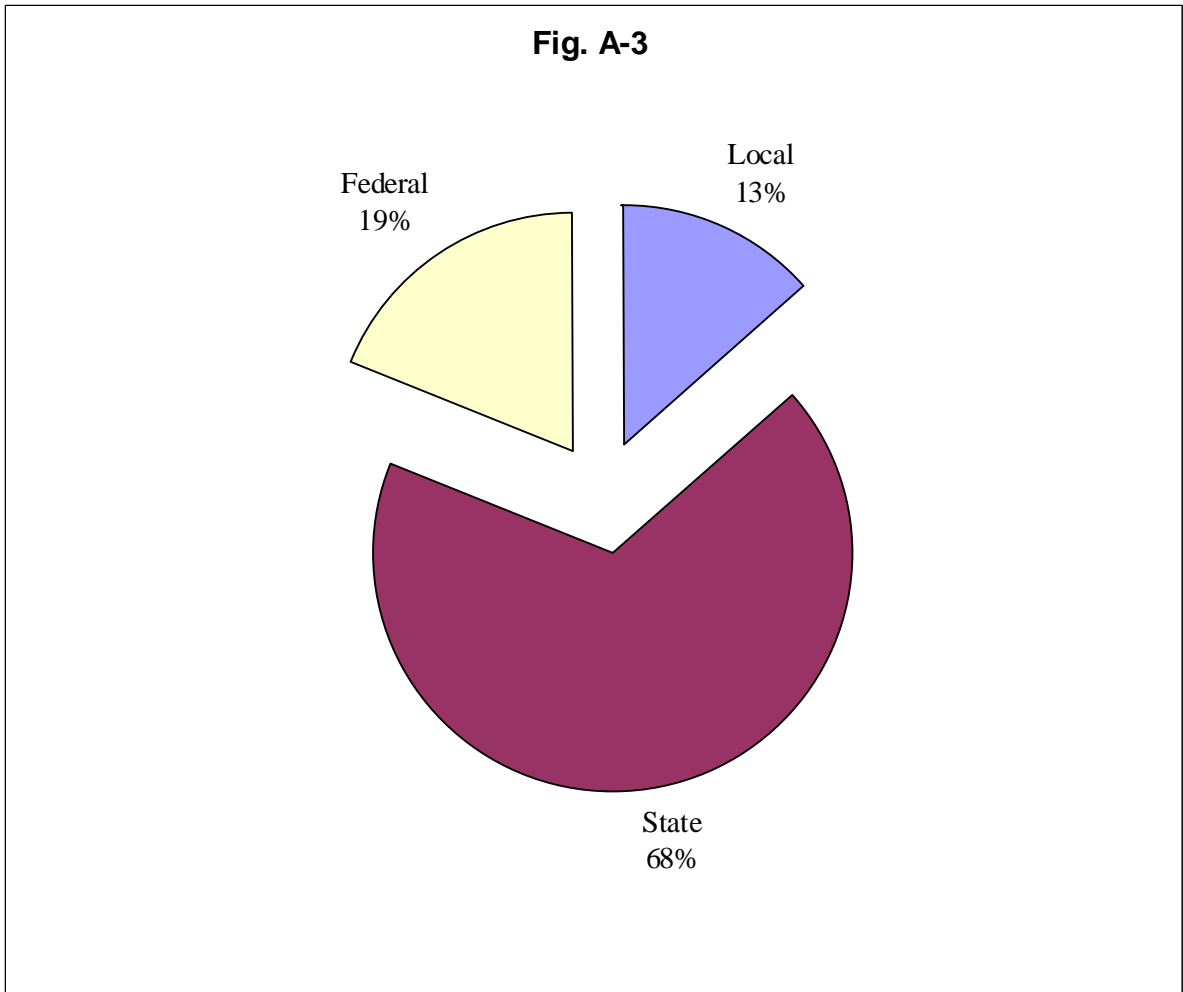
Figure A-2 provides the detail behind the changes in the district's net assets. Revenues classified under "charges for services" include amounts received for special education transportation and other receipts from those who have benefited from the related programs. Revenue generated from operating grant 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.

<b>Figure A-2</b>		
<b>Statement of Net Assets from Operating Results</b>		
For the Period Ending: June 30,	<b>Governmental Activities</b>	
	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>Revenues</b>		
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
<b>Total revenues</b>	<u><b>20,803,360</b></u>	<u><b>23,423,653</b></u>
<b>Expenses</b>		
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
<b>Total expenses</b>	<u><b>25,023,708</b></u>	<u><b>26,401,047</b></u>
<b>Other changes</b>		
Depreciation and amortization	(20,884)	(20,884)
<b>Increase (decrease) in net assets</b>	<u><b>(4,241,232)</b></u>	<u><b>(2,998,278)</b></u>
<b>Beginning net assets (deficit)</b>	<u><b>(3,955,435)</b></u>	<u><b>(957,157)</b></u>
<b>Ending net assets (deficit)</b>	<u><u><b>\$ (8,196,667)</b></u></u>	<u><u><b>\$ (3,955,435)</b></u></u>

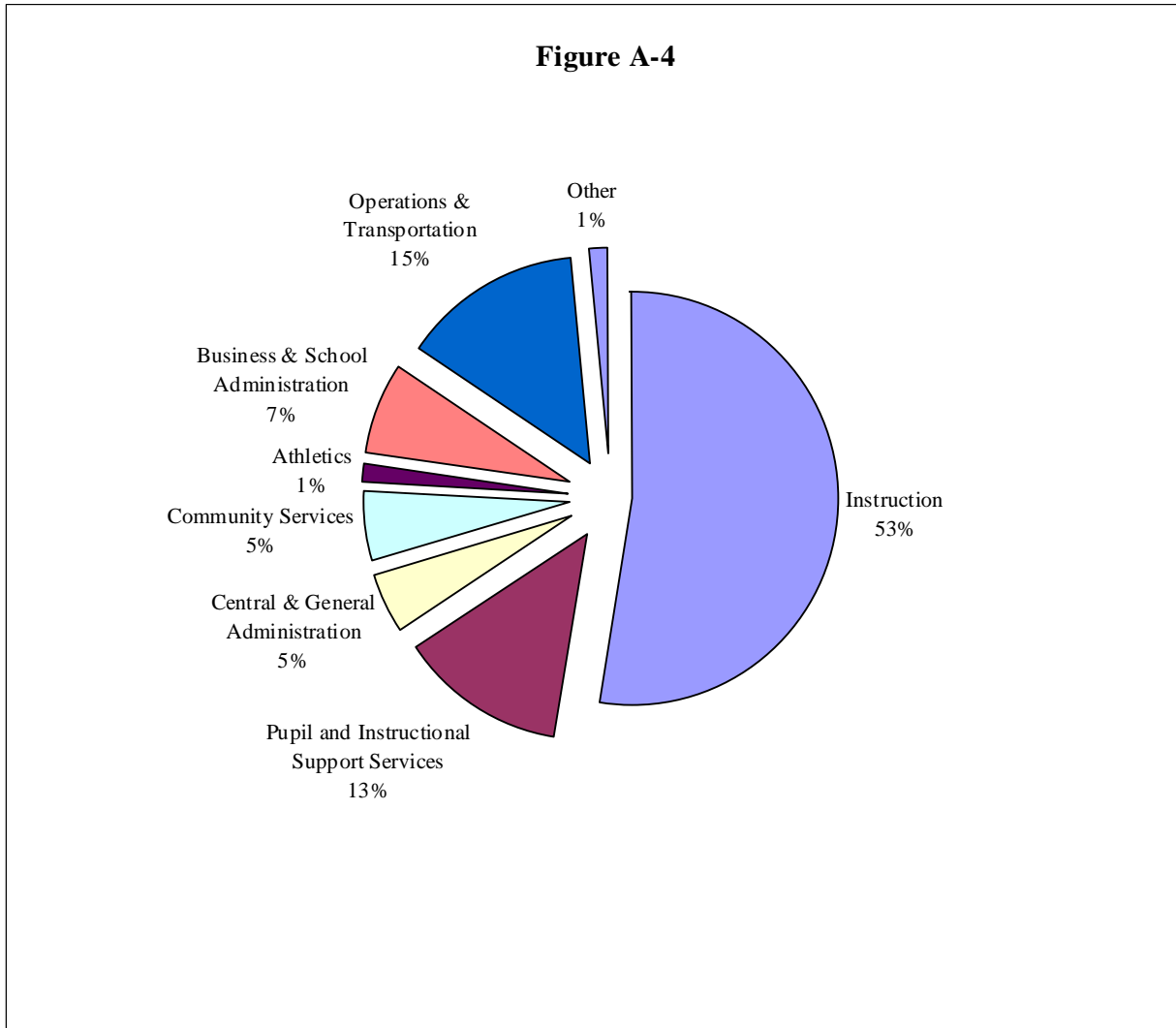
**Muskegon Heights Public Schools**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011

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.



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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.

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

**Amended Budget v. Actual Results**

***Revenues***

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

***Expenditures***

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

**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.

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

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

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

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

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

**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  
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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

	<b>Governmental activities</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 501,110
Investments	654,000
Receivables	307,530
Due from other governmental units	3,878,531
Inventories	29,169
	5,370,340
<b>NONCURRENT ASSETS</b>	
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
	26,416,421
Total noncurrent assets	26,416,421
Total assets	31,786,761
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>	
<b>CURRENT LIABILITIES</b>	
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
	13,979,794
Total current liabilities	13,979,794
<b>NONCURRENT LIABILITIES</b>	
Bonds and other obligations, less amounts due within one year	26,003,634
	26,003,634
Total liabilities	39,983,428
<b>NET ASSETS (DEFICIT)</b>	
Invested in capital assets, net of related debt	2,277,308
Restricted for debt service	991,620
Unrestricted	(11,465,595)
	(8,196,667)
Total net assets (deficit)	<b>\$ (8,196,667)</b>

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>
<b>ASSETS</b>					
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
	<b>\$ 5,281,724</b>	<b>\$ 8,825</b>	<b>\$ 659,548</b>	<b>\$ 819,438</b>	<b>\$ 6,769,535</b>
<b>LIABILITIES AND FUND BALANCES</b>					
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)
	<b>\$ 5,281,724</b>	<b>\$ 8,825</b>	<b>\$ 659,548</b>	<b>\$ 819,438</b>	<b>\$ 6,769,535</b>

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

	<b>General Fund</b>	<b>1999 Capital Projects Fund</b>	<b>2007 Energy Conservation Bond Retirement Fund</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
<b>REVENUES</b>					
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
<b>EXPENDITURES</b>					
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)
<b>OTHER FINANCING SOURCES (USES)</b>					
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	<b>\$ (8,472,543)</b>	<b>\$ 8,825</b>	<b>\$ 659,548</b>	<b>\$ 479,318</b>	<b>\$ (7,324,852)</b>

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

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (Days)</b>	<b>Standard &amp; Poor's rating</b>	<b>Percent</b>
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	<b>\$ 1,328,289</b>			<b>100%</b>

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>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 1,475,734	\$ -	\$ -	\$ 1,475,734
<b>Capital assets, being depreciated:</b>				
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
<b>Less accumulated depreciation:</b>				
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:

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

**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:

<b>Receivable fund</b>	<b>Payable fund</b>	<b>Amount</b>
1999 Capital Projects Fund	General Fund	\$ 5,075
Other governmental funds	General Fund	748,918
		<b>\$ 753,993</b>

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:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2011</b>
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
	<b>\$ 5,350,000</b>	<b>\$ 8,525,000</b>	<b>\$ 5,350,000</b>	<b>\$ 8,525,000</b>

**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:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2011</b>	<b>Due within one year</b>
<b>Governmental activities</b>					
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
	<b>\$ 27,622,438</b>	<b>\$ 213,972</b>	<b>\$ 899,101</b>	<b>\$ 26,937,309</b>	<b>\$ 933,675</b>

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>
	<b><u><u>\$ 26,937,309</u></u></b>

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:

<b>Year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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
	<b>\$ 23,947,889</b>	<b>\$ 9,435,137</b>	<b>\$ 33,383,026</b>

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

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

<b>Year ending June 30,</b>	<b>Amount</b>
2012	\$ 122,264
2013	23,264
2014	2,598
	<b>\$ 148,126</b>

**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:

	<b><u>General Fund</u></b>	<b><u>Other governmental funds</u></b>
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	<b><u><u>\$(4,195,864)</u></u></b>	<b><u><u>\$ 315,260</u></u></b>



**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>	<b>Variance with final budget- positive (negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>REVENUES</b>				
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)
<b>EXPENDITURES</b>				
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

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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		9,292,792	484,100	1,424,568	4,581,914	1,648,726	6,230,640	708,258	
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		10,538,171	528,477	2,047,201	4,803,051	2,322,049	7,125,100	803,325	
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	
<b>TOTAL FEDERAL ASSISTANCE</b>		<b>\$ 15,443,788</b>	<b>\$ 1,059,426</b>	<b>\$ 4,717,188</b>	<b>\$ 7,096,446</b>	<b>\$ 4,913,619</b>	<b>\$ 12,010,065</b>	<b>\$ 1,255,857</b>	

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><u>\$ 4,913,619</u></u>
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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>
<b>10.553, 10.555 and 10.559</b>	<b>U.S. Department of Agriculture Child Nutrition Cluster</b>	<b>Unqualified</b>
<b>84.010 and 84.389</b>	<b>U.S. Department of Education Title I, Part A Cluster</b>	<b>Qualified</b>
<b>84.027 and 84.173</b>	<b>Special Education Cluster</b>	<b>Qualified</b>
<b>93.558</b>	<b>U.S. Department of Health and Human Services TANF</b>	<b>Qualified</b>
<b>93.600, 93.708 and 93.709</b>	<b>Head Start Cluster</b>	<b>Unqualified</b>

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>
<b>10.553, 10.555 and 10.559</b>	<b>U.S. Department of Agriculture Child Nutrition Cluster</b>
<b>84.010 and 84.389</b>	<b>U.S. Department of Education Title I, Part A Cluster</b>
<b>84.027 and 84.173</b>	<b>Special Education Cluster</b>
<b>93.558</b>	<b>U.S. Department of Health and Human Services TANF</b>
<b>93.600, 93.708 and 93.709</b>	<b>Head Start Cluster</b>

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 15<sup>th</sup> 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 15<sup>th</sup> 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 horizontal stroke at the end.

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  
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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.

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*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.*