

Novi Community School District

**Financial Report
with Supplemental Information
June 30, 2014**

Novi Community School District

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Independent Auditor's Report

To the Board of Education
Novi Community School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Novi Community School District (the "School District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Novi Community School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of Novi Community School District as of June 30, 2014 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Education
Novi Community School District

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedule, as identified on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Novi Community School District's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014 on our consideration of Novi Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering Novi Community School District's internal control over financial reporting and compliance.

Plante & Morse, PLLC

October 22, 2014

Novi Community School District

Management's Discussion and Analysis

This section of Novi Community School District's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2014. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Novi Community School District financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund and the 2014 Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Novi Community School District

Management's Discussion and Analysis (Continued)

Reporting the School District as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District. The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, debt service, capital projects, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (e.g., the Food Services Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

Novi Community School District

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2014 and 2013:

TABLE I

	Governmental Activities	
	June 30	
	2014	2013
	(in millions)	
Assets		
Current and other assets	\$ 68.0	\$ 20.6
Capital assets	137.5	140.6
Total assets	205.5	161.2
Liabilities		
Current liabilities	9.6	11.7
Long-term liabilities	134.2	94.2
Total liabilities	143.8	105.9
Net Assets		
Net investment in capital assets	53.5	46.8
Restricted	1.9	2.2
Unrestricted	6.3	6.3
Total net position	<u>\$ 61.7</u>	<u>\$ 55.3</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was \$61.7 million at June 30, 2014. Net investment in capital assets, totaling \$53.5 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those assets for day-to-day operations. The remaining amount of net position (\$6.3 million) was unrestricted.

Novi Community School District

Management's Discussion and Analysis (Continued)

The \$6.3 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years ended June 30, 2014 and 2013.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2014	2013
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.7	\$ 4.4
Operating grants and contributions	8.2	9.1
General revenue:		
Property taxes	35.7	35.3
State foundation allowance	38.5	36.0
Other	1.3	1.2
Total revenue	<u>88.4</u>	<u>86.0</u>
Functions/Program Expenses		
Instruction	46.6	45.9
Support services	21.8	21.9
Athletics	0.8	0.7
Food services	2.3	2.2
Community services	1.8	1.8
Payments to other public schools (ISDs, LEAs)	0.1	0.1
Interest on long-term debt	3.6	4.7
Debt issuance costs	0.4	-
Depreciation (unallocated)	4.6	4.8
Total functions/program expenses	<u>82.0</u>	<u>82.1</u>
Increase in Net Position	6.4	3.9
Net Position - Beginning of year	<u>55.3</u>	<u>51.4</u>
Net Position - End of year	<u><u>\$ 61.7</u></u>	<u><u>\$ 55.3</u></u>

Novi Community School District

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$82.0 million. Certain activities were partially funded from those who benefited from the programs (\$4.7 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$35.7 million in taxes, \$38.5 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net position of \$6.4 million, primarily as a result of ongoing operations in the School District.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$58.8 million, which is an increase of \$49.1 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$0.4 million to \$6.6 million.

In the 2014 Capital Projects Fund, new bonds were issued amounting to an increase in fund balance of \$49.7 million.

Our Special Revenue Funds remained relatively stable from the prior year, showing a net decrease of approximately \$53,000. Combined, the Debt Service Funds showed a fund balance increase of approximately \$546,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are restricted since they can only be used to pay debt service obligations.

The Capital Projects Funds (other than 2014 Capital Projects Fund) fund balance decreased as the School District continued projects related to the 2007 bond issue and the Sinking Fund. The 2007 bonded construction project was substantially complete at June 30, 2012. The School District collected \$954,000 in voter-approved Sinking Fund millage. This millage is available to fund specific capital projects allowed by state law and approved by the voters.

Novi Community School District

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

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

There were minor revisions made to the 2013-2014 General Fund original budget. Budgeted revenue was increased \$675,000 primarily to account for increased state aid and categorical grants and federal grant awards.

Budgeted expenditures were also increased \$778,000 primarily to account for the increase in salaries and benefits and utilities. There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the School District had \$137.5 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$3.1 million, or 2.22 percent, from last year.

This year's additions of \$1.6 million included technology, building and site renovations, buses, and other vehicles. No new debt was issued for these additions.

	<u>2014</u>	<u>2013</u>
Land	\$ 9,607,341	\$ 9,607,341
Construction and technology upgrades in progress	617,811	117,659
Buildings and building improvements	164,425,776	163,421,127
Site improvements	13,373,919	13,373,919
Buses and other vehicles	3,133,691	3,012,017
Furniture and equipment	<u>6,313,020</u>	<u>6,305,994</u>
Total capital assets	197,471,558	195,838,057
Less accumulated depreciation	<u>59,953,961</u>	<u>55,276,892</u>
Net capital assets	<u><u>\$ 137,517,597</u></u>	<u><u>\$ 140,561,165</u></u>

Novi Community School District

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$124.41 million in bonds outstanding versus \$90.0 million in the previous year, a increase of 38.1 percent. Those bonds consisted of the following:

	<u>2014</u>	<u>2013</u>
General obligation bonds	<u>\$ 124,430,000</u>	<u>\$ 90,125,000</u>

The School District's general obligation bond rating continues to be AA-. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding qualified general obligation debt of \$124.4 million is not subject to this \$306.4 million statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, and self-insurance liabilities. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Board of Education and administration considered many factors when adopting the School District's 2014-2015 fiscal year budget. One of the most important factors affecting the budget is our student count. The pupil foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2014-2015 fiscal year is 90 percent of the October 2014 and 10 percent of the February 2015 student counts. The 2014-2015 budget was adopted in June 2014 and was based upon an estimate of the number of students who will be enrolled in October 2014. In the 2014-2015 budget, the blended student count is projected to be 30 students higher than in 2013-2014.

We will not know whether the projected blended student count number is reached until the February student count day is completed. Once the final student count and related per-pupil funding are validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

The 2014-2015 General Fund budget, approved by the Board of Education in June, reflects an operating surplus of \$279,517 for the year. The Board of Education has a strict goal that the combined General Fund and Recreation Fund fund balance will not fall below 10 percent of the combined General Fund and Recreation Fund expenditures.

Novi Community School District

Management's Discussion and Analysis (Continued)

These are difficult financial times for Michigan school districts and their employees. However, the Board of Education, administration, staff, and union leadership are committed to the students and with providing them with an education that prepares them to compete in our global society. We will continue to work together collaboratively to reach this goal no matter what challenges and financial constraints we face.

Contacting the School District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

Novi Community School District

Statement of Net Position June 30, 2014

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 6,929,199
Receivables (Note 4)	8,124,182
Inventories	39,047
Prepaid costs and other assets	581,706
Restricted assets (Note 5)	52,306,072
Capital assets - Net (Note 6)	<u>137,517,597</u>
Total assets	205,497,803
Liabilities	
Accounts payable	1,164,239
Accrued payroll-related liabilities	7,182,861
Accrued interest	650,381
Unearned revenue (Note 4)	647,239
Noncurrent liabilities (Note 8):	
Due within one year	10,557,958
Due in more than one year	<u>123,642,904</u>
Total liabilities	<u>143,845,582</u>
Net Position	
Net investment in capital assets	53,507,169
Restricted:	
Debt service	386,700
Food service	365,247
Capital projects	830,036
Recreation	258,689
Unrestricted	<u>6,304,380</u>
Total net position	<u><u>\$ 61,652,221</u></u>

Novi Community School District

Statement of Activities Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue		Governmental Activities Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Primary government -				
Governmental activities:				
Instruction	\$ 46,632,251	\$ 273,504	\$ 7,831,866	\$ (38,526,881)
Support services	21,760,326	-	-	(21,760,326)
Athletics	781,736	392,560	-	(389,176)
Food services	2,295,704	1,706,717	390,004	(198,983)
Community services	1,838,254	2,306,764	-	468,510
Payments to other public schools (ISDs, LEAs)	32,748	-	-	(32,748)
Interest	3,667,900	-	-	(3,667,900)
Debt issuance costs	409,416	-	-	(409,416)
Depreciation expense (unallocated)	4,677,069	-	-	(4,677,069)
Total primary government	<u>\$82,095,404</u>	<u>\$ 4,679,545</u>	<u>\$ 8,221,870</u>	(69,193,989)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				18,230,408
Property taxes, levied for debt service				14,588,894
Property taxes, levied for capital projects				958,190
Property taxes, levied for recreation				1,901,807
State aid not restricted to specific purposes				38,530,331
Interest and investment earnings				19,334
Other				1,254,695
Total general revenue				<u>75,483,659</u>
Change in Net Position				6,289,670
Net Position - Beginning of year				<u>55,362,551</u>
Net Position - End of year				<u>\$ 61,652,221</u>

Novi Community School District

Governmental Funds Balance Sheet June 30, 2014

	General Fund	2014 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 6,929,199	\$ -	\$ -	\$ 6,929,199
Receivables (Note 4)	7,927,480	-	196,702	8,124,182
Due from other funds (Note 7)	91,874	-	192,907	284,781
Inventories	-	-	39,047	39,047
Prepaid costs and other assets	401,503	-	180,203	581,706
Restricted assets (Note 5)	-	49,790,530	2,515,542	52,306,072
Total assets	\$15,350,056	\$49,790,530	\$ 3,124,401	\$ 68,264,987
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 883,407	\$ 41,279	\$ 255,335	\$ 1,180,021
Accrued payroll-related liabilities	7,182,486	-	375	7,182,861
Due to other funds (Note 7)	60,000	-	208,999	268,999
Unearned revenue (Note 4)	565,721	-	81,518	647,239
Total liabilities	8,691,614	41,279	546,227	9,279,120
Deferred Inflows of Resources -				
Unavailable revenue (Note 4)	91,943	-	87,121	179,064
Total liabilities and deferred inflows of resources	8,783,557	41,279	633,348	9,458,184
Fund Balances				
Nonspendable:				
Inventory	-	-	39,047	39,047
Prepaid costs and deposits	401,503	-	180,203	581,706
Restricted:				
Capital projects	-	49,749,251	830,036	50,579,287
Debt service	-	-	1,037,081	1,037,081
Food service	-	-	145,997	145,997
Recreation	-	-	258,689	258,689
Unassigned	6,164,996	-	-	6,164,996
Total fund balances	6,566,499	49,749,251	2,491,053	58,806,803
Total liabilities, deferred inflows of resources, and fund balances	\$15,350,056	\$49,790,530	\$ 3,124,401	\$ 68,264,987

Novi Community School District

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2014

Fund Balance Reported in Governmental Funds	\$ 58,806,803
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of capital assets	\$ 197,471,558
Accumulated depreciation	<u>(59,953,961)</u> 137,517,597
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable including premiums	(133,759,679)
Compensated absences	(388,326)
Self-insurance claims	<u>(52,857)</u> (134,200,862)
Accrued interest payable is not included as a liability in governmental funds	(650,381)
Property taxes receivable are earned as of June 30, 2014 but the collections are not available soon enough to pay for the current period's expenditures and therefore revenue recognition is deferred in the governmental funds	<u>179,064</u>
Net Position of Governmental Activities	<u>\$ 61,652,221</u>

Novi Community School District

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	2014 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 22,234,294	\$ 436	\$ 19,222,528	\$ 41,457,258
State sources	41,489,997	-	61,900	41,551,897
Federal sources	1,448,343	-	390,004	1,838,347
Interdistrict sources	3,361,957	-	-	3,361,957
Total revenue	68,534,591	436	19,674,432	88,209,459
Expenditures				
Current:				
Instruction	46,659,176	-	36,212	46,695,388
Support services	20,124,918	28,155	1,439,284	21,592,357
Athletics	781,736	-	-	781,736
Food services	-	-	2,276,617	2,276,617
Community services	1,316,914	-	521,340	1,838,254
Debt service:				
Principal	-	-	9,695,000	9,695,000
Interest	-	-	4,114,769	4,114,769
Other	-	409,416	-	409,416
Capital outlay	204,996	11,099	1,666,039	1,882,134
Payments to other public schools (ISDs, LEAs)	32,748	-	-	32,748
Total expenditures	69,120,488	448,670	19,749,261	89,318,419
Excess of Expenditures Over Revenue	(585,897)	(448,234)	(74,829)	(1,108,960)
Other Financing Sources (Uses)				
Transfers in	122,287	-	3,445	125,732
Transfers out	-	-	(125,732)	(125,732)
Face value of debt issued	-	44,000,000	-	44,000,000
Premium on debt issued	-	6,197,485	-	6,197,485
Total other financing sources (uses)	122,287	50,197,485	(122,287)	50,197,485
Net Change in Fund Balances	(463,610)	49,749,251	(197,116)	49,088,525
Fund Balances - Beginning of year	7,030,109	-	2,688,169	9,718,278
Fund Balances - End of year	\$ 6,566,499	\$49,749,251	\$ 2,491,053	\$ 58,806,803

Novi Community School District

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 49,088,525

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (4,677,069)	
Capitalized capital outlay	<u>1,633,501</u>	(3,043,568)

Revenue is reported in the statement of activities when earned; revenue is not reported in the funds until collected or collectible within 60 days of year end 175,615

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities (44,000,000)

Underwriter's premium is reported as revenue in the funds and amortized in the statement of activities (6,197,485)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 9,695,000

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 446,869

Compensated absences, as well as self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than earned 4,714

Decreases in severance liabilities are reported as expenditures when financial resources are used in the governmental funds 120,000

Change in Net Position of Governmental Activities **\$ 6,289,670**

Novi Community School District

Fiduciary Funds Statement of Net Position June 30, 2014

	<u>Agency Funds</u>
Assets - Cash and cash equivalents (Note 3)	<u>\$ 1,039,213</u>
Liabilities	
Accounts payable	\$ 9,376
Due to student groups	1,014,055
Due to other funds (Note 7)	<u>15,782</u>
Total liabilities	<u>\$ 1,039,213</u>

Novi Community School District

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies

The accounting policies of Novi Community School District (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

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

Novi Community School District

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

The fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

Novi Community School District

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental funds:

General Fund - 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.

2014 Capital Projects Fund - The 2014 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for school building and site purposes. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Food Services Fund and the Recreation Fund are the School District's only nonmajor Special Revenue Funds. Revenue sources for the Food Services Fund include sales to customers and dedicated grants from state and federal sources. The Recreation Fund is used by the School District to account for the proceeds of the restricted voter-approved millage that is to be spent on voter-approved recreation-type activities.

Any operating deficit generated by these activities is the responsibility of the General Fund.

Capital Projects Funds - Capital Projects Funds are used to record bond proceeds, sinking fund millages, or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The funds operate until the purpose for which they were created is accomplished.

Debt Service Funds - The School District maintains four governmental Debt Service Funds, which are used to account for property tax and other revenue legally restricted for payment of long-term debt.

Agency Funds - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

Novi Community School District

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property Taxes - Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements and are accounted for using the purchases method.

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. These amounts have been classified as restricted assets. The cash held in the Debt Service Funds is recorded as restricted as the amounts are required to be used to make the applicable bond principal and interest payments, as they are due. The cash held in the Food Services Fund and the Recreation Fund is recorded as restricted as the amounts are required to be used to operate the School District's food service program and to operate a system of public recreation and playgrounds, respectively.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	20 to 50 years
Site improvements	15 to 30 years
Furniture and equipment	5 to 10 years
Buses and other vehicles	5 to 10 years

Novi Community School District

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences - The liability for compensated absences reported in the government-wide financial statements consists of earned but unused sick leave benefits and termination payments. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds, using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Balance - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education or Assistant Superintendent of Business and Operations, who is authorized by resolution approved by the Board of Education to make assignments

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data - Comparative data is not included in the School District's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all Special Revenue Funds, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)" and that capital outlay is budgeted in other expenditure categories. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District amended budgeted amounts during the year in response to changes in anticipated revenue and spending for salaries, benefits, and other expenditures.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments

State statutes (and the School District's investment policy) authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated seven banks for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposits.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$10,574,627 had \$9,559,016 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment policy states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business, using the criteria established in the investment policy. The School District did not invest in uninsured and unregistered investment securities.

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Michigan Liquid Asset Fund	<u>\$ 49,790,530</u>	N/A	AAAm	Standard & Poor's

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 4 - Receivables and Unavailable/Unearned Revenue

Receivables as of year end for the School District's individual major fund and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, if any, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:			
Taxes receivable	\$ 109,064	\$ 99,895	\$ 208,959
Due from other governmental units	7,781,992	203	7,782,195
Other	36,424	96,604	133,028
Total receivables	<u>\$ 7,927,480</u>	<u>\$ 196,702</u>	<u>\$ 8,124,182</u>

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

	<u>Governmental Funds</u>		
	<u>Deferred Inflow - Unavailable</u>	<u>Liability - Unearned</u>	<u>Total</u>
Delinquent property taxes	\$ 179,064	\$ -	\$ 179,064
Student food sales	-	81,518	81,518
Summer tuition and fall school charges received prior to services being rendered	-	565,721	565,721
Total	<u>\$ 179,064</u>	<u>\$ 647,239</u>	<u>\$ 826,303</u>

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 5 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent bond proceeds and related interest	\$ 49,790,530
Unspent Sinking Fund revenue and related interest	865,941
Unspent Recreation Fund revenue and related interest	529,650
Food Services Fund	94,782
Property tax collections for repayment of bonded indebtedness	<u>1,025,169</u>
Total restricted assets	<u><u>\$ 52,306,072</u></u>

Note 6 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2013	Transfers	Additions	Disposals	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 9,607,341	\$ -	\$ -	\$ -	\$ 9,607,341
Construction in progress	<u>117,659</u>	<u>(117,659)</u>	<u>617,811</u>	<u>-</u>	<u>617,811</u>
Subtotal	9,725,000	(117,659)	617,811	-	10,225,152
Capital assets being depreciated:					
Buildings	113,283,844	-	-	-	113,283,844
Building improvements	50,137,283	117,659	886,990	-	51,141,932
Site improvements	13,373,919	-	-	-	13,373,919
Furniture and equipment	6,305,994	-	7,026	-	6,313,020
Buses and other vehicles	<u>3,012,017</u>	<u>-</u>	<u>121,674</u>	<u>-</u>	<u>3,133,691</u>
Subtotal	186,113,057	117,659	1,015,690	-	187,246,406
Accumulated depreciation:					
Buildings	27,828,941	-	1,888,505	-	29,717,446
Building improvements	14,116,793	-	1,330,707	-	15,447,500
Site improvements	7,386,722	-	725,884	-	8,112,606
Furniture and equipment	3,790,670	-	532,507	-	4,323,177
Buses and other vehicles	<u>2,153,766</u>	<u>-</u>	<u>199,466</u>	<u>-</u>	<u>2,353,232</u>
Subtotal	<u>55,276,892</u>	<u>-</u>	<u>4,677,069</u>	<u>-</u>	<u>59,953,961</u>
Net capital assets being depreciated	<u>130,836,165</u>	<u>117,659</u>	<u>(3,661,379)</u>	<u>-</u>	<u>127,292,445</u>
Net capital assets	<u>\$ 140,561,165</u>	<u>\$ -</u>	<u>\$ (3,043,568)</u>	<u>\$ -</u>	<u>\$ 137,517,597</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 6 - Capital Assets (Continued)

Construction Commitments - The School District has active construction projects for the Sinking Fund at year end. At year end, the School District had commitments with contractors totaling \$786,305.

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	Fiduciary Funds	General Fund	Nonmajor Governmental Funds	
General Fund	\$ 15,782	\$ -	\$ 76,092	\$ 91,874
Nonmajor governmental funds	-	60,000	132,907	192,907
Total	\$ 15,782	\$ 60,000	\$ 208,999	\$ 284,781

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Transfers from the Recreation Fund to the General Fund were made to record the value of foregone rental income from the City of Novi.

Note 8 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and 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 compensated absences, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 90,125,000	\$ 44,000,000	\$ 9,695,000	\$ 124,430,000	\$ 9,745,000
Plus deferred amounts - Issuance premiums	3,543,589	6,197,485	411,395	9,329,679	721,269
Total bonds payable	93,668,589	50,197,485	10,106,395	133,759,679	10,466,269
Other obligations	565,897	50,583	175,297	441,183	91,689
Total governmental activities	\$ 94,234,486	\$ 50,248,068	\$ 10,281,692	\$ 134,200,862	\$ 10,557,958

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 8 - Long-term Debt (Continued)

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2015	\$ 9,745,000	\$ 5,439,038	\$ 15,184,038
2016	10,485,000	5,251,188	15,736,188
2017	11,280,000	4,762,788	16,042,788
2018	11,310,000	4,248,986	15,558,986
2019	10,425,000	3,733,488	14,158,488
2020-2024	39,260,000	12,308,266	51,568,266
2025-2029	18,925,000	5,735,126	24,660,126
2030-2034	13,000,000	1,950,000	14,950,000
Total	<u>\$ 124,430,000</u>	<u>\$ 43,428,880</u>	<u>\$ 167,858,880</u>

Governmental Activities

General obligation bonds consist of the following:

\$11,920,000 2005 General Obligation Bonds due in annual installments of \$1,100,000 through May 1, 2018; interest at 5.0 percent	\$ 4,400,000
\$26,375,000 2007 General Obligation Bonds due in annual installments of \$1,275,000 to \$2,000,000 through May 1, 2027; interest at 4.0 percent to 5.0 percent	21,675,000
\$64,360,000 2007 Refunding Bonds due in annual installments of \$4,585,000 to \$6,160,000 through May 1, 2022; interest at 4.0 percent to 5.0 percent	42,990,000
\$13,530,000 2012 Refunding Bonds due in annual installments of \$1,345,000 to \$1,710,000 through May 1, 2021; interest at 4.0 percent to 5.0 percent	11,365,000
\$44,000,000 General Obligation Bonds due in annual installments of \$275,000 to \$3,000,000 through May 1, 2034; interest at 3.0 percent to 5.0 percent.	<u>44,000,000</u>
Total bonded debt	<u>\$ 124,430,000</u>

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 8 - Long-term Debt (Continued)

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$	388,326
Self-insurance		<u>52,857</u>
Total	\$	<u>441,183</u>

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District participates in the Middle Cities Risk Management Trust risk pool for claims relating to property liability and errors and omissions. The shared risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The School District is fully insured for medical benefits provided to the employees and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Dental and Vision Insurance - The School District is self-insured for dental and vision claims at June 30, 2014. The School District estimates the liability for dental and vision claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the government-wide financial statements. Changes in the estimated liability for the fiscal year ended June 30, 2014 are as follows:

Estimated liability - Beginning of year	\$	108,154
Net claim payments - Including changes in estimates		<u>(55,297)</u>
Estimated liability - End of year	\$	<u>52,857</u>

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment health care benefits to retirees and beneficiaries who elect to receive those benefits.

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement Services at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. For the period from July 1, 2013 through September 30, 2013, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PPHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension Contributions	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
Health Contributions	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
Defined Contribution Plan Employer Contributions							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

For the period from October 1, 2013 through June 30, 2014, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension Contributions	18.34 %	18.11 %	18.11 %	15.44 %	15.44 %	15.44 %	18.34 %
Health Contributions	6.45 %	6.45 %	5.52 %	5.52 %	6.45 %	5.52 %	5.52 %
Defined Contribution Plan Employer Contributions							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

* First worked September 4, 2012 or later

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's required and actual contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were \$9,813,540, \$7,443,310, and \$6,175,302, respectively.

Novi Community School District

Notes to Financial Statements June 30, 2014

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent (or 20 percent for those not Medicare eligible) of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 8.18 percent to 9.11 percent of covered payroll for the period from July 1, 2013 through September 30, 2013, and from 5.52 percent to 6.45 percent of covered payroll for the period from October 1, 2013 through June 30, 2014 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401(k) account.

The School District's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2014, 2013, and 2012 were \$2,482,643, \$3,744,832, and \$3,288,851, respectively.

Note 11 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted; however, the impact is expected to be material. The provisions of this Statement are effective for financial statements for the year ending June 30, 2015.

Required Supplemental Information

Novi Community School District

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources	\$ 22,294,756	\$ 22,235,535	\$ 22,234,294	\$ (1,241)
State sources	40,880,906	41,454,851	41,489,997	35,146
Federal sources	1,434,354	1,698,794	1,448,343	(250,451)
Incoming transfers and other transactions	<u>3,586,748</u>	<u>3,483,224</u>	<u>3,484,244</u>	<u>1,020</u>
Total revenue	68,196,764	68,872,404	68,656,878	(215,526)
Expenditures - Current				
Instruction:				
Basic programs	37,903,530	37,639,062	37,691,532	52,470
Added needs	8,466,287	8,990,683	8,880,654	(110,029)
Adult/Continuing education	<u>110,528</u>	<u>127,858</u>	<u>111,830</u>	<u>(16,028)</u>
Total instruction	46,480,345	46,757,603	46,684,016	(73,587)
Support services:				
Pupil services	4,473,239	4,330,997	4,230,117	(100,880)
Instructional services	4,147,449	4,508,117	4,465,280	(42,837)
General administration	449,289	525,046	510,735	(14,311)
School administration	3,260,725	3,373,078	3,405,342	32,264
Business services	1,299,430	1,052,002	1,070,903	18,901
Operations and maintenance	3,515,948	3,827,692	3,751,855	(75,837)
Transportation	1,959,765	1,925,131	1,936,760	11,629
Central services	<u>946,915</u>	<u>943,951</u>	<u>947,823</u>	<u>3,872</u>
Total support services	20,052,760	20,486,014	20,318,815	(167,199)
Athletics	775,253	785,938	789,169	3,231
Community services	<u>1,319,928</u>	<u>1,377,252</u>	<u>1,328,488</u>	<u>(48,764)</u>
Total expenditures	<u>68,628,286</u>	<u>69,406,807</u>	<u>69,120,488</u>	<u>(286,319)</u>
Net Change in Fund Balance	(431,522)	(534,403)	(463,610)	70,793
Fund Balance - Beginning of year	<u>7,030,109</u>	<u>7,030,109</u>	<u>7,030,109</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 6,598,587</u>	<u>\$ 6,495,706</u>	<u>\$ 6,566,499</u>	<u>\$ 70,793</u>

Other Supplemental Information

Novi Community School District

	Special Revenue Funds			Debt Service Funds	
	Food Services Fund	Recreation Fund	Total	2005 Debt Fund	2007 Debt Fund
Assets					
Receivables	\$ 96,807	\$ 9,640	\$ 106,447	\$ 8,146	\$ 14,010
Due from other funds	60,000	-	60,000	-	-
Inventories	39,047	-	39,047	-	-
Prepaid costs and other assets	180,203	-	180,203	-	-
Restricted assets	94,782	529,650	624,432	120,060	339,707
Total assets	\$ 470,839	\$ 539,290	\$ 1,010,129	\$ 128,206	\$ 353,717
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 23,699	\$ 62,368	\$ 86,067	\$ -	\$ -
Accrued payroll-related liabilities	375	-	375	-	-
Due to other funds	-	208,999	208,999	-	-
Unearned revenue	81,518	-	81,518	-	-
Total liabilities	105,592	271,367	376,959	-	-
Deferred Inflows of Resources -					
Unavailable revenue	-	9,234	9,234	6,428	12,872
Total liabilities and deferred inflows of resources	105,592	280,601	386,193	6,428	12,872
Fund Balances					
Nonspendable:					
Inventory	39,047	-	39,047	-	-
Prepaid costs and deposits	180,203	-	180,203	-	-
Restricted:					
Capital projects	-	-	-	-	-
Debt service	-	-	-	121,778	340,845
Food service	145,997	-	145,997	-	-
Recreation	-	258,689	258,689	-	-
Total fund balances	365,247	258,689	623,936	121,778	340,845
Total liabilities, deferred inflows of resources, and fund balances	\$ 470,839	\$ 539,290	\$ 1,010,129	\$ 128,206	\$ 353,717

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014**

Debt Service Funds			Capital Projects Funds			Total Nonmajor Governmental Funds
2007 Refinanced Debt Fund	2012 Refinanced Debt Fund	Total	Sinking Fund	2007 Capital Projects Fund	Total	
\$ 46,439	\$ 16,699	\$ 85,294	\$ 4,961	\$ -	\$ 4,961	\$ 196,702
-	-	-	132,907	-	132,907	192,907
-	-	-	-	-	-	39,047
-	-	-	-	-	-	180,203
431,830	133,572	1,025,169	865,941	-	865,941	2,515,542
\$ 478,269	\$ 150,271	\$ 1,110,463	\$ 1,003,809	\$ -	\$ 1,003,809	\$ 3,124,401
\$ -	\$ -	\$ -	\$ 169,268	\$ -	\$ 169,268	\$ 255,335
-	-	-	-	-	-	375
-	-	-	-	-	-	208,999
-	-	-	-	-	-	81,518
-	-	-	169,268	-	169,268	546,227
42,057	12,025	73,382	4,505	-	4,505	87,121
42,057	12,025	73,382	173,773	-	173,773	633,348
-	-	-	-	-	-	39,047
-	-	-	-	-	-	180,203
-	-	-	830,036	-	830,036	830,036
436,212	138,246	1,037,081	-	-	-	1,037,081
-	-	-	-	-	-	145,997
-	-	-	-	-	-	258,689
436,212	138,246	1,037,081	830,036	-	830,036	2,491,053
\$ 478,269	\$ 150,271	\$ 1,110,463	\$ 1,003,809	\$ -	\$ 1,003,809	\$ 3,124,401

Novi Community School District

	Special Revenue Funds			Debt Service Funds		
	Food Services	Recreation	Total	2005 Debt	2007 Debt	2007
	Fund	Fund		Fund	Fund	Refinanced Debt Fund
Revenue						
Local sources	\$ 1,849,140	\$ 1,892,573	\$ 3,741,713	\$ 1,431,656	\$ 2,490,978	\$ 8,487,760
State sources	61,900	-	61,900	-	-	-
Federal sources	390,004	-	390,004	-	-	-
Total revenue	2,301,044	1,892,573	4,193,617	1,431,656	2,490,978	8,487,760
Expenditures						
Current:						
Instruction	-	36,212	36,212	-	-	-
Support services	133,471	1,004,926	1,138,397	16,759	28,036	105,990
Food services	2,276,617	-	2,276,617	-	-	-
Community services	-	521,340	521,340	-	-	-
Debt service:						
Principal	-	-	-	1,075,000	1,200,000	5,970,000
Interest	-	-	-	267,031	1,023,688	2,262,050
Capital outlay	19,087	132,908	151,995	-	-	-
Total expenditures	2,429,175	1,695,386	4,124,561	1,358,790	2,251,724	8,338,040
Excess of Revenue (Under) Over Expenditures	(128,131)	197,187	69,056	72,866	239,254	149,720
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	-	-
Transfers out	-	(122,287)	(122,287)	(456)	(192)	(2,797)
Total other financing (uses) sources	-	(122,287)	(122,287)	(456)	(192)	(2,797)
Net Change in Fund Balances	(128,131)	74,900	(53,231)	72,410	239,062	146,923
Fund Balances - Beginning of year	493,378	183,789	677,167	49,368	101,783	289,289
Fund Balances - End of year	\$ 365,247	\$ 258,689	\$ 623,936	\$ 121,778	\$ 340,845	\$ 436,212

**Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2014**

Debt Service Funds		Capital Projects Funds			Total
2012 Refinanced Debt Fund	Total	Sinking Fund	2007 Capital Projects Fund	Total	Nonmajor Governmental Funds
\$ 2,116,672	\$ 14,527,066	\$ 953,749	\$ -	\$ 953,749	\$ 19,222,528
-	-	-	-	-	61,900
-	-	-	-	-	390,004
<u>2,116,672</u>	<u>14,527,066</u>	<u>953,749</u>	<u>-</u>	<u>953,749</u>	<u>19,674,432</u>
-	-	-	-	-	36,212
20,548	171,333	129,554	-	129,554	1,439,284
-	-	-	-	-	2,276,617
-	-	-	-	-	521,340
1,450,000	9,695,000	-	-	-	9,695,000
562,000	4,114,769	-	-	-	4,114,769
-	-	1,367,171	146,873	1,514,044	1,666,039
<u>2,032,548</u>	<u>13,981,102</u>	<u>1,496,725</u>	<u>146,873</u>	<u>1,643,598</u>	<u>19,749,261</u>
84,124	545,964	(542,976)	(146,873)	(689,849)	(74,829)
3,445	3,445	-	-	-	3,445
-	(3,445)	-	-	-	(125,732)
<u>3,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(122,287)</u>
87,569	545,964	(542,976)	(146,873)	(689,849)	(197,116)
50,677	491,117	1,373,012	146,873	1,519,885	2,688,169
<u>\$ 138,246</u>	<u>\$ 1,037,081</u>	<u>\$ 830,036</u>	<u>\$ -</u>	<u>\$ 830,036</u>	<u>\$ 2,491,053</u>

Novi Community School District

Years Ending June 30	2005 General Obligation Bonds		2007 General Obligation Bonds		2007 Refunding Bonds
	Principal	Interest	Principal	Interest	Principal
2015	\$ 1,100,000	\$ 220,000	\$ 1,275,000	\$ 975,688	\$ 6,025,000
2016	1,100,000	165,000	1,325,000	924,688	6,075,000
2017	1,100,000	110,000	1,375,000	871,688	6,135,000
2018	1,100,000	54,998	1,425,000	816,688	6,160,000
2019	-	-	1,500,000	759,688	4,725,000
2020	-	-	1,575,000	684,688	4,670,000
2021	-	-	1,650,000	617,750	4,615,000
2022	-	-	1,775,000	547,626	4,585,000
2023	-	-	1,875,000	458,876	-
2024	-	-	1,925,000	365,126	-
2025	-	-	1,975,000	268,876	-
2026	-	-	2,000,000	180,000	-
2027	-	-	2,000,000	90,000	-
2028	-	-	-	-	-
2029	-	-	-	-	-
2030	-	-	-	-	-
2031	-	-	-	-	-
2032	-	-	-	-	-
2033	-	-	-	-	-
2034	-	-	-	-	-
Total principal	\$ 4,400,000	\$ 549,998	\$ 21,675,000	\$ 7,561,382	\$ 42,990,000
Principal payments due	May 1		May 1		May 1
Interest payments due		May 1 and November 1		May 1 and November 1	
Interest rate		5%		4% - 5%	
Original issue	\$ 11,920,000		\$ 26,375,000		\$ 64,360,000

**Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2014**

2007 Refunding Bonds		2012 Refunding Bonds		2014 School Building and Site Bonds		Totals	
Interest	Principal	Interest	Principal	Interest	Total Principal	Total Interest	
\$ 1,963,550	\$ 1,345,000	\$ 504,000	\$ -	\$ 1,775,800	\$ 9,745,000	\$ 5,439,038	
1,662,300	1,710,000	450,200	275,000	2,049,000	10,485,000	5,251,188	
1,358,550	1,695,000	381,800	975,000	2,040,750	11,280,000	4,762,788	
1,051,800	1,675,000	314,000	950,000	2,011,500	11,310,000	4,248,986	
743,800	1,650,000	247,000	2,550,000	1,983,000	10,425,000	3,733,488	
554,800	1,645,000	164,500	3,000,000	1,881,000	10,890,000	3,284,988	
368,000	1,645,000	82,250	2,575,000	1,761,000	10,485,000	2,829,000	
183,400	-	-	2,575,000	1,658,000	8,935,000	2,389,026	
-	-	-	2,575,000	1,555,000	4,450,000	2,013,876	
-	-	-	2,575,000	1,426,250	4,500,000	1,791,376	
-	-	-	2,575,000	1,297,500	4,550,000	1,566,376	
-	-	-	2,575,000	1,168,750	4,575,000	1,348,750	
-	-	-	2,600,000	1,040,000	4,600,000	1,130,000	
-	-	-	2,600,000	910,000	2,600,000	910,000	
-	-	-	2,600,000	780,000	2,600,000	780,000	
-	-	-	2,600,000	650,000	2,600,000	650,000	
-	-	-	2,600,000	520,000	2,600,000	520,000	
-	-	-	2,600,000	390,000	2,600,000	390,000	
-	-	-	2,600,000	260,000	2,600,000	260,000	
-	-	-	2,600,000	130,000	2,600,000	130,000	
\$ 7,886,200	\$ 11,365,000	\$ 2,143,750	\$ 44,000,000	\$ 25,287,550	\$ 124,430,000	\$ 43,428,880	

	May 1			
May 1 and November 1		May 1 and November 1		May 1 and November 1
4% - 5%		4% - 5%		3% -5%
	\$ 13,530,000		\$ 44,000,000	