

Novi Community School District

**Financial Report
with Supplemental Information
June 30, 2013**

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, 2013 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, 2013 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

Emphasis of Matter

As described in Note 1 to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement Nos. 62, 63, and 65, as of July 1, 2012. Our opinion is not modified with respect to this matter.

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 schedules, 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 an opinion 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.

Plante & Moran, PLLC

October 23, 2013

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, 2013. 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 2007 Refinanced Debt 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 Service 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, 2013 and 2012:

	Governmental Activities	
	June 30	
	2013	2012
	(in millions)	
Assets		
Current and other assets	\$ 20.6	\$ 22.4
Capital assets	140.6	143.2
Total assets	161.2	165.6
Liabilities		
Current liabilities	11.7	10.5
Long-term liabilities	94.2	103.7
Total liabilities	105.9	114.2
Net Position		
Net investment in capital assets	46.8	40.7
Restricted	2.2	3.1
Unrestricted	6.3	7.6
Total net position	<u>\$ 55.3</u>	<u>\$ 51.4</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 \$55.3 million at June 30, 2013. Net investment in capital assets, totaling \$46.8 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, 2013 and 2012.

Table 2

	Governmental Activities	
	Year Ended June 30	
	2013	2012
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.4	\$ 3.9
Operating grants and contributions	9.1	9.4
General revenue:		
Property taxes	35.3	36.9
State foundation allowance	36.0	34.7
Other	1.2	1.3
Total revenue	<u>86.0</u>	<u>86.2</u>
Functions/Program Expenses		
Instruction	45.9	45.6
Support services	21.9	24.7
Athletics	0.7	0.8
Food services	2.2	2.4
Community services	1.8	1.7
Payments to other public schools (ISDs, LEAs)	0.1	-
Interest on long-term debt	4.7	4.7
Depreciation (unallocated)	4.8	4.6
Total functions/program expenses	<u>82.1</u>	<u>84.5</u>
Increase in Net Position	3.9	1.7
Net Position - Beginning of year	<u>51.4</u>	<u>49.7</u>
Net Position - End of year	<u><u>\$ 55.3</u></u>	<u><u>\$ 51.4</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 \$82.1 million. Certain activities were partially funded from those who benefited from the programs (\$4.4 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$35.3 million in taxes, \$36.0 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 \$3.9 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 \$9.7 million, which is a decrease of \$2.3 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$1.8 million to \$7.0 million.

Our Special Revenue Funds remained relatively stable from the prior year, showing a net increase of approximately \$215,000 primarily resulting from an increase of \$184,000 in the fund balance in the Recreation Fund. Combined, the Debt Service Funds showed a fund balance increase of approximately \$449,000. 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 fund balance decreased as the School District continued projects related to the 2007 bond issue. The 2007 bonded construction project was substantially complete at June 30, 2012. The School District collected \$931,000 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 significant revisions made to the 2012-2013 General Fund original budget. Budgeted revenue was increased \$2 million primarily to account for increased state aid and categorical grants and Community Education revenue.

Budgeted expenditures were also increased \$1.4 million primarily to account for the increase in salaries and benefits. There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2013, the School District had \$140.6 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 \$2.6 million, or 1.82 percent, from last year.

This year's additions of \$2.3 million included technology, building and site renovations, buses, and other vehicles. No new debt was issued for these additions.

	2013	2012
Land	\$ 9,607,341	\$ 9,607,341
Construction and technology upgrades in progress	117,659	1,360,637
Buildings and building improvements	163,421,127	161,258,293
Site improvements	13,373,919	13,072,365
Buses and other vehicles	3,012,017	3,043,092
Furniture and equipment	6,305,994	5,920,865
Total capital assets	195,838,057	194,262,593
Less accumulated depreciation	55,276,892	51,069,524
Net capital assets	<u>\$ 140,561,165</u>	<u>\$ 143,193,069</u>

Novi Community School District

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$90.1 million in bonds outstanding versus \$99.0 million in the previous year, a decrease of 8.9 percent. Those bonds consisted of the following:

	2013	2012
General obligation bonds	<u>\$ 90,125,000</u>	<u>\$ 98,970,000</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 \$90.1 million is not subject to this \$296.8 million statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, and severance 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 2013-2014 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 2013-2014 fiscal year is 90 percent of the October 2013 and 10 percent of the February 2014 student counts. The 2013-2014 budget was adopted in June 2013 and was based upon an estimate of the number of students who will be enrolled in October 2013. In the 2013-2014 budget, the blended student count is projected to be 20 students higher than in 2012-2013.

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 2013-2014 General Fund budget approved by the Board of Education in June reflects an operating deficit of \$431,522 for the year. The deficit will be absorbed by the General Fund equity balance which is \$7.0 million as of June 30, 2013. The Board of Education has a strict goal that the General Fund fund balance will not fall below 10 percent of General Fund expenditures.

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.

Novi Community School District

Management's Discussion and Analysis (Continued)

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, 2013

	Governmental Activities
Assets	
Cash and cash equivalents (Note 3)	\$ 9,732,328
Receivables (Note 4)	8,010,891
Inventories	29,049
Prepaid costs and other assets	180,011
Restricted assets (Note 5)	2,745,404
Capital assets - Net (Note 6)	140,561,165
Total assets	161,258,848
Liabilities	
Accounts payable	1,118,203
Accrued payroll-related liabilities	8,474,723
Other accrued liabilities	685,855
Due to other governmental units	763,901
Unearned revenue (Note 4)	619,129
Noncurrent liabilities (Note 8):	
Due within one year	10,368,323
Due in more than one year	83,866,163
Total liabilities	105,896,297
Net Position	
Net investment in capital assets	46,892,576
Restricted:	
Food service	493,378
Capital projects	1,519,885
Recreation	183,789
Unrestricted	6,272,923
Total net position	<u>\$ 55,362,551</u>

Novi Community School District

Statement of Activities Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue		Governmental	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
				Activities	
				Net (Expense)	
				Revenue and	
				Changes in	
				Net Position	
Primary government -					
Governmental activities:					
Instruction	\$ 45,945,784	\$ 190,941	\$ 8,699,913	\$ -	\$ (37,054,930)
Support services	21,907,559	-	-	-	(21,907,559)
Athletics	730,340	85,392	-	-	(644,948)
Food services	2,228,940	1,838,919	383,392	-	(6,629)
Community services	1,786,327	2,326,120	-	-	539,793
Payments to other public schools (ISDs, LEAs)	41,139	-	-	-	(41,139)
Interest	4,726,011	-	-	-	(4,726,011)
Depreciation expense (unallocated)	4,757,368	-	-	-	(4,757,368)
Total primary government	\$82,123,468	\$ 4,441,372	\$ 9,083,305	\$ -	(68,598,791)
General revenue:					
Taxes:					
Property taxes, levied for general purposes					18,326,492
Property taxes, levied for debt service					14,149,229
Property taxes, levied for capital projects					929,140
Property taxes, levied for recreation					1,849,452
State aid not restricted to specific purposes					36,009,599
Federal sources - Unrestricted					15,865
Interest and investment earnings					19,628
Loss on the disposal of capital assets					(163,358)
Other					1,369,786
Total general revenue					<u>72,505,833</u>
Change in Net Position					3,907,042
Net Position - Beginning of year					<u>51,455,509</u>
Net Position - End of year					<u>\$ 55,362,551</u>

Novi Community School District

Governmental Funds Balance Sheet June 30, 2013

	General Fund	2007 Refinanced Debt Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 9,732,328	\$ -	\$ -	\$ 9,732,328
Receivables (Note 4)	7,887,111	13,716	110,064	8,010,891
Due from other funds (Note 7)	-	-	438	438
Inventories	-	-	29,049	29,049
Prepaid costs and other assets	174,808	-	5,203	180,011
Restricted assets (Note 5)	-	276,133	2,469,271	2,745,404
Total assets	\$ 17,794,247	\$ 289,849	\$ 2,614,025	\$ 20,698,121
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 996,434	\$ -	\$ 121,769	\$ 1,118,203
Accrued payroll-related liabilities	8,461,558	-	13,165	8,474,723
Due to other governmental units	763,452	-	449	763,901
Due to other funds (Note 7)	438	-	-	438
Unearned revenue (Note 4)	539,829	-	79,300	619,129
Total liabilities	10,761,711	-	214,683	10,976,394
Deferred Inflows of Resources -				
Unavailable revenue (Note 4)	2,427	560	462	3,449
Total liabilities and deferred inflows of resources	10,764,138	560	215,145	10,979,843
Fund Balances				
Nonspendable:				
Inventory	-	-	29,049	29,049
Prepaid assets	174,808	-	5,203	180,011
Restricted:				
Capital projects	-	-	1,519,885	1,519,885
Debt service	-	289,289	201,828	491,117
Food service	-	-	459,126	459,126
Recreation	-	-	183,789	183,789
Assigned - Budgeted use of fund balance in subsequent year				
	431,522	-	-	431,522
Unassigned	6,423,779	-	-	6,423,779
Total fund balances	7,030,109	289,289	2,398,880	9,718,278
Total liabilities, deferred inflows of resources, and fund balances	\$ 17,794,247	\$ 289,849	\$ 2,614,025	\$ 20,698,121

Novi Community School District

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2013

Fund Balance Reported in Governmental Funds \$ 9,718,278

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	\$ 195,838,057	
Accumulated depreciation	<u>(55,276,892)</u>	140,561,165

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds payable including premiums	(93,668,589)	
Compensated absences	(337,743)	
Severance packages payable	(120,000)	
Self-insurance claims	<u>(108,154)</u>	(94,234,486)

Accrued interest payable is not included as a liability in governmental funds (685,855)

Property taxes receivable are earned as of June 30, 2013 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 3,449

Net Position of Governmental Activities **\$ 55,362,551**

Novi Community School District

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2013

	2007	Other	Total
	Refinanced	Nonmajor	Governmental
	Debt Fund	Governmental	Governmental
	General Fund	Funds	Funds
Revenue			
Local sources	\$ 22,340,945	\$ 8,922,937	\$ 9,975,069
State sources	39,820,419	-	72,554
Federal sources	1,394,555	-	383,392
Interdistrict sources	3,437,849	-	-
Total revenue	66,993,768	8,922,937	10,431,015
Expenditures			
Current:			
Instruction	46,000,256	-	46,581
Support services	20,338,605	191,210	1,219,012
Athletics	730,340	-	-
Food services	-	-	2,225,263
Community services	1,324,663	-	461,664
Debt service:			
Principal	-	5,905,000	2,940,000
Interest	-	2,557,300	2,051,712
Capital outlay	592,996	-	2,016,204
Payments to other public schools (ISDs, LEAs)	41,139	-	-
Total expenditures	69,027,999	8,653,510	10,960,436
Excess of Revenue (Under) Over Expenditures	(2,034,231)	269,427	(529,421)
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	34,763	-	-
Transfers in	180,633	195	6,969
Transfers out	-	-	(187,797)
Total other financing sources (uses)	215,396	195	(180,828)
Net Change in Fund Balances	(1,818,835)	269,622	(710,249)
Fund Balances - Beginning of year	8,848,944	19,667	3,109,129
Fund Balances - End of year	\$ 7,030,109	\$ 289,289	\$ 2,398,880
	\$ 9,718,278		

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, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (2,259,462)

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	\$ (4,757,368)	
Capitalized capital outlay	<u>2,323,585</u>	(2,433,783)

Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of carrying value of the disposed assets (198,121)

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 (153,852)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 8,845,000

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 373,707

Deferred bond issuance costs are fully amortized in the statement of activities during 2013, but were expensed in the governmental funds in the year the bond issue costs were paid (490,706)

Compensated absences, as well as self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more paid out than earned (60,741)

Decreases in severance liabilities are reported as expenditures when financial resources are used in the governmental funds 285,000

Change in Net Position of Governmental Activities \$ 3,907,042

Novi Community School District

Fiduciary Funds Statement of Net Position June 30, 2013

	<u>Agency Funds</u>
Assets - Cash and cash equivalents (Note 3)	\$ 1,077,001
Liabilities	
Accounts payable	\$ 11,491
Due to student groups	<u>1,065,510</u>
Total liabilities	<u>\$ 1,077,001</u>

Novi Community School District

Notes to Financial Statements June 30, 2013

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, 2013

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, 2013

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.

2007 Refinanced Debt Fund - The 2007 Refinanced Debt Fund is used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the 2012 Refunding Bond Issue.

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 Service Fund and the Recreation Fund are the School District's only nonmajor Special Revenue Funds. Revenue sources for the Food Service 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 three nonmajor 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, 2013

Note 1 - 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 Service 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, 2013

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.

Deferred Inflows of Resources - In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

Novi Community School District

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies (Continued)

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
- **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.

Accounting Change - Effective July 1, 2012, the School District implemented the provisions of Governmental Accounting Standards Board No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. This statement did not have a significant impact on the School District's financial statements.

Novi Community School District

Notes to Financial Statements June 30, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Effective July 1, 2012, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This statement impacted the format and report of the balance sheet at the government-wide and fund levels.

Also effective July 1, 2012, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

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 and proceeds from the sale of capital assets 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, 2013

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Capital Projects Fund Compliance - The Sinking Fund records capital project activities funded with the Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No. 01-95.

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 \$13,730,615 had \$12,715,019 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.

Novi Community School District

Notes to Financial Statements June 30, 2013

Note 3 - Deposits and Investments (Continued)

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.

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.

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, 2013

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:

	2007			Total
	General Fund	Refinanced Debt Fund	Nonmajor Funds	
Receivables:				
Taxes receivable	\$ 30,335	\$ 13,716	\$ 12,065	\$ 56,116
Due from other governmental units	<u>7,856,776</u>	<u>-</u>	<u>97,999</u>	<u>7,954,775</u>
Total receivables	<u>\$ 7,887,111</u>	<u>\$ 13,716</u>	<u>\$ 110,064</u>	<u>\$ 8,010,891</u>

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

	Governmental Funds		
	Deferred Inflow - Unavailable	Liability - Unearned	Total
Delinquent property taxes	\$ 3,449	\$ -	\$ 3,449
Student food sales	-	79,300	79,300
Summer tuition and fall school charges received prior to services being rendered	<u>-</u>	<u>539,829</u>	<u>539,829</u>
Total	<u>\$ 3,449</u>	<u>\$ 619,129</u>	<u>\$ 622,578</u>

Novi Community School District

Notes to Financial Statements June 30, 2013

Note 5 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent bond proceeds and related interest	\$ 177,892
Unspent Sinking Fund receipts and related interest	1,460,512
Unspent Recreation Fund receipts and related interest	183,789
Food Service Fund	454,908
Property tax collections for repayment of bonded indebtedness	<u>468,303</u>
Total restricted assets	<u><u>\$ 2,745,404</u></u>

Note 6 - Capital Assets

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

	<u>Balance July 1, 2012</u>	<u>Transfers</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:					
Land	\$ 9,607,341	\$ -	\$ -	\$ -	\$ 9,607,341
Construction in progress	1,360,637	(1,162,516)	117,659	198,121	117,659
Subtotal	10,967,978	(1,162,516)	117,659	198,121	9,725,000
Capital assets being depreciated:					
Buildings	113,283,844	-	-	-	113,283,844
Building improvements	47,974,449	866,357	1,296,477	-	50,137,283
Site improvements	13,072,365	-	301,554	-	13,373,919
Furniture and equipment	5,920,865	296,159	88,970	-	6,305,994
Buses and other vehicles	3,043,092	-	518,925	550,000	3,012,017
Subtotal	183,294,615	1,162,516	2,205,926	550,000	186,113,057
Accumulated depreciation:					
Buildings	25,940,436	-	1,888,505	-	27,828,941
Building improvements	12,808,414	-	1,308,379	-	14,116,793
Site improvements	6,660,838	-	725,884	-	7,386,722
Furniture and equipment	3,184,592	-	606,078	-	3,790,670
Buses and other vehicles	2,475,244	-	228,522	550,000	2,153,766
Subtotal	51,069,524	-	4,757,368	550,000	55,276,892
Net capital assets being depreciated	<u>132,225,091</u>	<u>1,162,516</u>	<u>(2,551,442)</u>	<u>-</u>	<u>130,836,165</u>
Net capital assets	<u>\$ 143,193,069</u>	<u>\$ -</u>	<u>\$ (2,433,783)</u>	<u>\$ 198,121</u>	<u>\$ 140,561,165</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, 2013

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 \$373,163.

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From General Fund
Nonmajor governmental funds	\$ 438

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 other governmental funds to the General Fund were made as cost reimbursement for operating purposes and to record the value of foregone rental income from the City of Novi. Transfers were made between debt service funds as a result of closing the 2002 Debt Service Fund and allocating the fund balance to remaining debt service funds.

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. Notes and installment purchase agreements are also general obligations 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	\$ 98,970,000	\$ -	\$ 8,845,000	\$ 90,125,000	\$ 9,695,000
Plus deferred amounts - Issuance premiums	3,954,984	-	411,395	3,543,589	411,395
Total bonds payable	102,924,984	-	9,256,395	93,668,589	10,106,395
Other obligations	790,156	177,259	401,518	565,897	261,928
Total governmental activities	\$ 103,715,140	\$ 177,259	\$ 9,657,913	\$ 94,234,486	\$ 10,368,323

Novi Community School District

Notes to Financial Statements June 30, 2013

Note 8 - Long-term Debt (Continued)

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2014	\$ 9,695,000	\$ 4,114,769	\$ 13,809,769
2015	9,745,000	3,663,238	13,408,238
2016	10,210,000	3,202,188	13,412,188
2017	10,305,000	2,722,038	13,027,038
2018	10,360,000	2,237,486	12,597,486
2019-2023	31,910,000	5,412,378	37,322,378
2024-2027	7,900,000	904,002	8,804,002
Total	<u>\$ 90,125,000</u>	<u>\$ 22,256,099</u>	<u>\$ 112,381,099</u>

Governmental Activities

General obligation bonds consist of the following:

\$11,920,000 2005 General Obligation Bonds due in annual installments of \$1,075,000 to \$1,100,000 through May 1, 2018; interest at 4.375 percent to 5.0 percent	\$ 5,475,000
\$26,375,000 2007 General Obligation Bonds due in annual installments of \$1,200,000 to \$2,000,000 through May 1, 2027; interest at 4.0 percent to 5.0 percent	22,875,000
\$64,360,000 2007 Refunding Bonds due in annual installments of \$5,970,000 to \$6,160,000 through May 1, 2022; interest at 4.0 percent to 5.0 percent	48,960,000
\$13,530,000 2012 Refunding Bonds due in annual installments of \$1,345,000 to \$1,710,000 through May 1, 2021; interest at 3.0 percent to 5.0 percent	<u>12,815,000</u>
Total bonded debt	<u>\$ 90,125,000</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 337,743
Severance liability	120,000
Self-insurance	<u>108,154</u>
Total	<u>\$ 565,897</u>

Novi Community School District

Notes to Financial Statements June 30, 2013

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 uninsured for dental and vision claims at June 30, 2013. 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, 2013 is as follows:

Estimated liability - Beginning of year	\$ 70,000
Estimated claims incurred - Including changes in estimates	<u>38,154</u>
Estimated liability - End of year	<u>\$ 108,154</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.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental 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 System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Novi Community School District

Notes to Financial Statements June 30, 2013

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

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. The employer contribution rate for basic plan members was 15.96 percent of covered payroll for the period from July 1, 2012 through September 30, 2012. The employer contribution rate for pension plus plan members was 14.73 percent for the period from July 1, 2012 through September 30, 2012. Beginning October 1, 2012 through January 31, 2013, employees were given the following plan options with the corresponding employer contribution rates:

	First Worked Before July 1, 2010*	First Worked on or After July 1, 2010 Through September 3, 2012**	First Worked on or After September 4, 2012 and Remain Pension Plus	First worked on or After September 4, 2012 and Elect DC
Pension contributions	16.25 %	15.02 %	15.02 %	12.78 %
Health contributions	9.11 %	9.11 %	8.18 %	8.18 %

* Basic, MIP Fixed, MIP Graded, MIP Plus

** Pension Plus

For the period from February 1, 2013 through June 30, 2013, employees could transition to a defined contribution plan (DC), and could also elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election. Employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP	Pension Plus	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	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 %

* First worked September 4, 2012 or later

Novi Community School District

Notes to Financial Statements June 30, 2013

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

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, 2013, 2012, and 2011 were \$6,679,859, \$6,175,302, and \$4,601,170, respectively.

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 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 was 8.5 percent of covered payroll for the period from July 1, 2012 through September 30, 2012. For the period from October 1, 2012 through June 30, 2013, the employer contribution rate ranged from 8.18 percent to 9.11 percent dependent upon the employee's date of hire and plan election as noted above. Effective February 1, 2013, 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, 2013, 2012, and 2011 were \$3,744,832, \$3,288,851, and \$3,216,279, respectively.

Novi Community School District

Notes to Financial Statements June 30, 2013

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 supplemental information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. 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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources	\$ 21,861,506	\$ 22,364,995	\$ 22,340,945	\$ (24,050)
State sources	38,331,120	39,805,770	39,820,419	14,649
Federal sources	1,519,176	1,507,654	1,394,555	(113,099)
Incoming transfers and other transactions	<u>3,594,784</u>	<u>3,595,520</u>	<u>3,653,245</u>	<u>57,725</u>
Total revenue	65,306,586	67,273,939	67,209,164	(64,775)
Expenditures - Current				
Instruction:				
Basic programs	36,064,155	37,433,943	37,388,435	(45,508)
Added needs	8,265,902	8,361,500	8,564,277	202,777
Adult/Continuing education	<u>107,177</u>	<u>108,986</u>	<u>103,472</u>	<u>(5,514)</u>
Total instruction	44,437,234	45,904,429	46,056,184	151,755
Support services:				
Pupil services	4,574,676	4,554,898	4,418,349	(136,549)
Instructional services	3,967,181	4,072,596	4,084,489	11,893
General administration	428,189	456,414	473,480	17,066
School administration	3,292,958	3,333,094	3,332,605	(489)
Business services	1,980,060	1,509,083	1,531,833	22,750
Operations and maintenance	3,882,730	3,730,688	3,796,127	65,439
Transportation	2,362,350	2,401,065	2,377,100	(23,965)
Central services	<u>794,784</u>	<u>925,456</u>	<u>892,756</u>	<u>(32,700)</u>
Total support services	21,282,928	20,983,294	20,906,739	(76,555)
Athletics	713,269	775,253	730,340	(44,913)
Community services	<u>1,221,559</u>	<u>1,387,953</u>	<u>1,334,736</u>	<u>(53,217)</u>
Total expenditures	<u>67,654,990</u>	<u>69,050,929</u>	<u>69,027,999</u>	<u>(22,930)</u>
Net Change in Fund Balance	(2,348,404)	(1,776,990)	(1,818,835)	(41,845)
Fund Balance - Beginning of year	<u>8,848,944</u>	<u>8,848,944</u>	<u>8,848,944</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 6,500,540</u>	<u>\$ 7,071,954</u>	<u>\$ 7,030,109</u>	<u>\$ (41,845)</u>

Other Supplemental Information

Novi Community School District

	Special Revenue Funds		Debt Service Funds		
	Food Service Fund	Recreation Fund	2005 Debt Fund	2007 Debt Fund	2012 Refinanced Debt Fund
Assets					
Receivables	\$ 97,999	\$ -	\$ 2,484	\$ 3,727	\$ 4,366
Due from other funds	-	-	-	438	-
Inventories	29,049	-	-	-	-
Prepaid costs and other assets	5,203	-	-	-	-
Restricted assets	454,908	183,789	46,980	98,714	46,476
Total assets	\$ 587,159	\$ 183,789	\$ 49,464	\$ 102,879	\$ 50,842
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 867	\$ -	\$ -	\$ 959	\$ -
Accrued payroll-related liabilities	13,165	-	-	-	-
Due to other governmental units	449	-	-	-	-
Unearned revenue	79,300	-	-	-	-
Total liabilities	93,781	-	-	959	-
Deferred Inflows of Resources -					
Unavailable revenue	-	-	96	137	165
Total liabilities and deferred inflows of resources	93,781	-	96	1,096	165
Fund Balances					
Nonspendable:					
Inventory	29,049	-	-	-	-
Prepaid assets	5,203	-	-	-	-
Restricted:					
Capital projects	-	-	-	-	-
Debt service	-	-	49,368	101,783	50,677
Food service	459,126	-	-	-	-
Recreation	-	183,789	-	-	-
Total fund balances	493,378	183,789	49,368	101,783	50,677
Total liabilities, deferred inflows of resources, and fund balances	\$ 587,159	\$ 183,789	\$ 49,464	\$ 102,879	\$ 50,842

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013**

Capital Projects Fund		Total Nonmajor Governmental Funds
Sinking Fund	2007 Capital Projects Fund	
\$ 1,488	\$ -	\$ 110,064
-	-	438
-	-	29,049
-	-	5,203
<u>1,460,512</u>	<u>177,892</u>	<u>2,469,271</u>
<u>\$ 1,462,000</u>	<u>\$ 177,892</u>	<u>\$ 2,614,025</u>
\$ 88,924	\$ 31,019	\$ 121,769
-	-	13,165
-	-	449
-	-	79,300
<u>88,924</u>	<u>31,019</u>	<u>214,683</u>
<u>64</u>	<u>-</u>	<u>462</u>
88,988	31,019	215,145
-	-	29,049
-	-	5,203
1,373,012	146,873	1,519,885
-	-	201,828
-	-	459,126
-	-	183,789
<u>1,373,012</u>	<u>146,873</u>	<u>2,398,880</u>
<u>\$ 1,462,000</u>	<u>\$ 177,892</u>	<u>\$ 2,614,025</u>

Novi Community School District

	Special Revenue Funds		Debt Service Funds			
	Food Service Fund	Recreation Fund	2002 Debt Fund	2005 Debt Fund	2007 Debt Fund	2012 Refinanced Debt Fund
Revenue						
Local sources	\$ 1,889,664	\$ 1,849,452	\$ -	\$ 1,472,130	\$ 2,354,072	\$ 1,478,877
State sources	72,554	-	-	-	-	-
Federal sources	383,392	-	-	-	-	-
Total revenue	2,345,610	1,849,452	-	1,472,130	2,354,072	1,478,877
Expenditures						
Current:						
Instruction	-	46,581	-	-	-	-
Support services	8,418	1,053,490	-	32,636	42,218	59,151
Food services	2,225,263	-	-	-	-	-
Community services	-	461,664	-	-	-	-
Debt service:						
Principal	-	-	-	1,075,000	1,150,000	715,000
Interest	-	-	-	320,781	1,069,688	661,243
Capital outlay	3,677	-	-	-	-	-
Total expenditures	2,237,358	1,561,735	-	1,428,417	2,261,906	1,435,394
Excess of Revenue Over (Under) Expenditures	108,252	287,717	-	43,713	92,166	43,483
Other Financing Sources (Uses)						
Transfers in	-	-	-	280	1,629	5,060
Transfers out	(76,705)	(103,928)	(7,164)	-	-	-
Total other financing sources (uses)	(76,705)	(103,928)	(7,164)	280	1,629	5,060
Net Change in Fund Balances	31,547	183,789	(7,164)	43,993	93,795	48,543
Fund Balances - Beginning of year	461,831	-	7,164	5,375	7,988	2,134
Fund Balances - End of year	\$ 493,378	\$ 183,789	\$ -	\$ 49,368	\$ 101,783	\$ 50,677

**Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2013**

Capital Projects Fund		Total Nonmajor Governmental Funds
Sinking Fund	2007 Capital Projects Fund	Funds
\$ 930,874	\$ -	\$ 9,975,069
-	-	72,554
-	-	383,392
930,874	-	10,431,015
-	-	-
-	-	46,581
23,099	-	1,219,012
-	-	2,225,263
-	-	461,664
-	-	-
-	-	2,940,000
-	-	2,051,712
1,013,145	999,382	2,016,204
1,036,244	999,382	10,960,436
(105,370)	(999,382)	(529,421)
-	-	6,969
-	-	(187,797)
-	-	(180,828)
(105,370)	(999,382)	(710,249)
1,478,382	1,146,255	3,109,129
\$ 1,373,012	\$ 146,873	\$ 2,398,880

Novi Community School District

Other Supplemental Information Combining Balance Sheet Debt Service Funds June 30, 2013

	2005 Debt Fund	2007 Debt Fund	2012 Refinanced Debt Fund	2007 Refinanced Debt Fund	Total Debt Service Funds
Assets					
Receivables	\$ 2,484	\$ 3,727	\$ 4,366	\$ 13,716	\$ 24,293
Due from other funds	-	438	-	-	438
Restricted assets	46,980	98,714	46,476	276,133	468,303
	<u>\$ 49,464</u>	<u>\$ 102,879</u>	<u>\$ 50,842</u>	<u>\$ 289,849</u>	<u>\$ 493,034</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities - Accounts payable	\$ -	\$ 959	\$ -	\$ -	\$ 959
Deferred Inflows of Resources - Unavailable revenue	96	137	165	560	958
Total liabilities and deferred inflows of resources	96	1,096	165	560	1,917
Fund Balances - Restricted for debt service	49,368	101,783	50,677	289,289	491,117
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 49,464</u>	<u>\$ 102,879</u>	<u>\$ 50,842</u>	<u>\$ 289,849</u>	<u>\$ 493,034</u>

Novi Community School District

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Debt Service Funds Year Ended June 30, 2013

	2002 Debt Fund	2005 Debt Fund	2007 Debt Fund	2012 Refinanced Debt Fund	2007 Refinanced Debt Fund	Total Debt Service Funds
Revenue - Local sources	\$ -	\$ 1,472,130	\$ 2,354,072	\$ 1,478,877	\$ 8,922,937	\$ 14,228,016
Expenditures						
Current - Support services	-	32,636	42,218	59,151	191,210	325,215
Debt service:						
Principal	-	1,075,000	1,150,000	715,000	5,905,000	8,845,000
Interest	-	320,781	1,069,688	661,243	2,557,300	4,609,012
Total expenditures	<u>-</u>	<u>1,428,417</u>	<u>2,261,906</u>	<u>1,435,394</u>	<u>8,653,510</u>	<u>13,779,227</u>
Excess of Revenue Over Expenditures	-	43,713	92,166	43,483	269,427	448,789
Other Financing Sources (Uses)						
Transfers in	-	280	1,629	5,060	195	7,164
Transfers out	<u>(7,164)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,164)</u>
Total other financing (uses) sources	<u>(7,164)</u>	<u>280</u>	<u>1,629</u>	<u>5,060</u>	<u>195</u>	<u>-</u>
Net Change in Fund Balances	(7,164)	43,993	93,795	48,543	269,622	448,789
Fund Balances - Beginning of year	<u>7,164</u>	<u>5,375</u>	<u>7,988</u>	<u>2,134</u>	<u>19,667</u>	<u>42,328</u>
Fund Balances - End of year	<u>\$ -</u>	<u>\$ 49,368</u>	<u>\$ 101,783</u>	<u>\$ 50,677</u>	<u>\$ 289,289</u>	<u>\$ 491,117</u>

Novi Community School District

Years Ending June 30	2005 General Obligation Bonds		2007 General Obligation Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 1,075,000	\$ 267,031	\$ 1,200,000	\$ 1,023,688
2015	1,100,000	220,000	1,275,000	975,688
2016	1,100,000	165,000	1,325,000	924,688
2017	1,100,000	110,000	1,375,000	871,688
2018	1,100,000	54,998	1,425,000	816,688
2019	-	-	1,500,000	759,688
2020	-	-	1,575,000	684,688
2021	-	-	1,650,000	617,750
2022	-	-	1,775,000	547,626
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
Total principal	<u>\$ 5,475,000</u>	<u>\$ 817,029</u>	<u>\$ 22,875,000</u>	<u>\$ 8,585,070</u>
Principal payments due	May 1		May 1	
Interest payments due		May 1 and November 1		May 1 and November 1
Interest rate		4.375% - 5%		4% - 5%
Original issue	<u>\$ 11,920,000</u>		<u>\$ 26,375,000</u>	

**Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2013**

2007 Refunding Bonds		2012 Refunding Bonds		Totals	
Principal	Interest	Principal	Interest	Total Principal	Total Interest
\$ 5,970,000	\$ 2,262,050	\$ 1,450,000	\$ 562,000	\$ 9,695,000	\$ 4,114,769
6,025,000	1,963,550	1,345,000	504,000	9,745,000	3,663,238
6,075,000	1,662,300	1,710,000	450,200	10,210,000	3,202,188
6,135,000	1,358,550	1,695,000	381,800	10,305,000	2,722,038
6,160,000	1,051,800	1,675,000	314,000	10,360,000	2,237,486
4,725,000	743,800	1,650,000	247,000	7,875,000	1,750,488
4,670,000	554,800	1,645,000	164,500	7,890,000	1,403,988
4,615,000	368,000	1,645,000	82,250	7,910,000	1,068,000
4,585,000	183,400	-	-	6,360,000	731,026
-	-	-	-	1,875,000	458,876
-	-	-	-	1,925,000	365,126
-	-	-	-	1,975,000	268,876
-	-	-	-	2,000,000	180,000
-	-	-	-	2,000,000	90,000
\$ 48,960,000	\$ 10,148,250	\$ 12,815,000	\$ 2,705,750	\$ 90,125,000	\$ 22,256,099
May 1	May 1 and November 1	May 1	May 1 and November 1		
	4% - 5%		3% - 5%		
\$ 64,360,000		\$ 13,530,000			