

Novi Community School District

**Financial Report
with Supplemental Information
June 30, 2012**

Novi Community School District

Contents

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Fiduciary Funds - Statement of Fiduciary Assets and Liabilities	17
Notes to Financial Statements	18-34
Required Supplemental Information	35
Budgetary Comparison Schedule - General Fund	36
Other Supplemental Information	37
Nonmajor Governmental Funds:	
Combining Balance Sheet	38-39
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	40-41
Schedule of Bonded Indebtedness	42-43
Federal Awards Supplemental Information	Issued Under Separate Cover

Independent Auditor's Report

To the Board of Education
Novi Community School District

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Novi Community School District (the "School District") as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Novi Community School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Novi Community School District as of June 30, 2012 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the budgetary comparison schedule, as identified in 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.

To the Board of Education
Novi Community School District

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

In accordance with *Government Auditing Standards*, we have also issued a report under a separate cover dated October 23, 2012 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Morse, PLLC

October 23, 2012

Novi Community School District

Management's Discussion and Analysis

This section of the 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, 2012. 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 fund, the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, 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 assets 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 assets - the difference between assets and liabilities, as reported in the statement of net assets - 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 assets - 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 assets 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 Cafeteria 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 assets 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 assets. 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 assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2012:

	Governmental Activities	
	June 30	
	2012	2011
	(in millions)	
Assets		
Current and other assets	\$ 22.4	\$ 29.5
Capital assets	143.2	144.7
Total assets	165.6	174.2
Liabilities		
Current liabilities	10.5	10.3
Long-term liabilities	103.7	114.2
Total liabilities	114.2	124.5
Net Assets		
Invested in capital assets - Net of related debt	40.7	31.1
Restricted	3.1	7.3
Unrestricted	7.6	11.3
Total net assets	<u>\$ 51.4</u>	<u>\$ 49.7</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$51.4 million at June 30, 2012. Capital assets, net of related debt totaling \$40.7 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 assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$7.6 million) was unrestricted.

Novi Community School District

Management's Discussion and Analysis (Continued)

The \$7.6 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets 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 assets 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 assets for fiscal years ended June 30, 2012 and 2011.

TABLE 2

	Governmental Activities	
	2012	2011
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 3.9	\$ 4.2
Operating grants and contributions	9.4	3.5
General revenue:		
Property taxes	36.9	39.2
State foundation allowance	34.7	35.2
Other	1.3	6.1
Total revenue	<u>86.2</u>	<u>88.2</u>
Functions/Program Expenses		
Instruction	\$ 45.6	\$ 46.8
Support services	24.7	23.1
Athletics	0.8	-
Food services	2.4	2.4
Community services	1.7	1.8
Interest on long-term debt	4.7	5.4
Capital outlay	-	0.4
Depreciaton (unallocated)	4.6	-
Total functions/program expenses	<u>84.5</u>	<u>79.9</u>
Increase in Net Assets	1.7	8.3
Net Assets - Beginning of year - As restated (Note 1)	<u>49.7</u>	<u>41.4</u>
Net Assets - End of year	<u><u>\$ 51.4</u></u>	<u><u>\$ 49.7</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 \$84.5 million. Certain activities were partially funded from those who benefited from the programs (\$3.9 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9.4 million). We paid for the remaining "public benefit" portion of our governmental activities with \$36.9 million in taxes, \$34.7 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net assets of \$1.7 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 \$12.0 million, which is a decrease of \$6.8 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 \$2.7 million to \$8.8 million. The change is mainly due to:

- A decrease in the foundation allowance revenue provided by the State of \$470 per pupil
- An increase in the State-determined retirement rate from 20.66 percent to 24.46 percent. A one percent change in the retirement rate will create a change in retirement costs of approximately \$0.4 million.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Fund remained relatively stable from the prior year, showing a net decrease of approximately \$70,000 primarily resulting from a \$102,000 transfer from the Cafeteria Fund to the General Fund.

Combined, the Debt Service Funds showed a fund balance decrease of approximately \$456,000. 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.

Novi Community School District

Management's Discussion and Analysis (Continued)

The Capital Projects Funds fund balance decreased as the School District continued construction related to the 2007 bond issue. The 2007 bonded construction project was substantially complete at June 30, 2012. The School District collected \$970,000 in voter-approved Sinking Fund millage. This millage is available to fund specific capital projects allowed by state law and approved by the voters.

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 2011-2012 General Fund original budget. Budgeted revenue was increased \$2 million to account for revised property tax revenue, state aid and categorical grants, Medicaid revenue, and federal grant awards.

Budgeted expenditures were also increased \$800,000 to account for the increase in salaries and the unprecedented amount of tax tribunal payments made in 2011-2012. There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012, the School District had \$143.2 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 \$1.5 million, or 1.04 percent, from last year, as restated.

This year's additions of \$1.9 million included technology, building and site renovations, buses, and other vehicles. No new debt was issued for these additions.

Novi Community School District

Management's Discussion and Analysis (Continued)

	2012	2011
Land	\$ 9,607,341	\$ 9,607,341
Construction and technology upgrades in progress	1,360,637	131,166
Buildings and building improvements	161,258,293	160,603,929
Site improvements	13,072,365	12,599,479
Buses and other vehicles	3,043,092	2,714,966
Furniture and equipment	5,920,865	5,632,829
Total capital assets	194,262,593	191,289,710
Less accumulated depreciation	51,069,524	46,587,820
Net capital assets	<u>\$ 143,193,069</u>	<u>\$ 144,701,890</u>

Debt

At the end of this year, the School District had \$99.0 million in bonds outstanding versus \$110.3 million in the previous year, a decrease of 10.2 percent. Those bonds consisted of the following:

	2012	2011
General obligation bonds	<u>\$ 98,970,000</u>	<u>\$ 110,305,000</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 \$99.0 million is not subject to this \$294.7 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 2012-2013 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 2012-2013 fiscal year is 10 percent of the February 2012 and 90 percent of the October 2012 student counts. The 2012-2013 budget was adopted in June 2012 and was based upon an estimate of the number of students who will be enrolled in October 2012. In the 2012-2013 budget, the blended student count is projected to be 19 students fewer than in 2011-2012.

Novi Community School District

Management's Discussion and Analysis (Continued)

We will not know whether the projected blended student count number is reached until the October 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 2012-2013 budget (General Fund and Recreation Fund combined) approved by the Board of Education in June reflects an operating deficit of \$1,928,620 for the year. The deficit will be absorbed by the General Fund equity balance which is \$8.8 million as of June 30, 2012.

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 Assets June 30, 2012

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 11,242,796
Receivables (Note 4)	7,316,527
Inventories	59,144
Prepaid costs and other assets	874,893
Restricted assets (Note 5)	2,942,256
Capital assets - Net (Note 6)	<u>143,193,069</u>
Total assets	165,628,685
Liabilities	
Accounts payable	1,179,460
Accrued payroll-related liabilities	8,120,030
Other accrued liabilities	648,167
Due to other governmental units	68
Deferred revenue (Note 4)	510,311
Noncurrent liabilities (Note 8):	
Due within one year	9,751,571
Due in more than one year	<u>93,963,569</u>
Total liabilities	<u>114,173,176</u>
Net Assets	
Invested in capital assets - Net of related debt	40,758,791
Restricted:	
Food service	461,831
Capital projects	2,624,637
Unrestricted	<u>7,610,250</u>
Total net assets	<u>\$ 51,455,509</u>

Novi Community School District

Statement of Activities Year Ended June 30, 2012

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 Assets
Primary government -					
Governmental activities:					
Instruction	\$ 45,575,318	\$ -	\$ 9,004,761	\$ -	\$ (36,570,557)
Support services	24,732,313	-	-	-	(24,732,313)
Athletics	774,680	93,916	-	-	(680,764)
Food services	2,392,083	1,918,215	418,023	-	(55,845)
Community services	1,747,569	1,879,430	-	-	131,861
Interest	4,666,529	-	-	-	(4,666,529)
Depreciation expense (unallocated)	4,594,677	-	-	-	(4,594,677)
Total primary government	<u>\$ 84,483,169</u>	<u>\$ 3,891,561</u>	<u>\$ 9,422,784</u>	<u>\$ -</u>	(71,168,824)
General revenue:					
Taxes:					
Property taxes, levied for general purposes					21,398,610
Property taxes, levied for debt service					14,507,168
Property taxes, levied for capital projects					962,508
State aid not restricted to specific purposes					34,712,910
Federal sources - Unrestricted					64,198
Interest and investment earnings					19,830
Loss on the sale of capital assets					(28,243)
Other					1,291,923
Total general revenue					<u>72,928,904</u>
Change in Net Assets					1,760,080
Net Assets - Beginning of year - As restated (Note 1)					<u>49,695,429</u>
Net Assets - End of year					<u>\$ 51,455,509</u>

Novi Community School District

Governmental Funds Balance Sheet June 30, 2012

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 3)	\$ 10,671,711	\$ 571,085	\$ 11,242,796
Receivables (Note 4)	7,160,590	155,937	7,316,527
Due from other funds (Note 7)	132,425	6,842	139,267
Inventories	20,259	38,885	59,144
Prepaid costs and other assets	378,984	5,203	384,187
Restricted assets (Note 5)	-	2,942,256	2,942,256
	<u>\$ 18,363,969</u>	<u>\$ 3,720,208</u>	<u>\$ 22,084,177</u>
Total assets			
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 766,502	\$ 298,754	\$ 1,065,256
Accrued payroll-related liabilities	8,105,876	14,154	8,120,030
Due to other governmental units	-	68	68
Due to other funds (Note 7)	121,046	132,425	253,471
Deferred revenue (Note 4)	521,601	146,011	667,612
	<u>9,515,025</u>	<u>591,412</u>	<u>10,106,437</u>
Total liabilities			
Fund Balances			
Nonspendable:			
Inventory	20,259	38,885	59,144
Prepaid assets	378,984	5,203	384,187
Restricted:			
Capital projects	-	2,624,637	2,624,637
Debt service	-	42,328	42,328
Food service	-	417,743	417,743
Assigned - Budgeted use of fund balance in subsequent year	2,348,404	-	2,348,404
Unassigned	6,101,297	-	6,101,297
	<u>8,848,944</u>	<u>3,128,796</u>	<u>11,977,740</u>
Total fund balances			
Total liabilities and fund balances	<u>\$ 18,363,969</u>	<u>\$ 3,720,208</u>	<u>\$ 22,084,177</u>

Novi Community School District

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2012

Fund Balance Reported in Governmental Funds \$ 11,977,740

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

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

Cost of capital assets	\$ 194,262,593	
Accumulated depreciation	<u>(51,069,524)</u>	143,193,069

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

Bonds payable including premiums	(102,924,984)	
Compensated absences	(315,156)	
Severance packages payable	(405,000)	
Self-insurance claims	<u>(70,000)</u>	(103,715,140)

Accrued interest payable is not included as a liability in governmental funds (648,167)

Deferred bond issue costs are recorded as an asset in the governmental activities - Net of amortization 490,706

Property taxes receivable are earned as of June 30, 2012 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 157,301

Net Assets of Governmental Activities \$ 51,455,509

Novi Community School District

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2012

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Local sources	\$ 25,176,512	\$ 17,496,641	\$ 42,673,153
State sources	38,528,315	46,383	38,574,698
Federal sources	1,602,393	418,023	2,020,416
Interdistrict sources	3,604,778	-	3,604,778
Total revenue	68,911,998	17,961,047	86,873,045
Expenditures			
Current:			
Instruction	45,963,018	-	45,963,018
Support services	22,809,527	390,982	23,200,509
Athletics	774,680	-	774,680
Food services	-	2,388,340	2,388,340
Community services	1,747,569	-	1,747,569
Debt service:			
Principal	-	9,615,000	9,615,000
Interest	-	4,725,841	4,725,841
Other	-	156,731	156,731
Capital outlay	397,722	4,469,798	4,867,520
Total expenditures	71,692,516	21,746,692	93,439,208
Excess of Expenditures Over Revenue	(2,780,518)	(3,785,645)	(6,566,163)
Other Financing Sources (Uses)			
Payment to escrow agent	-	(15,597,452)	(15,597,452)
Transfers in	102,361	488,259	590,620
Transfers out	-	(590,620)	(590,620)
Face value of debt issued	-	13,530,000	13,530,000
Premium on debt issued	-	1,875,783	1,875,783
Total other financing sources (uses)	102,361	(294,030)	(191,669)
Net Change in Fund Balances	(2,678,157)	(4,079,675)	(6,757,832)
Fund Balances - Beginning of year	11,527,101	7,208,471	18,735,572
Fund Balances - End of year	\$ 8,848,944	\$ 3,128,796	\$ 11,977,740

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, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (6,757,832)

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	\$ (4,594,677)	
Capitalized capital outlay	<u>3,114,099</u>	(1,480,578)

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 (28,243)

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 (601,553)

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities (13,530,000)

Underwriter's premium is reported as revenue in the funds and amortized in the statement of activities (1,875,783)

Repayment of bond principal and payment to the escrow agent is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 25,212,452

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 216,043

Compensated absences, as well as self-insured liability claims, are recorded when earned in the statement of activities. In the current year more was earned than paid out (180,233)

Repayment of principal for capital leases is an expenditure in the governmental funds but a reduction to long-term capital lease liabilities for governmental activities 221,807

Decreases in severance liabilities are reported as expenditures when financial resources are used in the governmental funds 564,000

Change in Net Assets of Governmental Activities **\$ 1,760,080**

Novi Community School District

Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2012

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 1,000,747
Due from other funds (Note 7)	<u>114,204</u>
Total assets	<u><u>\$ 1,114,951</u></u>
Liabilities	
Accounts payable	\$ 44,216
Due to student groups	<u>1,070,735</u>
Total liabilities	<u><u>\$ 1,114,951</u></u>

Novi Community School District

Notes to Financial Statements June 30, 2012

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the 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 assets 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, 2012

Note I - Nature of Business and 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 assets 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 they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as 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.

Novi Community School District

Notes to Financial Statements June 30, 2012

Note I - Nature of Business and Significant Accounting Policies (Continued)

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

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.

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 is the School District's only Special Revenue Fund. Revenue sources for the Food Service Fund include sales to customers and dedicated grants from state and federal sources. 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 five 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 Assets 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."

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.

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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.

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, 2012

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Prior Period Adjustment - Net assets as of July 1, 2011 were restated to remove certain items capitalized as capital assets in prior years whose unit cost was less than the \$5,000 capitalization level or improvements that did not extend the useful life of the original capital asset. As a result, beginning net assets decreased \$3,116,842, beginning capital assets decreased \$11,233,302, and beginning accumulated depreciation decreased \$8,116,460.

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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 - 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.

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- 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: Remaining amounts of fund balance that have not been restricted, committed, or assigned for specific 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.

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 debt proceeds 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.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end, if any, are reported as restrictions, commitments, or assignments of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end.

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, 2012

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

Capital Projects Fund Compliance - The 2007 Capital Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code. Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2007 Capital Projects Fund. The projects for which the 2007 bonds were issued was considered complete on June 30, 2012 and the cumulative expenditures recognized for the construction period were \$27,289,356.

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 15 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.

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

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 are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$6,786,394 had \$5,836,792 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.

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 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.

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

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.

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	\$ 8,399,218	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.

Note 4 - Receivables and Deferred 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:

	General Fund	Nonmajor Funds	Total
Receivables:			
Taxes receivable	\$ 125,960	\$ 88,646	\$ 214,606
Accounts receivable	7,034,630	58,556	7,093,186
Accrued interest receivable	-	8,735	8,735
Total receivables	<u>\$ 7,160,590</u>	<u>\$ 155,937</u>	<u>\$ 7,316,527</u>

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 4 - Receivables and Deferred Revenue (Continued)

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		
	Unavailable	Unearned	Total
Delinquent property taxes	\$ 157,301	\$ -	\$ 157,301
Student food sales	-	73,784	73,784
Summer tuition and fall school charges received prior to services being rendered	-	436,527	436,527
Total	<u>\$ 157,301</u>	<u>\$ 510,311</u>	<u>\$ 667,612</u>

Note 5 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	Governmental Activities
Unspent bond proceeds and related interest	\$ 1,231,178
Unspent Sinking Fund receipts and related interest	1,694,963
Property tax collections for repayment of bonded indebtedness	16,115
Total restricted assets	<u>\$ 2,942,256</u>

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 6 - Capital Assets

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

	Balance July 1, 2011 (as restated) (Note 1)	Transfers	Additions	Disposals	Balance June 30, 2012
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 9,607,341	\$ -	\$ -	\$ -	\$ 9,607,341
Construction in progress	131,166	(131,166)	1,360,637	-	1,360,637
Subtotal	9,738,507	(131,166)	1,360,637	-	10,967,978
Capital assets being depreciated:					
Buildings	113,283,844	-	-	-	113,283,844
Building improvements	47,320,085	131,166	523,198	-	47,974,449
Site improvements	12,599,479	-	472,886	-	13,072,365
Furniture and equipment	5,632,829	-	429,252	141,216	5,920,865
Buses and other vehicles	2,714,966	-	328,126	-	3,043,092
Subtotal	181,551,203	131,166	1,753,462	141,216	183,294,615
Accumulated depreciation:					
Buildings	24,057,446	-	1,882,990	-	25,940,436
Building improvements	11,608,101	-	1,200,313	-	12,808,414
Site improvements	5,944,173	-	716,665	-	6,660,838
Furniture and equipment	2,693,617	-	603,948	112,973	3,184,592
Buses and other vehicles	2,284,483	-	190,761	-	2,475,244
Subtotal	46,587,820	-	4,594,677	112,973	51,069,524
Net capital assets being depreciated	134,963,383	131,166	(2,841,215)	28,243	132,225,091
Net capital assets	\$ 144,701,890	\$ -	\$ (1,480,578)	\$ 28,243	\$ 143,193,069

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

Construction Commitments - The School District has active construction projects at year end. The projects include the 2007 Capital Projects and Sinking Fund projects. At year end, the School District's commitments with contractors totaled:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2007 Capital Projects Fund	\$ 27,289,356	\$ 714,279
Sinking Fund	9,838,243	832,731
Total	<u>\$ 37,127,599</u>	<u>\$ 1,547,010</u>

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From		Total
	General Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 132,425	\$ 132,425
Fiduciary Funds	114,204	-	114,204
Nonmajor governmental funds	6,842	-	6,842
Total	\$ 121,046	\$ 132,425	\$ 253,471

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. Transfers were made between debt service funds as a result of closing the 2001 Debt Service Fund and using funds from the 2002 Debt Service Fund to finance part of the 2012 Refunding Bonds.

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	\$ 110,305,000	\$ 13,530,000	\$ 24,865,000	\$ 98,970,000	\$ 8,845,000
Plus deferred amounts - Issuance premiums	2,490,596	1,875,783	411,395	3,954,984	411,395
Total bonds payable	112,795,596	15,405,783	25,276,395	102,924,984	9,256,395
Other obligations	1,395,730	200,409	805,983	790,156	495,176
Total governmental activities	\$ 114,191,326	\$ 15,606,192	\$ 26,082,378	\$ 103,715,140	\$ 9,751,571

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 8 - Long-term Debt (Continued)

The annual debt service requirements to maturity for the above bond obligations are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2013	\$ 8,845,000	\$ 4,609,012	\$ 13,454,012
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
2018-2022	40,395,000	7,190,988	47,585,988
2023-2027	9,775,000	1,362,878	11,137,878
Total	<u>\$ 98,970,000</u>	<u>\$ 26,865,111</u>	<u>\$ 125,835,111</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	\$ 6,550,000
\$26,375,000 2007 General Obligation Bonds due in annual installments of \$1,150,000 to \$2,000,000 through May 1, 2027; interest at 4.0 percent to 5.0 percent	24,025,000
\$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	54,865,000
\$13,530,000 2012 Refunding Bonds due in annual installments of \$715,000 to \$1,710,000 through May 1, 2021; interest at 3.0 percent to 5.0 percent	<u>13,530,000</u>
Total bonded debt	<u>\$ 98,970,000</u>

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 8 - Long-term Debt (Continued)

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$	315,156
Severance liability		405,000
Self-insurance		<u>70,000</u>
Total	\$	<u>790,156</u>

Advance and Current Refundings - During the year, the School District issued \$13,530,000 in general obligation bonds with an average interest rate of 1.92 percent. The proceeds of these bonds were used to advance refund \$15,250,000 of outstanding 2002 Refunding Bonds with an average interest rate of 4.65 percent. The net proceeds of \$15,250,000 (after payment of approximately \$156,000 in underwriting fees, insurance, and other issuance costs) including \$1,875,783 from the premium received on the refunding bond issue, were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by approximately \$2,227,000, which represents an economic gain of approximately \$1,812,514.

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 partially 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.

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 9 - Risk Management (Continued)

Dental and Vision Insurance - The School District is uninsured for dental and vision claims for the first time at June 30, 2012. 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, 2012 is as follows:

Estimated claims incurred - Including changes in estimates	\$ 357,481
Claim payments	<u>(287,481)</u>
Estimated liability - End of year	<u>\$ 70,000</u>

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), 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.

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 12.16 percent of covered payroll for the period from July 1, 2011 through September 30, 2011 and 15.96 percent for the period from October 1, 2011 through June 30, 2012. The employer contribution rate for pension plus plan members was 10.66 percent for the period from July 1, 2011 through September 30, 2011 and 14.73 percent from October 1, 2011 through June 30, 2012. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages, or up to 6.4 percent of gross wages for members entering the MIP Plus plan on or after July 1, 2008. The School District's required and actual contributions to the plan for the years ended June 30, 2012, 2011, and 2010 were \$6,175,302, \$4,601,170, and \$4,221,647, respectively.

Novi Community School District

Notes to Financial Statements June 30, 2012

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 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 8.50 percent from July 1, 2011 through June 30, 2012. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2012, 2011, and 2010 were \$3,288,851, \$3,216,279, and \$2,838,046, respectively.

Note 11 - Upcoming Accounting Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the School District's 2012-2013 fiscal year. The 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 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 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. Statement No. 65 will be implemented for the School District as of June 30, 2014.

Novi Community School District

Notes to Financial Statements June 30, 2012

Note 11 - Upcoming Accounting Pronouncements (Continued)

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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources	\$ 24,967,112	\$ 25,014,273	\$ 25,176,512	\$ 162,239
State sources	36,105,677	38,274,727	38,528,315	253,588
Federal sources	1,528,850	1,678,497	1,602,393	(76,104)
Incoming transfers and other transactions	<u>4,089,694</u>	<u>3,739,696</u>	<u>3,707,139</u>	<u>(32,557)</u>
Total revenue	66,691,333	68,707,193	69,014,359	307,166
Expenditures - Current				
Instruction:				
Basic programs	36,123,850	37,745,075	37,636,772	(108,303)
Added needs	10,257,348	8,228,173	8,254,735	26,562
Adult/Continuing education	<u>240,470</u>	<u>107,177</u>	<u>107,713</u>	<u>536</u>
Total instruction	46,621,668	46,080,425	45,999,220	(81,205)
Support services:				
Pupil services	4,798,401	4,512,682	4,515,780	3,098
Instructional services	3,295,050	3,872,028	4,011,639	139,611
General administration	462,123	423,249	421,607	(1,642)
School administration	3,388,869	3,363,128	3,362,761	(367)
Business services	687,842	2,734,266	2,839,114	104,848
Operations and maintenance	5,265,459	4,633,150	4,694,719	61,569
Transportation	2,378,019	2,253,724	2,314,056	60,332
Central services	966,254	921,672	948,954	27,282
Bus loan	<u>62,424</u>	<u>62,417</u>	<u>62,417</u>	<u>-</u>
Total support services	21,304,441	22,776,316	23,171,047	394,731
Athletics	805,634	741,841	774,680	32,839
Community services	<u>1,856,565</u>	<u>1,789,227</u>	<u>1,747,569</u>	<u>(41,658)</u>
Total expenditures	<u>70,588,308</u>	<u>71,387,809</u>	<u>71,692,516</u>	<u>304,707</u>
Excess of Expenditures Over Revenue	<u>(3,896,975)</u>	<u>(2,680,616)</u>	<u>(2,678,157)</u>	<u>2,459</u>
Net Change in Fund Balance	(3,896,975)	(2,680,616)	(2,678,157)	2,459
Fund Balance - Beginning of year	<u>9,396,547</u>	<u>11,527,101</u>	<u>11,527,101</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 5,499,572</u></u>	<u><u>\$ 8,846,485</u></u>	<u><u>\$ 8,848,944</u></u>	<u><u>\$ 2,459</u></u>

Other Supplemental Information

Novi Community School District

	Special Revenue Funds					
	Debt Service Funds					
	Cafeteria Fund	2001 Debt Fund	2002 Debt Fund	2005 Debt Fund	2007 Refinanced Debt Fund	2007 Debt Fund
Assets						
Cash and cash equivalents	\$ 571,085	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables	58,556	-	17,457	11,138	50,872	15,046
Due from other funds	-	-	-	-	-	-
Inventories	38,885	-	-	-	-	-
Prepaid costs and other assets	5,203	-	-	-	-	-
Restricted assets	-	-	2,794	2,990	5,511	4,820
Total assets	\$ 673,729	\$ -	\$ 20,251	\$ 14,128	\$ 56,383	\$ 19,866
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll-related liabilities	14,154	-	-	-	-	-
Due to other governmental units	68	-	-	-	-	-
Due to other funds	123,892	-	-	-	-	-
Deferred revenue	73,784	-	13,087	8,753	36,716	11,878
Total liabilities	211,898	-	13,087	8,753	36,716	11,878
Fund Balances						
Nonspendable:						
Inventory	38,885	-	-	-	-	-
Prepaid assets	5,203	-	-	-	-	-
Restricted:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	7,164	5,375	19,667	7,988
Food service	417,743	-	-	-	-	-
Total fund balances	461,831	-	7,164	5,375	19,667	7,988
Total liabilities and fund balances	\$ 673,729	\$ -	\$ 20,251	\$ 14,128	\$ 56,383	\$ 19,866

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

Debt Service		Capital Projects Fund		Total
Funds				Nonmajor
2012		2007 Capital		Governmental
Refinanced	Sinking Fund	Projects Fund		Funds
Debt Fund				
\$ -	\$ -	\$ -	\$ -	\$ 571,085
-	2,856	12	-	155,937
2,134	4,708	-	-	6,842
-	-	-	-	38,885
-	-	-	-	5,203
-	1,694,963	1,231,178	-	2,942,256
\$ 2,134	\$ 1,702,527	\$ 1,231,190	\$ -	\$ 3,720,208

\$ -	\$ 222,352	\$ 76,402	\$ -	\$ 298,754
-	-	-	-	14,154
-	-	-	-	68
-	-	8,533	-	132,425
-	1,793	-	-	146,011
-	224,145	84,935	-	591,412
-	-	-	-	38,885
-	-	-	-	5,203
-	1,478,382	1,146,255	-	2,624,637
2,134	-	-	-	42,328
-	-	-	-	417,743
2,134	1,478,382	1,146,255	-	3,128,796
\$ 2,134	\$ 1,702,527	\$ 1,231,190	\$ -	\$ 3,720,208

Novi Community School District

	Special Revenue Funds					
	Debt Service Funds					
	Cafeteria Fund	2001 Debt Fund	2002 Debt Fund	2005 Debt Fund	2007 Refinanced Debt Fund	2007 Debt Fund
Revenue						
Local sources	\$ 1,970,384	\$ -	\$ 2,528,867	\$ 1,422,237	\$ 8,588,214	\$ 2,015,109
State sources	46,383	-	-	-	-	-
Federal sources	418,023	-	-	-	-	-
Total revenue	2,434,790	-	2,528,867	1,422,237	8,588,214	2,015,109
Expenditures						
Current:						
Support services	9,874	-	84,035	30,545	174,625	33,615
Food services	2,388,340	-	-	-	-	-
Debt service:						
Principal	-	-	1,770,000	1,075,000	5,845,000	925,000
Interest	-	-	407,165	362,438	2,849,550	1,106,688
Other	-	-	-	-	-	-
Capital outlay	3,743	-	-	-	-	-
Total expenditures	2,401,957	-	2,261,200	1,467,983	8,869,175	2,065,303
Excess of Revenue Over (Under) Expenditures	32,833	-	267,667	(45,746)	(280,961)	(50,194)
Other Financing (Uses) Sources						
Payment to escrow agent	-	-	-	-	-	-
Transfers in	-	-	-	-	139,859	-
Transfers out	(102,361)	(139,859)	(348,400)	-	-	-
Face value of debt issued	-	-	-	-	-	-
Premium on debt issued	-	-	-	-	-	-
Total other financing (uses) sources	(102,361)	(139,859)	(348,400)	-	139,859	-
Net Change in Fund Balances	(69,528)	(139,859)	(80,733)	(45,746)	(141,102)	(50,194)
Fund Balances - Beginning of year	531,359	139,859	87,897	51,121	160,769	58,182
Fund Balances - End of year	\$ 461,831	\$ -	\$ 7,164	\$ 5,375	\$ 19,667	\$ 7,988

**Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012**

Debt Service Funds		Capital Projects Fund		Total
2012 Refinanced Debt Fund	Sinking Fund	2007 Capital Projects Fund	Nonmajor Governmental Funds	
\$ 2,134	\$ 969,696	\$ -	\$ 17,496,641	
-	-	-	46,383	
-	-	-	418,023	
2,134	969,696	-	17,961,047	
-	-	-	-	
-	24,306	33,982	390,982	
-	-	-	2,388,340	
-	-	-	-	
-	-	-	9,615,000	
-	-	-	4,725,841	
156,731	-	-	156,731	
-	1,773,536	2,692,519	4,469,798	
156,731	1,797,842	2,726,501	21,746,692	
(154,597)	(828,146)	(2,726,501)	(3,785,645)	
(15,597,452)	-	-	(15,597,452)	
348,400	-	-	488,259	
-	-	-	(590,620)	
13,530,000	-	-	13,530,000	
1,875,783	-	-	1,875,783	
156,731	-	-	(294,030)	
2,134	(828,146)	(2,726,501)	(4,079,675)	
-	2,306,528	3,872,756	7,208,471	
\$ 2,134	\$ 1,478,382	\$ 1,146,255	\$ 3,128,796	

Novi Community School District

Years Ending June 30	2005 General Obligation Bonds		2007 General Obligation Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 1,075,000	\$ 320,781	\$ 1,150,000	\$ 1,069,688
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>\$ 6,550,000</u>	<u>\$ 1,137,810</u>	<u>\$ 24,025,000</u>	<u>\$ 9,654,758</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, 2012**

2007 Refunding Bonds		2012 Refunding Bonds		Totals	
Principal	Interest	Principal	Interest	Total Principal	Total Interest
\$ 5,905,000	\$ 2,557,300	\$ 715,000	\$ 661,243	\$ 8,845,000	\$ 4,609,012
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
\$ 54,865,000	\$ 12,705,550	\$ 13,530,000	\$ 3,366,993	\$ 98,970,000	\$ 26,865,111
May 1	May 1 and November 1	May 1	May 1 and November 1		
	4% - 5%		3% - 5%		
\$ 64,360,000		\$ 13,530,000			