

**NOVI COMMUNITY SCHOOL
DISTRICT, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2011

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Independent Auditor's Report

To the Board of Education of the
Novi Community School District, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Novi Community School District, Michigan as of June 30, 2011, and for the year then ended, which collectively comprise the School District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Novi Community School District, Michigan's management. Our responsibility is to express an opinion on these basic 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 opinion.

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

The management's discussion and analysis and budgetary comparison information on pages 3 through 12 and page 45 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

DOEREN MAYHEW

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Novi Community School District, Michigan's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2011 on our consideration of the Novi Community School District, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



DOEREN MAYHEW

November 2, 2011
Troy, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Novi Community School District, Michigan's (the District) financial year is from July 1st through June 30th. Each year the District's financial records are audited by a third-party independent auditor and the results are published. The audit is performed 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* as issued by the Governmental Accounting Standards Board (GASB). These standards require the inclusion of meaningful and useful data which broaden the reader's understanding of the District.

District Characteristics

The Novi Community School District, Michigan is an independent school district operating under the laws of the State of Michigan and is governed by an elected (at large) seven-member Board of Education. The District is located in southern Oakland County and encompasses 17.9 square miles with the vast majority of its area within the City of Novi except for a small parcel of land in the City of Wixom. The District has seen growth and development, slowed in recent years, of its non-residential properties, and a slight decrease this year in taxable value of its residential properties.

The District has five (5) elementary schools, grades K-4; one (1) upper elementary school, grades 5-6; one (1) middle school, grades 7-8; and one (1) high school, grades 9-12. All eligible schools are accredited by the North Central Association of Colleges and Schools (NCA) and Novi High School and Novi Meadows School have achieved recognition as National Blue Ribbon Schools. The District also has a pre-school building, Board of Education office, a transportation facility, and a maintenance facility.

Enrollment

The District's student population grew from 3,303 in 1985-86 to a high of 6,344 in 2010. In 2007-08 and 2008-09, the District experienced enrollment reductions of 14 and 114 students, respectively. In 2009-10 and 2010-11, the District enrollment increased by 26 and 122 students, respectively. Enrollment projections are completed annually. In each five year interval, the District convenes a citizen's committee and performs a comprehensive enrollment projection analysis. Information used to complete this analysis consists of housing data (both current and proposed), economic factors, land availability and zoning, and the assistance of Michigan State University's analysis of the District's births and cohort survival ratios. To date, the studies have proven to be accurate in planning for future facility needs.

Tax Structure

Per the Tax Code of the State of Michigan, public school districts levy taxes on four types of property: Homestead (residential), Industrial-Personal, Industrial-Commercial and Non-Homestead (non-residential). In addition, the State of Michigan levies a fixed 6.0000 mills against all properties. The tax levies are applied against the Taxable Value of properties or approximately 50% of the market value of the properties. A complete analysis of the tax levies can be found in the "Other Supplementary Information" portion of the audit.

In 2011, the District levies against these four property classifications can be summarized below:

<u>Tax Description</u>	<u>Homestead</u>	<u>Industrial- Personal</u>	<u>Industrial- Commercial</u>	<u>Non-Homestead</u>
General Operating	4.1099	4.1099	10.1099	18.9800
Sinking Fund	0.4932	0.4932	0.4932	0.4932
All Debt Millage	<u>6.8900</u>	<u>6.8900</u>	<u>6.8900</u>	<u>6.8900</u>
TOTAL	<u>11.4931</u>	<u>11.4931</u>	<u>17.4931</u>	<u>26.3632</u>

Curriculum

The Novi Community School District, Michigan has an extensive academic and extra-curricular program that provides comprehensive educational, athletic, and organizational opportunities to students from pre-school age through high school. An extensive curriculum, based predominantly on the Michigan Curriculum Framework and enriched with additional programs for all ages is ranked among one of the State's highest in terms of achievement levels and success rates (high school graduation, college entrance, above average scores on state and national tests).

No Child Left Behind (NCLB), a federal law enacted in 2001, issued directives to states to require Adequate Yearly Progress (AYP) for its districts and schools within them such that all students would meet 100% proficiency in English/language arts (reading and writing) and mathematics by 2014. States were required to establish a way to measure each district and school, and students within each school's demographic strands based on proficiency on the state's academic assessment (in Michigan, this assessment is the Michigan Educational Assessment Program, or MEAP). MEAP scores for the Novi Community School District, Michigan remain within the top 3-5 districts in the county's 28 school districts and always well above the state averages.

We have an extensive Community Education program that features a full day and half day pre-school program, child care for students both before and after school and all summer, an extensive English as a Second Language program, and programs for community residents and parents who are new to the District.

Curriculum - Continued

At the elementary levels, five (5) schools provide K-4 educational programming. There is one 5-6 elementary building and a 7-8 middle school, as well as a 9-12 comprehensive high school. Our high school proudly features an extensive Advanced Placement curriculum, an International Baccalaureate diploma program, English as a Second Language program and vast special education services.

Financial Information

This section of the 2011 annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2011. Please read this in conjunction with the District's actual financial statements which immediately follow this section.

This annual report consists of three (3) parts: management's discussion and analysis (this section), the three basic financial statements, and required supplementary information. In addition, there is a section which provides other supplementary information. The statements are organized so the reader can understand the Novi Community School District, Michigan financially as a whole.

The first of the basic financial statements is the *District-wide Financial Statements* which provide information about the activities of the "whole" District, presenting both an aggregate view of the District's finances and long-term view of those finances.

The second of the basic financial statements are the *Fund Financial Statements* which indicate how governmental services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements look at the District's operations in more detail than the District-wide Financial Statements by providing information about the District's most significant fund, the General Fund. All other funds are presented in one column and listed as "nonmajor" funds which include: Sinking Fund, 2007 Capital Projects Fund, 2001 Debt Fund, 2002 Debt (Refinancing) Fund, 2005 Debt (Refinancing) Fund, 2007 Debt (Refinancing) Fund, 2007 Debt Fund, and Food Service Fund.

The last basic financial statement is the *Fiduciary Fund Statements*. These are funds with which the District acts as the trustee, or fiduciary, for the assets that belong to others. The funds in this category are comprised of all of the schools' student activity funds. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance operations.

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

There are two (2) types of statements under this category: the statement of net assets and the statement of activities. These statements report information about the District as a whole using accounting methods normally used in private industry. All of the current year's revenues and expenses are accounted for in these statements regardless from which fund or when they were collected or paid.

The statements show the difference between all of the District's assets and liabilities, thereby indicating the District's net asset worth, and is one way to measure the District's financial health or complete financial position. Over time, increases or decreases in the 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 District's operating results. However, it must be remembered it is not the function of a public school system to generate profits; instead, a district's worth is measured by its quality of instruction and the efficiency and effectiveness of its delivery.

The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food service. Property taxes, state aid, and State and Federal grants finance most of these activities.

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

As heretofore mentioned, the District's fund financial statements provide detailed information about its most significant funds. Within these governmental funds all of the District's services are reported. 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 future spending. They are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash. These statements provide a detailed short-term view of the District's operations and help to determine whether or not there may be monies available in the near future to finance the District's programs.

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

All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the District as a Whole

The "Statement of Net Assets" provides the perspective of the District as a whole. The table below provides a summary of the net assets as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Assets		
Current and Other Assets	\$ 29,448,101	\$ 27,277,915
Capital Assets	<u>147,818,732</u>	<u>151,143,217</u>
Total Assets	177,266,833	178,421,132
Liabilities		
Current Liabilities	10,263,236	9,585,870
Long-term Liabilities	<u>114,191,326</u>	<u>124,285,457</u>
Total Liabilities	124,454,562	133,871,327
Net Assets		
Invested in Capital Assets, Net of Related Debt	34,235,280	28,682,052
Restricted	7,332,385	7,540,554
Unrestricted	<u>11,244,606</u>	<u>8,327,199</u>
Total Net Assets	<u>\$ 52,812,271</u>	<u>\$ 44,549,805</u>

The District's net assets were \$52,812,271 at June 30, 2011. Capital assets, net of related debt, totaled \$34,235,280. This compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of those assets. The majority of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$7,332,385 are reported separately and include those funds deposited in the 2007 Capital Projects Fund which are legally obligated to pay for the projects, as well as equity from the debt funds which are legally obligated for debt payments only and not for the day-to-day operations of the District. The remaining amount of net assets, \$11,244,606 was unrestricted. The \$11,244,606 in unrestricted net assets of governmental activities represent the accumulated results of all past years' operations. The unrestricted net assets balance is used for working capital and cash flow needs 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.

Financial Analysis of the District as a Whole - Continued

The results of this year's operations as a whole are reported in the "Statement of Activities" (Table II, below). This table illustrates the changes in net assets for fiscal years ended June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Revenues		
Program Revenues		
Charges for services	\$ 4,208,498	\$ 4,677,567
Operating grants and contributions	3,470,154	4,385,247
General Revenues		
Property taxes	39,183,320	41,021,670
State aid	35,160,672	31,459,218
Other	<u>6,155,954</u>	<u>5,388,360</u>
Total Revenues	88,178,598	86,932,062
Expenses		
Instruction	46,806,746	49,980,971
Support services	23,120,953	24,078,205
Community services	1,827,056	2,265,590
Food services	2,413,266	2,440,547
Principal	-	11,573
Interest on long-term debt	5,382,299	5,722,064
Capital outlay	319,264	187,189
Other	<u>46,548</u>	<u>49,763</u>
Total Expenses	<u>79,916,132</u>	<u>84,735,902</u>
Increase in Net Assets	<u>\$ 8,262,466</u>	<u>\$ 2,196,160</u>

As reported in the statement of activities, the revenue for all *governmental* activities this year was \$88,178,598. Certain activities were partially funded from those who benefited from the programs, such as food service, athletics, and community service (\$4,208,498); or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,470,154). The remaining "public benefit" portion of governmental activities was funded by the \$39,183,320 in property taxes, \$35,160,672 in State aid, and with other revenues (\$6,155,954) such as interest, transfers from the Oakland Intermediate School District, and general entitlements. The Novi Community School District, Michigan experienced an increase in net assets of \$8,262,466.

Financial Analysis of the District as a Whole - Continued

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

The District's Funds

The financial performance of the Novi Community School District, Michigan as a whole is also reflected in its governmental funds. Looking at the individual funds helps the reader consider whether the District is being held accountable for the resources taxpayers and others provide to it and may give more insight into the District's overall financial health.

As the District completed this year, the governmental funds reported a combined fund balance of \$18,735,572, an increase of \$1,260,949 from the previous year. These changes are summarized below:

	<u>General Fund</u>	<u>Other Nonmajor Govern- mental Funds</u>	<u>Total</u>
Beginning fund balances	\$ 9,526,455	\$ 7,948,168	\$ 17,474,623
Increase (decrease)	<u>2,000,646</u>	<u>(739,697)</u>	<u>1,260,949</u>
Ending fund balances	<u>\$ 11,527,101</u>	<u>\$ 7,208,471</u>	<u>\$ 18,735,572</u>

The reason for the net increase in fund balance is due primarily to under spending of budgeted expenditures in the General Fund, unanticipated revenues received in the General Fund in excess of budget, offset by expending of funds in the 2007 Capital Projects Fund.

General Fund

The General Fund is the primary operating fund of the District, and provides all the educational services to our students. Revenues totaled \$69,813,813 and expenses totaled \$67,963,142 and a net increase in the fund balance of \$2,000,646. As a result of this net increase, the fund's equity increased from \$9,526,455 at June 30, 2010 to \$11,527,101 at June 30, 2011. This balance is available to fund costs related to allowable school operating expense.

An analysis of the General Fund's revenues reveals that the District is dependent upon the State for the majority of its income.

General Fund - Continued

The General Fund expenses include those that are necessary to run the operations of the District. Basically, these expenses are categorized into four main areas: instructional services, support services, community services, and other. *Instructional services* are those that are directly related to the teacher in the classroom. *Support services* include pupil support services and operational expenses. Pupil support services include those things that “support” the student body, classroom instruction and student achievement, such as media, counseling, testing, psychological, and social work services. Operational expenses include such expenses as utilities, insurances, custodial, transportation, and administrative. *Community services* are those expenses related to community education including community academic and recreational classes as well as early childhood programs. *Other services* include debt payments and inter-fund and inter-school district transfers.

Other Nonmajor Funds

The nonmajor funds consist of the Food Service Fund, Athletic Fund, Debt Funds, 2007 Capital Projects Fund and the Sinking Fund. The Food Service Fund had a decrease in its equity amounting to \$30,322 which includes a transfer of \$149,975 to the General Fund, a practice that will occur each year until the fund equity is drawn down to five (5%) percent. The increase in fund equity is due primarily to cost-saving measures implemented by the department. The remaining 2011 equity of \$531,359 leaves the fund financially sound. The five Debt Funds (2001 Debt Fund, 2002 Debt Fund, 2005 Debt Fund, 2007 Debt Fund-Refunding, and the 2007 Debt Fund) have a combined equity of \$497,828 which is available for future debt obligations. This is a decrease of \$221,175 from the 2010 equity position. Debt millage rates are determined annually to ensure that the District accumulates sufficient resources to pay annual bond issue related debt service. The fund balance in the 2007 Capital Projects Fund decreased \$1,115,315 to a balance of \$3,872,756 at June 30, 2011 due to expending of the bond proceeds on various construction projects and purchasing technology. The Sinking Fund had an increase in its equity position by \$627,115 resulting in fund equity at June 30, 2011 of \$2,306,528.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and disbursements. In June of each year the original budget is adopted. This is normally based on estimates since the student count, state aid, and, oftentimes, salaries and benefit costs are unknown. In the fall, and again in winter, the budget is then amended to reflect actual data available. The final amendment to the budget is then adopted near the end of the fiscal year. A schedule showing the District’s original and final budget amounts compared with actual amounts is provided in the required supplementary information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

By the end of 2011, the District had invested \$147,818,732, net of depreciation, in a broad range of capital assets, including land, school buildings, athletic facilities, technology and other equipment. Table III summarizes these assets (more detailed information is found in Note 5).

<u>Item</u>	<u>Amount</u>
Land	\$ 9,607,341
Construction-in-Progress	131,166
Buildings	89,230,332
Building Improvements	35,711,984
Site Improvements	6,686,810
Vehicles, Equipment, and Other	<u>6,451,099</u>
Total capital assets	<u><u>\$147,818,732</u></u>

Debt

At the end of this fiscal year, the District had \$110,305,000 in bonds outstanding versus \$119,565,000 in the previous year. These bonds consisted of the following:

<u>Bond Issue</u>	<u>Bonds Outstanding</u>
2002 Bond Issue	\$ 17,020,000
2005 Bond Issue	7,625,000
2007 Bond Issue	60,710,000
2007 Bond Issue	<u>24,950,000</u>
Total bonds outstanding	<u><u>\$ 110,305,000</u></u>

The State limits the amount of bonded indebtedness that school districts can issue to 15% of the assessed value of all its taxable property. This amount is far below the \$321,923,622 statutorily imposed limit.

Other obligations include accrued leases on copiers, a bus note, sick leave, and severance pay. These are detailed in Note 9.

Factors Bearing on the District's Future

The Board of Education and the administration consider many factors when developing the District's budget. As mentioned earlier, the District is very dependent upon the State for its funding. Since 1995, school districts cannot levy any additional property taxes for general operating purposes; thus, the dependency upon State resources is magnified that much more. The majority of State aid that a district receives is calculated on a per pupil amount multiplied by a district's total enrollment (converted to full time equivalencies).

Annually, the State legislature determines this per pupil foundation allowance. From 1995 to 2002 this amount has been helpful toward assisting the District to meet its financial obligations. In the eight school years since 2002-03, the State made minimal increases of \$175, \$210, \$48 and \$56 per child in 2006, 2007, 2008 and 2009, respectively, but made no increases in 2004, 2005, 2010 and 2011. During 2009-10, the State imposed a pro-rated reduction of \$165 per pupil, amounting to a \$1,024,875 reduction in funding, and eliminated funding of Section 20j of the State School Aid Act, which further reduced the District's State Aid allocation by \$1,714,249, for a total reduction of \$2,739,124, this despite the fact that the American Recovery and Reinvestment Act (ARRA) funds were received by the State for the purpose of aiding schools. In the just completed 2010-11 fiscal year, the foundation allowance was reduced by \$170 per pupil resulting in a funding cut of \$1,073,715. From 2008-09 through 2010-11, the State began relying on these Federal ARRA funds to fill shortfalls in the School Aid Fund. Since these Federal funds have been depleted as of June 30, 2011, the State was unable to fund schools at previous funding levels and imposed an additional \$300 cut per pupil to the foundation allowance in 2011-12. This results in a total reduction in the foundation allowance of \$470 per pupil in 2011-12 with no offsetting Federal stimulus money. However, the 2011-12 State Aid Bill provides for two different one-time categorical supplements of \$100 per pupil each reducing the actual net reduction to \$270 per pupil. Although it appears that the State recognizes the importance of education and its impact on job creation, future funding is precarious given the weakening economy of the State.

The Novi Community School District, Michigan is concerned about the future lack of State funding and has worked diligently in recent years to reduce expenditures, particularly in the operational areas, sufficiently to maintain fund equity. The District's current equity is sufficient to meet current estimated reductions, but it cannot continue to meet sustained losses over a period of time. Michigan's perpetual economic struggles will continue to negatively impact funding for public schools. The level of funding provided to schools is not aligned with the increasing costs to deliver the same quality education. In spite of this environment, the District will strive to maintain its long-standing commitment to academic excellence and educational opportunities for students within any financial framework.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Novi Community School District, Michigan's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Novi Community School District, 25345 Taft Road, Novi, Michigan 48374.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (note 3)	\$ 20,454,206
Investments (note 3)	977,936
Property taxes receivable - net of allowance	306,764
Other receivables	
State aid	6,545,052
Federal aid	92,380
Other	353,082
Inventories and prepaid expenses	718,681
Capital assets, net of accumulated depreciation (note 5)	<u>147,818,732</u>
Total assets	177,266,833
Liabilities	
Accounts payable	902,900
Accrued payroll and benefits (note 7)	8,514,718
Interest payable	845,618
Long-term liabilities (note 9)	
Long-term liabilities due within one year	10,543,290
Debt, net of premiums and discounts	100,773,383
Deferred bond premiums	2,266,779
Postemployment severance and employee benefits payable	<u>607,874</u>
Total liabilities	124,454,562
Net Assets	
Invested in capital assets, net of related debt	34,235,280
Restricted for	
Specific purpose	182,624
Debt service	497,828
Food service	472,649
Capital assets	6,179,284
Unrestricted	<u>11,244,606</u>
Total net assets	<u><u>\$ 52,812,271</u></u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	Expenses	Program Revenues		Governmental Activities Net (Expenses) Revenues and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Governmental activities				
Instruction	\$ 46,806,746	\$ -	\$ 2,811,133	\$ (43,995,613)
Support services	23,120,953	-	297,372	(22,823,581)
Community services	1,827,056	2,258,019	-	430,963
Food services	2,413,266	1,950,479	361,649	(101,138)
Interest on long-term debt	5,382,299	-	-	(5,382,299)
Capital outlay	319,264	-	-	(319,264)
Other	46,548	-	-	(46,548)
	<u>\$ 79,916,132</u>	<u>\$ 4,208,498</u>	<u>\$ 3,470,154</u>	<u>(72,237,480)</u>
General revenues				
Taxes				
Property taxes, levied for general purpose				23,625,050
Property taxes, levied for debt service				14,509,831
Property taxes, levied for capital assets				1,048,439
State aid				
Formula grants - unrestricted				32,687,238
Restricted				2,473,434
Intermediate school district				4,828,808
Investment earnings				22,237
Miscellaneous				1,304,909
				<u>80,499,946</u>
Change in Net Assets				8,262,466
Net Assets - July 1, 2010				44,549,805
Net Assets - June 30, 2011				\$ 52,812,271

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

ASSETS

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents (note 3)	\$ 13,891,460	\$ 6,562,746	\$ 20,454,206
Investments (note 3)	-	977,936	977,936
Property taxes receivable - net of allowances	181,816	124,948	306,764
Other receivables			
State aid	6,528,895	16,157	6,545,052
Federal aid	71,425	20,955	92,380
Other	337,533	15,549	353,082
Due from other funds (note 6)	332,555	-	332,555
Inventories	73,957	53,507	127,464
Prepaid expenses	49,957	5,203	55,160
	<u>\$ 21,467,598</u>	<u>\$ 7,777,001</u>	<u>\$ 29,244,599</u>

LIABILITIES AND FUND BALANCES

Liabilities			
Accounts payable	\$ 875,861	\$ 27,039	\$ 902,900
Accrued payroll and benefits	8,498,460	16,258	8,514,718
Due to other funds (note 6)	-	332,555	332,555
Deferred revenue (note 4)	566,176	192,678	758,854
	<u>9,940,497</u>	<u>568,530</u>	<u>10,509,027</u>
Fund Balances			
Nonspendable			
Inventories	73,957	53,507	127,464
Prepaid expenses	49,957	5,203	55,160
Restricted			
Capital projects	-	6,179,284	6,179,284
Debt service	-	497,828	497,828
Special Revenue Fund - Food service	-	472,649	472,649
Assigned - Budgeted use of fund balance in subsequent year	3,896,975	-	3,896,975
Unassigned	7,506,212	-	7,506,212
	<u>11,527,101</u>	<u>7,208,471</u>	<u>18,735,572</u>
Total liabilities and fund balances	<u>\$ 21,467,598</u>	<u>\$ 7,777,001</u>	<u>\$ 29,244,599</u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO GOVERNMENTAL NET ASSETS
JUNE 30, 2011**

Total fund balances - governmental funds	\$ 18,735,572
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, therefore, not reported as assets in governmental funds:	
Cost of capital assets	202,523,012
Accumulated depreciation	(54,704,280)
Deferred bond issue costs recorded as an asset in the governmental activities - net of amortization	536,057
Property taxes and other miscellaneous receivables will be collected this year but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds	758,854
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:	
Bonds payable	(110,305,000)
Deferred bond premiums	(2,490,596)
Capital leases payable	(221,807)
Compensated absences	(204,923)
Severance packages payable	(969,000)
Accrued interest payable is not included as a liability in governmental activities	<u>(845,618)</u>
Total net assets - governmental activities	<u><u>\$ 52,812,271</u></u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 23,606,040	\$ 15,530,091	\$ 39,136,131
Interest/earnings on investments	12,748	9,489	22,237
Fees and charges	3,179,748	1,941,527	5,121,275
State aid	35,077,964	82,708	35,160,672
Federal aid	3,108,505	361,649	3,470,154
Incoming transfers	4,828,808	-	4,828,808
	69,813,813	17,925,464	87,739,277
Total revenues			
Expenditures			
Current			
Instruction	44,327,298	-	44,327,298
Support services	21,920,107	-	21,920,107
Community services	1,715,737	-	1,715,737
Food services	-	2,266,231	2,266,231
Debt service			
Principal	-	9,260,000	9,260,000
Interest	-	5,444,017	5,444,017
Capital outlay	-	1,543,741	1,543,741
Other	-	1,197	1,197
	67,963,142	18,515,186	86,478,328
Total expenditures			
Revenues Over (Under) Expenditures	1,850,671	(589,722)	1,260,949
Other Financing Sources (Uses)			
Operating transfers (note 6)	149,975	(149,975)	-
Net Change in Fund Balances	2,000,646	(739,697)	1,260,949
Fund Balances - July 1, 2010	9,526,455	7,948,168	17,474,623
Fund Balances - June 30, 2011	\$ 11,527,101	\$ 7,208,471	\$ 18,735,572

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Total net change in fund balances - governmental funds	\$	1,260,949
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense		(4,548,962)
Capital outlay subject to capitalization		1,224,477
Because some property taxes and other miscellaneous revenues will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead, counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities		
		215,504
Some expenses are recorded in the statement of activities when incurred; they are not reported in governmental funds until paid:		
Accrued interest		61,718
Compensated absences		(47,448)
Severance liabilities		(30,000)
Repayment of principal and issuance costs are an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt):		
Debt service principal		9,260,000
Capital lease expenditures		183,762
Decreases in severance liabilities are reported as expenditures when financial resources are used in the governmental funds		
		504,000
Amortization of bond premiums in the statement of activities		
		223,817
Amortization of bond issuance costs in the statement of activities		
		<u>(45,351)</u>
Change in net assets of governmental activities	\$	<u><u>8,262,466</u></u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS - TRUST AND AGENCY
JUNE 30, 2011

Assets

Cash and cash equivalents	\$ 941,905
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Liabilities

Due to student groups	<u>941,905</u>
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Net Assets

Restricted for specific purpose	<u><u>\$ -</u></u>
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See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Significant Accounting Policies

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

A. Reporting Entity

The School District is governed by an elected 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 and financial relationships that determine which of the governmental organizations are part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on application of the criteria, the entity does not contain component units.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. Substantially all 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 the School District's government-wide activities are considered governmental activities.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Significant Accounting Policies - Continued

B. District-wide and Fund Financial Statements - Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. 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, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Statements

The district-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.

The effect of interfund activity has been substantially eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicant 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.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Significant Accounting Policies - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

Fund-based 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 government 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 required 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 government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are custodial in nature (assets equal liabilities) and do not report the measurement of results of operations.

The School District reports the following major governmental 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.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Significant Accounting Policies - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

Fund-based Statements - Continued

The School District's only Fiduciary Fund is the Trust Fund, which is a nonexpendable trust fund, used to account for the cash receipts and disbursements of the various student activity clubs of the School District.

Additionally, the School District reports the following nonmajor governmental fund types:

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

The Capital Projects Funds are used to record bond proceeds and other revenue and the disbursement of money specifically designated for building construction and renovation.

The School District maintains one nonmajor governmental Special Revenue Fund, which accounts for the School District's food service activities.

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and various Debt Service Funds is allocated to each fund using a weighted average of balance for the principal invested.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Receivables and Payables

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

All property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are levied on July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year at which time penalties and interest are assessed and the total obligation is added to county tax rolls.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The School District also receives revenue from the State to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Inventories and Prepaid Items

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 items in both government-wide and fund financial statements.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Restricted Assets

The unspent bond proceeds of the Capital Projects Fund require amounts to be set aside for construction and capital asset acquisition. The property taxes levied in the Debt Service Fund are required to be set aside for future principal and interest payments on bonded debt. These amounts have been classified as restricted assets.

Capital Assets

Capital assets, which include land, buildings, improvements other than 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 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. 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 any infrastructure-type assets.

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

Buildings	20 - 50 years
Improvements other than buildings	15 - 30 years
Equipment	5 - 20 years
Vehicles	5 - 10 years

Compensated Absences

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

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

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 using the effective interest method. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as bond issuance costs, during the current period.

Fund Equity

In the fund financial statements, governmental funds report fund balance in the following categories:

Nonspendable - assets that are not available in a spendable form.

Restricted - amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed - amounts constrained on use imposed by the School District's highest level of decision making, its board of education. A fund balance commitment may be established, modified, or rescinded by a resolution of the board of education.

Assigned - amounts intended to be used for specific purposes, as determined by the board of education. The board of education has granted the Assistant Superintendent of Business and Operations the authority to assign funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned - all other resources; the remaining fund balances after nonspendable, restrictions, commitments and assignments.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Adoption of New Accounting Standard

The Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which the School District adopted effective July 1, 2010. The new standard changes fund balance classifications to depict relative strength of the spending constraints and clarifies the definitions of various governmental fund types. The standard includes a new definition of special revenue funds, and athletic funds no longer meet that definition. As a result, balances and activities previously reported under the athletic fund are combined with the general fund.

Comparative Data

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

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including November 2, 2011, which is the date the financial statements were available to be issued.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 all governmental funds. All annual appropriations lapse at the fiscal year end. The budget document presents information by the general and major Special Revenue Fund by 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 functional level. State law requires the School District to have its budget in place by July 1st. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The School District increased/decreased budgeted amounts during the year in response to changes in anticipated spending for salaries, benefits, and other expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end. The commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

The School District's deposits and investments at June 30, 2011, are composed of the following:

	<u>Cash and Cash Equivalents</u>
Demand deposits and certificates of deposit	\$ 11,448,026
Investments in Michigan School District - Liquid Asset Fund (CADRE)	9,006,080
Petty cash and cash on hand	<u>100</u>
Total	<u>\$ 20,454,206</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 3 - Deposits and Investments - Continued

Custodial Credit Risk of Bank Deposits

At June 30, 2011, the carrying amount of cash and cash equivalents was \$21,396,112, and the bank balance was \$22,855,011. Of that amount, \$1,500,000 was covered by Federal Depository Insurance and \$21,355,011 was 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 bank deposits. As a result, the School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The School District is authorized by Michigan Public Act 132 of 1986 to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Custodial Credit Risk of Investments

Custodial credit risk is that 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 policy for custodial credit risk states that the School District will minimize this risk by limiting the types of investments and prequalifying the financial institutions, brokers/dealers, and advisors with which the School District will do business. At June 30, 2011, the School District does not have investments with custodial credit risk.

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 states that where there is a possibility that the interest changes could adversely affect the fair value of a district's investment, as determined under the generally accepted accounting principles (GAAP) standards, the following method(s) will be used to assess and control such risks: segmented timed distribution, specific identification, weighted average maturity, duration, and simulation model.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, nor does it place limits on the amount the School District may invest in any one issuer.

At June 30, 2011, the School District held investments in U.S. Government and Agency bonds with a Standard & Poor's rating of Aaa. The description, fair value, and maturity range of investments held at June 30, 2011 are as follows:

<u>Name of Investment/Description</u>	<u>Fair Value</u>	<u>Maturity</u>
U.S. Government Bonds	\$ 420,153	7/31/11 - 9/30/11
U.S. Agency Bonds	557,783	10/15/11
Total	\$ 977,936	

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 prohibits investments in foreign currency.

Note 4 - Deferred Revenue

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, deferred revenue consists of property taxes and fees for services received prior to meeting spending restrictions or providing the related services.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 5 - Capital Assets

Capital assets activity for the School District's governmental activities was as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions/ Disposals</u>	<u>Balance June 30, 2011</u>
Assets not being depreciated:				
Land	\$ 9,607,341	\$ -	\$ -	\$ 9,607,341
Construction-in-progress	7,242	131,166	(7,242)	131,166
Assets being depreciated:				
Buildings	113,288,154	-	-	113,288,154
Building improvements	47,104,984	215,101	-	47,320,085
Site improvements	12,532,094	171,479	-	12,703,573
Equipment	16,043,754	713,973	-	16,757,727
Buses and other vehicles	<u>2,714,966</u>	<u>-</u>	<u>-</u>	<u>2,714,966</u>
Subtotal	<u>191,683,952</u>	<u>1,100,553</u>	<u>-</u>	<u>192,784,505</u>
Accumulated depreciation:				
Buildings	22,424,407	1,633,415	-	24,057,822
Building improvements	10,566,083	1,042,018	-	11,608,101
Site improvements	5,294,178	722,585	-	6,016,763
Equipment	9,757,312	979,799	-	10,737,111
Buses and other vehicles	<u>2,113,338</u>	<u>171,145</u>	<u>-</u>	<u>2,284,483</u>
Subtotal	<u>50,155,318</u>	<u>4,548,962</u>	<u>-</u>	<u>54,704,280</u>
Net capital assets being depreciated	<u>141,528,634</u>	<u>(3,448,409)</u>	<u>-</u>	<u>138,080,225</u>
Net capital assets	<u>\$151,143,217</u>	<u>\$ (3,317,243)</u>	<u>\$ (7,242)</u>	<u>\$147,818,732</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 5 - Capital Assets - Continued

Depreciation expense was charged to specific activities of the School District as follows:

Governmental activities:	
Instruction	\$ 2,876,000
Support services	1,414,608
Food services	147,035
Community services	<u>111,319</u>
Total governmental activities	<u>\$ 4,548,962</u>

Construction Commitments

The School District has active construction projects in the Sinking Fund. At year end, the School District's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Sinking Fund Projects	\$ 8,064,707	\$ 892,636
2007 Capital Projects	<u>24,562,855</u>	<u>-</u>
Total	<u>\$ 32,627,562</u>	<u>\$ 892,636</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Funds Due To</u>	<u>Funds Due From Nonmajor Governmental Funds</u>
General Fund	\$ <u>332,555</u>
	<u>Transfers - Out Nonmajor Governmental Funds</u>
Transfers - in: General Fund	\$ <u>149,975</u>

Note 7 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), which is a cost-sharing multiple employer, state-wide pension plan governed by the State of Michigan. The plan provides benefits, including pension, death and disability benefits, and health care benefits. Public Act Number 136 of 1945, recodified and currently operating under the provisions of Public Act Number 300 of 1980, as amended, assigns the authority to establish and amend the benefit provisions of the MPERS plan document. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Office of Retirement Services, Michigan Public School Employees' Retirement Systems, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (517) 322-5103.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 7 - Defined Benefit Pension Plan and Postretirement Benefits - Continued

Funding Policy

The contribution requirements of the School District are established by the State of Michigan statutes and may be amended only by action of the State of Michigan Legislature. The School District is required to contribute at an actuarially determined rate. The required employer contribution rates for retirement benefits; including pension and health care benefits for basic plan members was 10.13% from July 1, 2010 through September 30, 2010 and 12.16% from October 1, 2010 through June 30, 2011. The employer contribution rate for pension plus members was 8.63% from July 1, 2010 through September 30, 2010 and 10.66% for the period from October 1, 2010 through June 30, 2011. Basic plan members make no contributions, but Member Investment Plan (MIP) members contribute at rates ranging from 3% to 4.3% of gross wages, or up to 6.4% for members entering the MIP Plus plan on or after July 1, 2008. The fiscal year 2011 annual covered payroll is not yet available.

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

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% 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 6.81% of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25% for the period from October 1, 2010 through October 31, 2010, and 8.50% for the period from November 1, 2010 through June 30, 2011. The fiscal year 2011 annual covered payroll is not yet available.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 8 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District participates in the Middle Cities Risk Management Trust risk pool for claims relating to property liability, and errors and omissions; the School District is partially insured for medical benefits provided to the employees and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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.

Note 9 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include installment loans, compensated absences, and severance benefits.

Long-term obligation activity can be summarized as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds	\$ 119,565,000	\$ -	\$ 9,260,000	\$ 110,305,000	\$ 9,615,000
Other obligations	4,720,457	77,448	911,579	3,886,326	928,290
Total governmental activities	<u>\$ 124,285,457</u>	<u>\$ 77,448</u>	<u>\$ 10,171,579</u>	<u>\$ 114,191,326</u>	<u>\$ 10,543,290</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 9 - Long-Term Debt - Continued

Total long-term debt at June 30, 2011, consists of the following:

Bonds Payable

2002 bond issue - original amount	\$ 28,460,000
Less: Bonds paid in prior years	9,655,000
Bonds paid May 1, 2011	<u>1,785,000</u>
Bonds outstanding - June 30, 2011	<u>\$ 17,020,000</u>

Bonds payable are as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	3.350	\$ 755,036	\$ 1,770,000	\$ 2,525,036
2013	5.000	695,740	1,740,000	2,435,740
2014	3.700	608,740	1,740,000	2,348,740
2015	4.000	544,360	1,715,000	2,259,360
2016	4.000	475,760	1,700,000	2,175,760
2017	5.000	407,760	1,680,000	2,087,760
2018	5.000	323,760	1,675,000	1,998,760
2019	5.000	240,010	1,670,000	1,910,010
2020	5.000	156,510	1,665,000	1,821,510
2021	4.000	<u>73,257</u>	<u>1,665,000</u>	<u>1,738,257</u>
		<u>\$ 4,280,933</u>	<u>\$ 17,020,000</u>	<u>\$ 21,300,933</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 9 - Long-Term Debt - Continued

Bonds Payable - Continued

2005 bond issue - original amount	\$ 11,920,000
Less: Bonds paid in prior years	3,220,000
Bonds paid May 1, 2011	1,075,000
Bonds outstanding - June 30, 2011	\$ 7,625,000

Bonds payable are as follows:

Year	Rate	Interest	Principal	Total
2012	3.875	\$ 362,438	\$ 1,075,000	\$ 1,437,438
2013	5.000	320,781	1,075,000	1,395,781
2014	4.375	267,031	1,075,000	1,342,031
2015	5.000	220,000	1,100,000	1,320,000
2016	5.000	165,000	1,100,000	1,265,000
2017	5.000	110,000	1,100,000	1,210,000
2018	5.000	54,998	1,100,000	1,154,998
		\$ 1,500,248	\$ 7,625,000	\$ 9,125,248

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 9 - Long-Term Debt - Continued

Bonds Payable - Continued

2007 Refinanced bond issue - original amount	\$ 64,360,000
Less: Bonds paid in prior years	2,175,000
Bonds paid May 1, 2011	1,475,000
 Bonds outstanding - June 30, 2011	 \$ 60,710,000

Bonds payable are as follows:

Year	Rate	Interest	Principal	Total
2012	4.000	\$ 2,849,550	\$ 5,845,000	\$ 8,694,550
2013	4.000	2,557,300	5,905,000	8,462,300
2014	4.000	2,262,050	5,970,000	8,232,050
2015	4.000	1,963,550	6,025,000	7,988,550
2016	4.000	1,662,300	6,075,000	7,737,300
2017	4.000	1,358,550	6,135,000	7,493,550
2018	4.000	1,051,800	6,160,000	7,211,800
2019	5.000	743,800	4,725,000	5,468,800
2020	4.250	554,800	4,670,000	5,224,800
2021	4.250	368,000	4,615,000	4,983,000
2022	5.000	183,400	4,585,000	4,768,400
		\$ 15,555,100	\$ 60,710,000	\$ 76,265,100

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 9 - Long-Term Debt - Continued

Bonds Payable - Continued

2007 bond issue - original amount	\$ 26,375,000
Less: Bonds paid in prior years	725,000
Bonds paid May 1, 2011	<u>700,000</u>
 Bonds outstanding - June 30, 2011	 <u><u>\$ 24,950,000</u></u>

Bonds payable are as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	4.000	\$ 1,106,688	\$ 925,000	\$ 2,031,688
2013	4.000	1,069,688	1,150,000	2,219,688
2014	4.000	1,023,688	1,200,000	2,223,688
2015	4.000	975,688	1,275,000	2,250,688
2016	4.000	924,688	1,325,000	2,249,688
2017	4.000	871,688	1,375,000	2,246,688
2018	4.000	816,688	1,425,000	2,241,688
2019	5.000	759,688	1,500,000	2,259,688
2020	4.250	684,688	1,575,000	2,259,688
2021	4.250	617,750	1,650,000	2,267,750
2022	5.000	547,626	1,775,000	2,322,626
2023	5.000	458,876	1,875,000	2,333,876
2024	5.000	365,126	1,925,000	2,290,126
2025	4.500	268,876	1,975,000	2,243,876
2026	4.500	180,000	2,000,000	2,180,000
2027	4.500	<u>90,000</u>	<u>2,000,000</u>	<u>2,090,000</u>
		<u><u>\$ 10,761,446</u></u>	<u><u>\$ 24,950,000</u></u>	<u><u>\$ 35,711,446</u></u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 9 - Long-Term Debt - Continued

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Year Ending June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 9,615,000	\$ 5,073,712	\$ 14,688,712
2013	9,870,000	4,643,509	14,513,509
2014	9,985,000	4,161,509	14,146,509
2015	10,115,000	3,703,598	13,818,598
2016	10,200,000	3,227,748	13,427,748
2017 - 2021	44,385,000	9,193,747	53,578,747
2022 - 2026	14,135,000	2,003,904	16,138,904
2027 - 2031	<u>2,000,000</u>	<u>90,000</u>	<u>2,090,000</u>
Total	<u>\$ 110,305,000</u>	<u>\$ 32,097,727</u>	<u>\$ 142,402,727</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 9 - Long-Term Debt - Continued

Capital Leases

The School District leases copy machines under a separate capital lease arrangement. The lease calls for monthly payments of \$7,182 including interest through June 2013.

The minimum future lease payments under the capital lease obligation as of June 30, 2011 are as follows:

<u>Year Ending June 30th:</u>	<u>Total</u>
2012	\$ 86,183
2013	<u>86,183</u>
Total minimum lease payments	172,366
Less portion representing interest	<u>10,559</u>
Present value of net minimum lease payments	<u>\$ 161,807</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 9 - Long-Term Debt - Continued

Capital Leases - Continued

The School District entered into a Lease Purchase Agreement for the purchase of five (5) school buses. The lease calls for annual payments ranging from \$62,469 to \$70,428, including interest, through 2012.

The minimum future lease payments under the capital lease obligations as of June 30, 2011 are as follows:

<u>Year Ending June 30th:</u>	<u>Total</u>
2012	\$ 62,469
Less portion representing interest	<u>2,469</u>
Present value of net minimum lease payments	<u>\$ 60,000</u>

Other Long-Term Obligations

Other long-term obligations consist of the following:

Severance liability	\$ 969,000
Compensated absences liability	<u>204,923</u>
Total	<u>\$ 1,173,923</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 10 - Capital Projects Funds

The Sinking Fund includes capital project activities funded by a .5 millage rate. The 2007 Capital Projects Fund includes activities funded with bonds issued after June 28, 2007. The following is a summary of the revenues and expenditures in the 2001 Sinking Fund and the 2007 Capital Projects Fund from inception of the funds through the current fiscal year:

	Sinking Fund	2007 Capital Projects Fund
Revenues	\$ 10,371,235	\$ 28,435,611
Expenditures	8,064,707	24,562,855

For the 2007 Capital Projects Fund and Sinking Fund, the School District has complied with the applicable provisions of Sections 1351(a) of the Revised School Code.

Note 11 - Contingent Liabilities

The School District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits as described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*. The audits of these programs for and including the year ended June 30, 2011, have been conducted and reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 12 - Governmental Regulation

Substantially all of the School District's facilities are subject to federal, state, and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures, or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal, state, and local requirements.

Note 13 - Compensated Absences

Teachers are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse a maximum of 35 days at rates ranging from \$50 to \$70 per day. Eligible teachers must have ten or more years of service in the School District and have not used more than six paid (sick) leave allowance days during five of the ten years preceding the severance of employment. In addition, each eligible teacher must have accumulated at least 80 days in their sick leave allowance bank.

Secretaries are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse a maximum of 35 days at rates ranging from \$20 to \$40 per day. Eligible secretaries must have ten or more years of service in the School District and have not used more than six paid (sick) leave allowance days during five of the ten years preceding the severance of employment. In addition, each eligible secretary must have accumulated at least 130 days in their sick leave allowance bank.

Maintenance Workers are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse a maximum of 50 days at the maintenance worker's daily rate. Eligible maintenance workers must have ten or more years of service in the School District and have accumulated at least 50 days in their sick leave allowance bank.

Bus drivers are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse accumulated days exceeding 100 at the rate of 50% of the average daily rate of pay at the time of retirement. Eligible bus drivers must have ten or more years of service in the School District and have accumulated at least 100 days in their sick leave allowance bank.

REQUIRED SUPPLEMENTARY INFORMATION

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under) Final Budget</u>
Revenues				
Local sources	\$ 27,288,733	\$ 26,769,926	\$ 26,798,536	\$ 28,610
State sources	32,598,566	34,436,474	35,077,964	641,490
Intermediate sources	4,512,737	4,739,106	4,828,808	89,702
Federal sources	2,061,099	3,367,587	3,108,505	(259,082)
Total revenues	66,461,135	69,313,093	69,813,813	500,720
Expenditures				
Instructional	43,744,680	46,007,901	44,327,298	(1,680,603)
Supporting services	20,113,301	21,756,589	21,803,119	46,530
Community services	1,667,132	1,707,542	1,715,737	8,195
Total expenditures	65,525,113	69,472,032	67,846,154	(1,625,878)
Other Financing Sources (Uses)				
Operating transfers - in	170,000	146,000	149,975	3,975
Principal and interest payments on loans	(116,968)	(116,968)	(116,988)	(20)
Total other financing sources (uses)	53,032	29,032	32,987	3,955
Net Change in Fund Balance	989,054	(129,907)	2,000,646	(2,130,553)
Fund Balance - July 1, 2010	9,526,455	9,526,455	9,526,455	-
Fund Balance - June 30, 2011	<u>\$ 10,515,509</u>	<u>\$ 9,396,548</u>	<u>\$ 11,527,101</u>	<u>\$ (2,130,553)</u>

OTHER SUPPLEMENTARY INFORMATION

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

OTHER SUPPLEMENTARY INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

ASSETS

	Special Revenue Fund	Debt Service Funds	
	Cafeteria Fund	2001 Debt Fund	2002 Debt Fund
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 519,589	\$ 174,159	\$ 106,871
Investments	-	-	-
Receivables			
Accounts	37,136	944	599
Taxes	-	34,256	21,743
Inventories	53,507	-	-
Prepaid expenses	<u>5,203</u>	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 615,435</u></u>	<u><u>\$ 209,359</u></u>	<u><u>\$ 129,213</u></u>

LIABILITIES AND FUND BALANCES

Salaries payable	\$ 16,258	\$ -	\$ -
Accounts payable	88	-	-
Deferred revenue	67,730	34,256	21,743
Due to other funds	<u>-</u>	<u>35,244</u>	<u>19,573</u>
Total liabilities	84,076	69,500	41,316
Fund balances	<u>531,359</u>	<u>139,859</u>	<u>87,897</u>
Total liabilities and fund balances	<u><u>\$ 615,435</u></u>	<u><u>\$ 209,359</u></u>	<u><u>\$ 129,213</u></u>

Debt Service Funds			Capital Projects Funds		Total
2005 Debt Fund	2007 Refinanced Debt Fund	2007 Debt Fund	Sinking Fund	2007 Capital Projects Fund	
\$ 62,622	\$ 193,563	\$ 72,623	\$ 2,372,044	\$ 3,061,275	\$ 6,562,746
-	-	-	-	977,936	977,936
322	937	359	-	12,364	52,661
12,390	31,993	16,148	8,418	-	124,948
-	-	-	-	-	53,507
-	-	-	-	-	5,203
<u>\$ 75,334</u>	<u>\$ 226,493</u>	<u>\$ 89,130</u>	<u>\$ 2,380,462</u>	<u>\$ 4,051,575</u>	<u>\$ 7,777,001</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,258
-	-	-	10,012	16,939	27,039
12,390	31,993	16,148	8,418	-	192,678
11,823	33,731	14,800	55,504	161,880	332,555
24,213	65,724	30,948	73,934	178,819	568,530
51,121	160,769	58,182	2,306,528	3,872,756	7,208,471
<u>\$ 75,334</u>	<u>\$ 226,493</u>	<u>\$ 89,130</u>	<u>\$ 2,380,462</u>	<u>\$ 4,051,575</u>	<u>\$ 7,777,001</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

OTHER SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Fund	Debt Service Funds	
	Cafeteria Fund	2001 Debt Fund	2002 Debt Fund
	Fund	Debt Fund	Debt Fund
Revenues			
Local sources			
Taxes	\$ -	\$ 4,314,650	\$ 2,607,724
Interest	-	681	430
Cafeteria sales	1,941,527	-	-
State sources - state school aid	82,708	-	-
Federal sources	361,649	-	-
	<hr/>	<hr/>	<hr/>
Total revenues	2,385,884	4,315,331	2,608,154
Expenditures			
Supporting services	2,266,231	-	-
Capital outlay	-	-	-
Principal	-	4,225,000	1,785,000
Interest and fees	-	174,281	826,435
Other	-	137	275
	<hr/>	<hr/>	<hr/>
Total expenditures	2,266,231	4,399,418	2,611,710
Excess of Revenues Over (Under)			
Expenditures	119,653	(84,087)	(3,556)
Other Financing Sources (Uses)			
Operating transfers - (out)	(149,975)	-	-
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	(30,322)	(84,087)	(3,556)
Fund Balances - July 1, 2010	561,681	223,946	91,453
	<hr/>	<hr/>	<hr/>
Fund Balances - June 30, 2011	\$ 531,359	\$ 139,859	\$ 87,897
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Debt Service Funds			Capital Projects Funds		Total
2005 Debt Fund	2007 Refinanced Debt Fund	2007 Debt Fund	Sinking Fund	2007 Capital Projects Fund	
\$ 1,445,324	\$ 4,243,874	\$ 1,870,114	\$ 1,048,405	\$ -	\$ 15,530,091
230	323	689	1,028	6,108	9,489
-	-	-	-	-	1,941,527
-	-	-	-	-	82,708
-	-	-	-	-	361,649
<u>1,445,554</u>	<u>4,244,197</u>	<u>1,870,803</u>	<u>1,049,433</u>	<u>6,108</u>	<u>17,925,464</u>
-	-	-	-	-	2,266,231
-	-	-	422,318	1,121,423	1,543,741
1,075,000	1,475,000	700,000	-	-	9,260,000
400,063	2,908,550	1,134,688	-	-	5,444,017
241	219	325	-	-	1,197
<u>1,475,304</u>	<u>4,383,769</u>	<u>1,835,013</u>	<u>422,318</u>	<u>1,121,423</u>	<u>18,515,186</u>
(29,750)	(139,572)	35,790	627,115	(1,115,315)	(589,722)
-	-	-	-	-	(149,975)
<u>(29,750)</u>	<u>(139,572)</u>	<u>35,790</u>	<u>627,115</u>	<u>(1,115,315)</u>	<u>(739,697)</u>
<u>80,871</u>	<u>300,341</u>	<u>22,392</u>	<u>1,679,413</u>	<u>4,988,071</u>	<u>7,948,168</u>
<u>\$ 51,121</u>	<u>\$ 160,769</u>	<u>\$ 58,182</u>	<u>\$ 2,306,528</u>	<u>\$ 3,872,756</u>	<u>\$ 7,208,471</u>

**ANALYSIS OF 2010 TAX LEVIES
AND
SUMMARY OF DELINQUENT TAXES**

BOARD OF EDUCATION NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN

ANALYSIS OF 2010 TAX LEVIES FOR THE YEAR ENDED JUNE 30, 2011

Tax Rates

General Fund			
Homestead			
Hold Harmless		3.1299	
Recreational		0.9800	
Sinking Fund		0.4932	
State Millage		<u>6.0000</u>	
Total homestead			10.6031
Industrial - Personal			
Hold Harmless		3.1299	
Recreational		0.9800	
Sinking Fund		0.4932	
State Millage		<u>6.0000</u>	
Total industrial - personal			10.6031
Commercial - Personal			
General Operating		6.0000	
Hold Harmless		3.1299	
Recreational		0.9800	
Sinking Fund		0.4932	
State Millage		<u>6.0000</u>	
Total commercial - personal			16.6031
Non-Homestead			
General Operating		18.0000	
Recreational		0.9800	
Sinking Fund		0.4932	
State Millage		<u>6.0000</u>	
Total non-homestead			25.4732
Debt Fund			
2001 Debt		2.0300	
2002 Debt		1.2700	
2005 Debt		0.6800	
2007 Refinanced Debt		2.0300	
2007 Debt		<u>0.8800</u>	
Total debt fund			<u>6.8900</u>
Total tax rate - Homestead			17.4931
Total tax rate - Industrial - Personal			17.4931
Total tax rate - Commercial - Personal			23.4931
Total tax rate - Non-Homestead			32.3632

Taxable Values

City of Novi	\$	2,143,073,190
City of Wixom		<u>3,084,290</u>
Total taxable values		<u>\$ 2,146,157,480</u>

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Debt Fund</u>	<u>Total</u>
Taxes Levied				
City of Novi	\$ 23,640,506	\$ 1,050,446	\$ 14,511,898	\$ 39,202,850
City of Wixom	<u>57,137</u>	<u>1,521</u>	<u>21,251</u>	<u>79,909</u>
Total taxes levied	23,697,643	1,051,967	14,533,149	39,282,759
Taxes Collected				
City of Novi	23,484,052	1,045,209	14,439,454	38,968,715
City of Wixom	<u>52,290</u>	<u>1,384</u>	<u>19,342</u>	<u>73,016</u>
Total taxes collected	<u>23,536,342</u>	<u>1,046,593</u>	<u>14,458,796</u>	<u>39,041,731</u>
Delinquent Taxes				
City of Novi	<u>\$ 156,454</u>	<u>\$ 5,236</u>	<u>\$ 72,444</u>	<u>\$ 234,134</u>
City of Wixom	<u>\$ 4,847</u>	<u>\$ 137</u>	<u>\$ 1,909</u>	<u>\$ 6,893</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

SUMMARY OF DELINQUENT TAXES
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Sinking Fund	Debt Fund	Total
Balance - July 1, 2010	\$ 162,806	\$ 8,384	\$ 88,385	\$ 259,575
Additions				
2010 delinquent taxes	161,301	5,373	74,353	241,027
Deductions				
Delinquent tax collections	69,698	1,812	22,893	94,403
Prior year taxes written-off	72,593	3,528	23,314	99,435
Balance - June 30, 2011	\$ 181,816	\$ 8,417	\$ 116,531	\$ 306,764

RECEIVED

By Gloria Suggitt at 1:18 pm, Nov 14, 2011

**NOVI COMMUNITY SCHOOL
DISTRICT, MICHIGAN**

**SINGLE AUDIT
REPORTING PACKAGE**

JUNE 30, 2011



To the Board of Education of the
Novi Community School District, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Novi Community School District, Michigan as of and for the year ended June 30, 2011, which collectively comprise the Novi Community School District, Michigan's basic financial statements, and have issued our report thereon dated November 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Novi Community School District, Michigan's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Novi Community School District, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "Doeren Mayhew". The signature is written in a cursive style with a large initial "D" and a long horizontal stroke at the end.

DOEREN MAYHEW

November 2, 2011
Troy, Michigan



To the Board of Education of the
Novi Community School District, Michigan

Compliance

We have audited the compliance of the Novi Community School District, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The Novi Community School District, Michigan's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Novi Community School District, Michigan's management. Our responsibility is to express an opinion on the Novi Community School District, Michigan's compliance based on our audit.

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

In our opinion, the Novi Community School District, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs identified in the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Novi Community School District, Michigan's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to 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.

DOEREN MAYHEW

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


DOEREN MAYHEW

November 2, 2011
Troy, Michigan

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

SECTION I

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173, 84.391 and 84.392	Special Education Cluster
84.367	Title II, Part A - Teacher/Principal Training and Recruiting
84.394	ARRA - State Fiscal Stabilization Fund Cluster
84.410	ARRA - State Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

SECTION II

FINDINGS - FINANCIAL STATEMENTS AUDIT

None noted.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

SECTION III

FINDINGS - FEDERAL AWARDS AUDIT

None noted.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

SECTION IV

FINDINGS - FEDERAL AWARDS AUDIT

None noted.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/10</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Revenue Recognized</u>	<u>Expenditures 7/1/10 - 6/30/11</u>	<u>Accrued (Deferred) Revenue at 6/30/11</u>
<u>U.S. Department of Education - Passed Through Michigan Department of Education</u>									
<u>ARRA - State Fiscal Stabilization Fund Cluster</u>									
112525-1011	84.394	\$ 721,355	\$ -	\$ -	\$ -	\$ 721,355	\$ 721,355	\$ 721,355	\$ -
Total ARRA - State Fiscal Stabilization Fund Cluster		721,355	-	-	-	721,355	721,355	721,355	-
<u>ARRA - State Education Jobs Fund</u>									
112545-1011	84.410	694,875	-	-	-	694,875	694,875	694,875	-
Total ARRA - State Education Jobs Fund		694,875	-	-	-	694,875	694,875	694,875	-
<u>Title I, Part A - Improving Basic Programs</u>									
101530-0910 Regular	84.010	136,935	6,568	71,842	-	26,910	20,342	20,342	-
111530-1011 Regular	84.010	165,508	-	-	-	89,959	106,578	106,578	16,619
Total Title I, Part A - Improving Basic Programs		302,443	6,568	71,842	-	116,869	126,920	126,920	16,619

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/10</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Revenue Recognized</u>	<u>Expenditures 7/1/10 - 6/30/11</u>	<u>Accrued (Deferred) Revenue at 6/30/11</u>
<u>U.S. Department of Education - Passed Through Michigan Department of Education - Continued</u>									
<u>Title II, Part A - Teacher/Principal Training and Recruiting</u>									
100520-0910 Regular	84.367	\$ 166,672	\$ 30,814	\$ 122,252	\$ -	\$ 41,107	\$ 10,293	\$ 10,293	\$ -
110520-1011 Regular	84.367	<u>166,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,338</u>	<u>148,481</u>	<u>148,481</u>	<u>40,143</u>
Total Title II, Part A - Teacher/Principal Training and Recruiting		333,330	30,814	122,252	-	149,445	158,774	158,774	40,143
<u>Title III - Limited English Proficiency</u>									
100580-0910 Regular	84.365A	95,900	6,353	51,057	-	31,966	25,613	25,613	-
110580-1011 Regular	84.365A	<u>127,447</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,718</u>	<u>71,853</u>	<u>71,853</u>	<u>11,135</u>
Total Title III - Limited English Proficiency		223,347	6,353	51,057	-	92,684	97,466	97,466	11,135
<u>Title III - Immigrant</u>									
090570-0809 Regular	84.365A	<u>132,994</u>	<u>(2,699)</u>	<u>18,709</u>	<u>2,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Title III - Immigrant		132,994	(2,699)	18,709	2,699	-	-	-	-
<u>English Literacy and Civics Education</u>									
101120-0910	84.002A	22,000	121	21,815	-	121	-	-	-
111120-1011	84.002A	<u>19,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,800</u>	<u>19,800</u>	<u>19,800</u>	<u>-</u>
Total English Literacy and Civics Education		41,800	121	21,815	-	19,921	19,800	19,800	-

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/10</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Revenue Recognized</u>	<u>Expenditures 7/1/10 - 6/30/11</u>	<u>Accrued (Deferred) Revenue at 6/30/11</u>
<u>U.S. Department of Education - Passed Through Michigan Department of Education - Continued</u>									
<u>Adult Education Workforce Investment Act Core Programs</u>									
101130-0910	84.002A	\$ 40,500	\$ -	\$ -	\$ -	\$ 40,500	\$ 40,500	\$ 40,500	\$ -
Total Adult Education Workforce Investment Act Core Programs		40,500	-	-	-	40,500	40,500	40,500	-
Total U.S. Department of Education - Passed Through Michigan Department of Education		2,490,644	41,157	285,675	2,699	1,835,649	1,859,690	1,859,690	67,897
<u>U.S. Department of Education - Passed Through Michigan Department of Education - Passed Through Oakland County Intermediate School District</u>									
<u>Federal Assistance for the Education of Handicapped Persons - Special Education Cluster</u>									
<u>ARRA - Special Education</u>									
100455 Flow through	84.391	1,174,525	221,188	837,104	-	448,214	227,026	227,026	-
100465 Preschool	84.392	34,513	1,198	14,461	-	17,722	20,052	20,052	3,528
Total ARRA Special Education		1,209,038	222,386	851,565	-	465,936	247,078	247,078	3,528

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/10</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Revenue Recognized</u>	<u>Expenditures 7/1/10 - 6/30/11</u>	<u>Accrued (Deferred) Revenue at 6/30/11</u>
<u>U.S. Department of Education - Passed Through Michigan Department of Education - Passed Through Oakland County Intermediate School District - Continued</u>									
<u>Federal Assistance for the Education of Handicapped Persons - Special Education Cluster - Continued</u>									
<u>Special Education</u>									
110450 Flowthrough	84.027A	\$ 978,383	\$ -	\$ -	\$ -	\$ 978,383	\$ 978,383	\$ 978,383	\$ -
110460 Preschool	84.173A	23,354	-	-	-	23,354	23,354	23,354	-
Total Special Education		1,017,737	-	-	-	1,001,737	1,001,737	1,001,737	-
Total Federal Assistance for the Education of Handicapped Persons - Special Education Cluster		2,210,775	222,386	851,565	-	1,476,673	1,248,815	1,248,815	3,528

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/10</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Revenue Recognized</u>	<u>Expenditures 7/1/10 - 6/30/11</u>	<u>Accrued (Deferred) Revenue at 6/30/11</u>
<u>U.S. Department of Agriculture - Passed Through Michigan Department of Education</u>									
National School Breakfast Program 09-10	10.553	\$ 13,096	\$ 1,384	\$ 13,096	\$ -	\$ 1,384	\$ -	\$ -	\$ -
National School Lunch Program 09-10	10.555	261,694	19,462	261,694	-	19,462	-	-	-
National School Breakfast Program 10-11	10.553	31,350	-	-	-	28,722	31,350	31,350	2,628
National School Lunch Program 10-11	10.555	275,750	-	-	-	257,423	275,750	275,750	18,327
Donated Food Commodities - Bonus	10.555	1,905	-	-	-	1,905	1,905	1,905	-
Donated Food Commodities - Entitlement	10.555	<u>52,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,644</u>	<u>52,644</u>	<u>52,644</u>	<u>-</u>
Total U.S. Department of Agriculture - Passed Through Michigan Department of Education		<u>636,439</u>	<u>20,846</u>	<u>274,790</u>	<u>-</u>	<u>361,540</u>	<u>361,649</u>	<u>361,649</u>	<u>20,955</u>
Total all programs		<u>\$ 5,337,858</u>	<u>\$ 284,389</u>	<u>\$ 1,412,030</u>	<u>\$ 2,699</u>	<u>\$ 3,664,862</u>	<u>\$ 3,470,154</u>	<u>\$ 3,470,154</u>	<u>\$ 92,380</u>

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost-reimbursement contracts of the Novi Community School District, Michigan. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual cost reports. The Novi Community School District, Michigan receives federal awards indirectly through pass-through entities.

Except for the current year receipts column, which is presented on the cash basis of accounting, federal program expenditures included in the accompanying schedule are presented on the modified accrual basis of accounting. The modified accrual basis of accounting is also used for the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any, is included in expenditures.

Note 2 - Major Programs

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

Note 3 - Grant Section Auditor's Reports

Management has utilized the Grant Section Auditor's Reports in preparing the Schedule of Expenditures of Federal Awards. The amounts on the Grant Section Auditor's Reports are included on the Schedule of Expenditures of Federal Awards.

Note 4 - Adjustments

During the year ended June 30, 2011, the Novi Community School District, Michigan recorded an adjustment to the Title III - Immigrant program for disallowed costs of \$2,699.

**NOVI COMMUNITY SCHOOL
DISTRICT, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS
MEMORANDUM**

JUNE 30, 2011



DOEREN MAYHEW
Certified Public Accountants and Consultants

November 2, 2011

Members of the Board of Education of the
Novi Community School District, Michigan
25345 Taft Road
Novi, Michigan 48374

Dear Board Members:

We have recently completed an audit of the financial statements of the Novi Community School District, Michigan for the year ended June 30, 2011. Our audit was made primarily for the purpose of expressing our opinion on these statements and, accordingly, did not encompass a detailed review of systems, procedures and internal controls.

We would like to compliment the business office for the excellent job that they have done this past year. We completed the audit with a minimum of adjustments and enjoyed working with your highly professional staff. However, during our audit, we observed certain areas where we believe improvements can be effected, and we offer the enclosed comments and recommendations memorandum for your review.

The accompanying memorandum is not based upon a complete survey of all phases of operating and executive controls; it does, however, direct attention to certain areas which we believe to be especially worthy of the Board's consideration. We appreciate that the ultimate objective of the Board of Education is to achieve maximum control at a minimum cost. We believe that consideration of the recommendations enumerated in this memorandum are compatible with that objective.

After you have reviewed our recommendations, we will be pleased to discuss the contents with you and to assist in the implementation or correction of any items set forth herein.



DOEREN MAYHEW

- 1 -

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Information Technology

Comment:

The Wayne RESA application password settings only require passwords to be changed every 180 days, do not require complex passwords, and do not lock users out after a specified number of invalid logon attempts. Passwords are the primary means of user authentication into the Wayne RESA application and increasing the strength and complexity of the passwords by enforceable parameters in the application would help limit the risk of the passwords being compromised and unauthorized access to the system. The password expiration setting determines the maximum number of days that a password is valid and when the limit is exceeded the next attempt to sign on causes the system to prompt for the user to change their password. The special character count requires a specified number of non-alphanumeric characters which can be used to increase the required complexity of a user's password. The attempts allowed count setting controls the number of times a user can unsuccessfully enter a password before the account is locked out.

Recommendation:

We recommend the Novi Community School District, Michigan change the Wayne RESA password settings to enforce users to change their passwords every 90 days, require at least two (2) special characters, and additionally, set the maximum number of invalid logon attempts to five (5) to strengthen overall password controls to gain access to the system. By adopting recommended settings, the Novi Community School District, Michigan will be in compliance with information technology security best practices.

Comment:

The Microsoft Windows® built-in administrator account and password is being shared by three (3) network administrators. The built-in administrator account is a privileged account that has unlimited access into the network. Shared administration access does not provide for the accountability of actions performed on the network while using the shared account. It was noted that each of the three (3) network administrators were assigned domain administrator privileges with their own account and do not need access to the Microsoft Windows® built-in administrator account and password.

Recommendation:

We recommend the built-in administrator account password be changed immediately and then stored under dual control with split knowledge, for use in the event of a system emergency, and allow the three (3) IT administrators to perform Microsoft Windows® administrative functions using their own unique account assigned domain administrator privileges.

Information Technology - Continued

Comment:

The Microsoft Windows® network passwords maximum and minimum password ages are set to zero days and the password history is only set to remember two (2) previously used passwords. Passwords are the primary means of user authentication into the Novi Community School District, Michigan's network and increasing the strength and complexity of the passwords would help limit the risk of passwords being compromised and unauthorized access into the network. The password maximum age setting determines the maximum number of days that a password is valid and when the limit is exceeded the next attempt to sign on causes the system to prompt for the user to change their password. The minimum password age defines a period of time required between each user initiated password change. The password history setting defines the number of previously used passwords remembered by the system (which was set to 2). In combination, these two controls are used to ensure that network users cannot reuse previously used passwords. Under the current setting, a network user can reuse a previously used network password by changing their password two times in the same day, circumventing the control.

Recommendation:

We recommend the Novi Community School District, Michigan revise the network minimum password age to at least one day to ensure users do not reuse previously used passwords and we additionally recommend the password history setting be changed to remember twelve (12) passwords to prevent reuse of potentially compromised passwords. We additionally recommend the Novi Community School District, Michigan set the password maximum age to require users to change their password at least once every 90 days. By adopting recommended settings, the Novi Community School District, Michigan will be in compliance with information technology security best practices.



To the Members of the Board of Education of the
Novi Community School District, Michigan

We have audited the financial statements of the Novi Community School District, Michigan for the year ended June 30, 2011, and have issued our report thereon dated November 2, 2011. Professional standards require that we provide you with the following information related to our audit.

The following comments regarding the scope and results of our audit of the Novi Community School District, Michigan for the year ended June 30, 2011 will assist you in overseeing the financial reporting and disclosure process for which management is responsible.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 16, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Novi Community School District, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 16, 2011.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. To our knowledge, there were no such accounting estimates.

Difficulties Encountered in Performing the Audit

Management was well prepared and helpful during the audit process. We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We are pleased to report that no such misstatements were identified during the course of our audit.

Disagreements With Management

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

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated November 2, 2011.

Management's Consultation With Other Accountants

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

Major Issues Discussed With Management Prior to Retention

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

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


DOEREN MAYHEW

November 2, 2011
Troy, Michigan