

# **Kalamazoo Public Schools**

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**Financial Report  
with Supplemental Information  
June 30, 2011**

# Kalamazoo Public Schools

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## Independent Auditor's Report

To the Board of Education  
Kalamazoo Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kalamazoo Public Schools (the "School District") as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kalamazoo Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kalamazoo Public Schools as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year, the School District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 1. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. 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.

To the Board of Education  
Kalamazoo Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kalamazoo Public Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. The other supplemental 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 in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated November 3, 2011 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Morse, PLLC*

November 3, 2011

# **Kalamazoo Public Schools**

## **Management's Discussion and Analysis**

This section of Kalamazoo Public Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2011. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Kalamazoo Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, 2010 Capital Projects Fund, with all other funds, the special revenue fund, debt service fund, and the 2006 Capital Projects, 2009 Capital Projects, and 2010 Capital Projects QSCB, presented as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

### **Basic Financial Statements**

Government-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)  
Budgetary Information for Major Funds

Other Supplemental Information

### ***Reporting the School District as a Whole - District-wide Financial Statements***

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

# Kalamazoo Public Schools

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## Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

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

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

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

# Kalamazoo Public Schools

## Management's Discussion and Analysis (Continued)

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

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

### **The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2011 and 2010:

TABLE I

	Governmental Activities	
	June 30	
	2011	2010
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 77.6	\$ 54.7
Capital assets	<u>166.0</u>	<u>160.2</u>
Total assets	243.6	214.9
<b>Liabilities</b>		
Current liabilities	37.4	32.7
Long-term liabilities	<u>146.3</u>	<u>125.0</u>
Total liabilities	<u>183.7</u>	<u>157.7</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	42.2	43.1
Restricted	6.4	6.1
Unrestricted	<u>11.3</u>	<u>8.0</u>
Total net assets	<u>\$ 59.9</u>	<u>\$ 57.2</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$59.9 million at June 30, 2011. Assets invested in property and equipment of \$42.2 million (net of related debt) compare the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets.

# Kalamazoo Public Schools

## Management's Discussion and Analysis (Continued)

Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets totaling \$6.4 million are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$11.3 million) was unrestricted.

The \$11.3 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal year 2011. Revenue and expense comparison to fiscal year 2010 are as follows:

TABLE 2

	Governmental Activities	
	2011	2010
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 2.0	\$ 2.1
Operating grants and contributions	49.1	46.4
General revenue:		
Property taxes	33.5	36.5
State foundation allowance	66.0	64.8
Federal sources - Unrestricted (ARRA funds)	2.4	3.4
Other	0.2	0.2
Total revenue	153.2	153.4
<b>Functions/Program Expenses</b>		
Instruction	79.0	76.2
Support services	49.1	49.0
Community services	1.2	1.2
Food services	6.6	6.1
Interest on long-term debt	5.7	8.2
Depreciaton (unallocated)	9.0	7.1
Total functions/program expenses	150.6	147.8
<b>Increase in Net Assets</b>	<b>\$ 2.6</b>	<b>\$ 5.6</b>

# **Kalamazoo Public Schools**

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## **Management's Discussion and Analysis (Continued)**

As reported in the statement of activities, the cost of all of our governmental activities this year was \$150.6 million. Instruction and support expenses make up 85 percent of total expenses. Certain activities were partially funded from those who benefited from the programs (\$2.0 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$49.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$33.5 million in taxes coupled with \$66.0 million in state foundation allowance, \$2.4 million in federally unrestricted sources (ARRA stabilization and Edu Jobs funding), and with our other revenue such as revenue in lieu of taxes collected by the debt service fund.

The School District experienced an increase in net assets of \$2.6 million, which is a result of many factors.

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

### **The School District's Funds**

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$48.4 million, which is an increase of \$17.0 million from last year. The primary reasons for the increase are as follows:

- In the General Fund, our principal operating fund, the fund balance increased by \$1,185,683, as budgeted.
- Our special revenue funds remained stable from the prior year with an increase of \$48,473.
- The debt service fund showed a fund balance increase of \$237,705. Millage rates are adjusted annually in accordance with the millage rate schedule established at the time bonds were issued to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant obligations are funded by annual state appropriation and no fund balance exists at year end. The debt service fund's fund balance is restricted since it can only be used to pay debt service obligations.

# Kalamazoo Public Schools

## Management's Discussion and Analysis (Continued)

- Capital Projects Fund fund balances increased by approximately \$13.5 million due to the issuance of the 2010 School Building and Site Bonds totaling \$24,000,000 and the issuance of the 2010 Qualified School Construction Bonds totaling \$7,100,000, offset by the spending of the 2006 and 2009 bonds on intended projects. Bond proceeds are used for constructing buildings, acquiring and installing technology, constructing, furnishing, and equipping additions to existing school buildings, partially remodeling, furnishing, refurbishing, equipping, and re-equipping existing School District buildings, and improving and developing sites, including playgrounds and athletic fields, facilities, and structures in the School District.

### General Fund Budgetary Highlights

Each year, the board approves a close estimate budget that contains amendments to recognize new information that was not available at the time the preliminary budget was adopted. Key factors such as enrollment, employee compensation increases, the number of salaried positions, and projected grant expenditures are often based on estimates in the preliminary budget. The close estimate budget incorporates updated costs and projections based on the most current information. The close estimate budget was adopted on June 23, 2011. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements).

The final 2010/2011 budget included an increase of fund balance of \$1,172,884, with the actual increase being \$1,185,683. The actual variance of revenue and expenditures for the General Fund of \$12,799 equates to .009 percent of total budgeted expenditures.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2011, the School District had \$166 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$5.8 million from last year.

	<u>2011</u>	<u>2010</u>
Land	\$ 5,279,156	\$ 5,279,156
Buildings	147,098,264	140,848,223
Furniture and equipment	<u>13,586,105</u>	<u>14,054,173</u>
Total capital assets	<u><b>\$ 165,963,525</b></u>	<u><b>\$ 160,181,552</b></u>

# **Kalamazoo Public Schools**

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## **Management's Discussion and Analysis (Continued)**

This year's additions of \$14.8 million included building construction (including new classrooms at two middle schools) and renovations, site improvements, buses, technology, and equipment. Bond proceeds primarily from the 2010, 2009, and 2006 bond issues were used for these additions. Included in the buildings amount shown above is approximately \$11.5 million in construction in progress at year end.

Many major capital projects are planned for the 2011-2012 fiscal year. We anticipate capital additions to continue that will be funded with remaining bond proceeds. We present more detailed information about our capital assets in the notes to the financial statements.

### **Debt**

At the end of this year, the School District had \$152.0 million in bonds outstanding versus \$129.2 million in the previous year.

The School District's general obligation bond rating is continues to be AA-. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$152.0 million is significantly below this \$420 million statutorily imposed limit.

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

### **Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration consider many factors when setting the School District's 2011-2010 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2012 fiscal year is 10 and 90 percent of the February 2011 and September 2011 student counts, respectively. Approximately 68 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations, except on a countywide basis. As a result, School District funding is heavily dependent on the State's ability to fund local school operations.

# **Kalamazoo Public Schools**

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## **Management's Discussion and Analysis (Continued)**

In November 2005, a group of anonymous citizens announced a generous college tuition assistance program called the *Kalamazoo Promise*. All students who graduate from Kalamazoo Public Schools and have been Kalamazoo Public Schools students for four years or more will have their college tuition and mandatory fees paid. The amount paid depends on years of School District residency and number of grades attended in Kalamazoo Public Schools, up to 100 percent of tuition and mandatory fees. The funds are available to use at any public university or community college in Michigan. The program is guaranteed to any student in the Kalamazoo Public Schools school system at any time. The *Kalamazoo Promise* has received national media attention with front-page stories in *The New York Times*, *The Wall Street Journal*, and headlines on *CNN News* and *ABC World News*.

Enrollment growth continues in the School District primarily due to the significant improvements in the School District, including the implementation of extended-day kindergarten in most of the School District's elementary buildings, an increase in the number of students taking advanced placement courses, rising test scores, two newly constructed schools, decreasing enrollment at private and charter schools, and the *Kalamazoo Promise*.

The 2011-2012 preliminary budget was adopted in June 2011, based on an estimate of students that will be enrolled in September 2011. Enrollment was projected to increase by 303 students for the 2011-2012 school year. Based on early enrollment data at the start of the 2011-2012 school year, we anticipate that the fall count will be approximately at this projection. Any change in the final student count will be considered when we amend the budget through adoption of the 2011-2012 close estimate budget.

# Kalamazoo Public Schools

## Statement of Net Assets June 30, 2011

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 20,675,599
Receivables:	
Taxes receivable	396,389
Accounts receivable (Note 4)	19,787,898
Inventories	406,279
Prepays	1,611,317
Restricted cash and investments (Notes 3 and 8)	33,611,254
Unamortized bond issuance costs	1,137,318
Capital assets - Less accumulated depreciation of \$89,462,461 (Note 5)	<u>165,963,525</u>
Total assets	243,589,579
<b>Liabilities</b>	
Accounts payable	4,770,923
Accrued payroll and other liabilities	15,803,358
State aid anticipation note (Note 11)	4,760,000
Deferred revenue (Note 4)	3,722,918
Long-term liabilities (Note 7):	
Due within one year - Bonds and notes	8,325,604
Due in more than one year:	
Other obligations	23,286
Compensated absences	808,633
Bonds and notes	<u>145,508,599</u>
Total liabilities	<u>183,723,321</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	42,217,730
Restricted for:	
Debt service	4,928,190
Capital projects	221,974
Food Service	1,170,997
Unrestricted	<u>11,327,367</u>
Total net assets	<u><b>\$ 59,866,258</b></u>

# Kalamazoo Public Schools

## Statement of Activities Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 78,795,149	\$ 263,561	\$ 30,215,556	\$ (48,316,032)
Support services	49,135,093	-	13,312,668	(35,822,425)
Food services	6,649,367	1,096,431	5,584,953	32,017
Community services	1,177,140	619,060	-	(558,080)
Interest on long-term debt	5,795,272	-	-	(5,795,272)
Depreciation (unallocated)	9,032,513	-	-	(9,032,513)
Total governmental activities	<b>\$ 150,584,534</b>	<b>\$ 1,979,052</b>	<b>\$ 49,113,177</b>	(99,492,305)
General revenue:				
Taxes:				
Property taxes - Levied for general purposes				19,941,507
Property taxes - Levied for debt service				13,573,011
State aid not restricted to specific purposes				66,020,024
Federal sources - Unrestricted				2,372,068
Interest and investment earnings				138,874
Other				73,593
Total general revenue				<u>102,119,077</u>
<b>Increase in Net Assets</b>				2,626,772
<b>Net Assets - Beginning of year</b>				<u>57,239,486</u>
<b>Net Assets - End of year</b>				<b><u>\$ 59,866,258</u></b>

# Kalamazoo Public Schools

## Governmental Funds Balance Sheet June 30, 2011

	General Fund	2010 Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 15,646,905	\$ -	\$ 5,028,694	\$ 20,675,599
Receivables:				
Taxes receivable	321,689	-	74,700	396,389
Receivable (Note 4)	19,377,478	-	410,420	19,787,898
Due from other funds (Note 6)	166,729	-	1,162,885	1,329,614
Inventories	313,020	-	93,259	406,279
Prepays	1,611,317	-	-	1,611,317
Restricted cash and investments (Notes 3 and 8)	-	21,947,095	11,664,159	33,611,254
<b>Total assets</b>	<b>\$ 37,437,138</b>	<b>\$ 21,947,095</b>	<b>\$ 18,434,117</b>	<b>\$ 77,818,350</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,834,020	\$ 1,034,878	\$ 2,501,323	\$ 5,370,221
Accrued payroll and other liabilities	13,887,927	-	52,571	13,940,498
State aid anticipation note (Note 11)	4,760,000	-	-	4,760,000
Due to other funds (Note 6)	1,011,742	4,556	313,316	1,329,614
Deferred revenue (Note 4)	3,973,864	-	46,916	4,020,780
<b>Total liabilities</b>	<b>25,467,553</b>	<b>1,039,434</b>	<b>2,914,126</b>	<b>29,421,113</b>
<b>Fund Balances</b>				
Nonspendable:				
Inventories	313,020	-	93,259	406,279
Prepays	1,611,317	-	-	1,611,317
Restricted:				
Capital projects (bonded)	-	20,907,661	9,420,804	30,328,465
Debt service	-	-	4,928,190	4,928,190
Food service	-	-	1,077,738	1,077,738
Assigned:				
Budgeted use of fund balance in subsequent year	1,490,822	-	-	1,490,822
Reserve for future state actions	1,500,000	-	-	1,500,000
Unassigned	7,054,426	-	-	7,054,426
<b>Total fund balances</b>	<b>11,969,585</b>	<b>20,907,661</b>	<b>15,519,991</b>	<b>48,397,237</b>
<b>Total liabilities and fund balances</b>	<b>\$ 37,437,138</b>	<b>\$ 21,947,095</b>	<b>\$ 18,434,117</b>	<b>\$ 77,818,350</b>

# Kalamazoo Public Schools

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2011

**Fund Balance Reported in Governmental Funds** \$ 48,397,237

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

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

Cost of capital assets	\$ 255,425,956	
Accumulated depreciation	(89,462,431)	<u>165,963,525</u>

Taxes receivable, but not available to pay current period expenditures and therefore not included in the funds		297,862
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Unamortized issuance costs are reported as deferred charges in the statement of net assets		1,137,318
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Bond and notes payable - Net of issuance premium/discount	(155,208,823)	
Deferred charges related to defeasance of debt	1,374,620	
Compensated absences, workers' compensation, and other long-term liabilities	<u>(831,919)</u>	(154,666,122)

Arbitrage liability is not included as a liability in the funds		(108,161)
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Accrued interest payable is not included as a liability in the funds		<u>(1,155,401)</u>
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**Net Assets of Governmental Activities** **\$ 59,866,258**

# Kalamazoo Public Schools

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2011

	General Fund	2010 Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 22,946,954	\$ 60,979	\$ 15,041,061	\$ 38,048,994
State sources	81,138,501	-	1,469,461	82,607,962
Federal sources	16,923,437	-	5,260,675	22,184,112
Interdistrict sources	10,446,279	-	-	10,446,279
Total revenue	131,455,171	60,979	21,771,197	153,287,347
<b>Expenditures</b>				
Current:				
Instruction	78,914,312	-	-	78,914,312
Instructional support	27,550,714	-	-	27,550,714
Noninstructional support services	21,948,353	-	-	21,948,353
Food services	-	-	6,649,367	6,649,367
Community services	1,177,140	-	-	1,177,140
Debt service:				
Principal	66,113	-	8,263,247	8,329,360
Interest	194,508	-	7,695,897	7,890,405
Other	-	245,498	287,290	532,788
Capitalized capital outlay	418,348	3,047,722	11,348,416	14,814,486
Total expenditures	130,269,488	3,293,220	34,244,217	167,806,925
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	1,185,683	(3,232,241)	(12,473,020)	(14,519,578)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	234,000	234,000
Transfers out	-	(234,000)	-	(234,000)
Long-term debt issued	-	24,000,000	7,100,000	31,100,000
Premium on debt issued	-	373,902	-	373,902
Total other financing uses	-	24,139,902	7,334,000	31,473,902
<b>Net Change in Fund Balances</b>	1,185,683	20,907,661	(5,139,020)	16,954,324
<b>Fund Balances - Beginning of year</b>	10,783,902	-	20,659,011	31,442,913
<b>Fund Balances - End of year</b>	<u>\$ 11,969,585</u>	<u>\$ 20,907,661</u>	<u>\$ 15,519,991</u>	<u>\$ 48,397,237</u>

# Kalamazoo Public Schools

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2011

**Net Change in Fund Balances - Total Governmental Funds** \$ 16,954,324

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

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

Depreciation expense	\$ (9,032,513)	
Capitalized capital outlay	14,814,486	5,781,973

Long-term debt issuance is reported as an other financing source in the governmental funds; long-term debt is not a revenue in the statement of activities and is reported as a long-term liability in the statement of net assets		(31,100,000)
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	--------------

Property tax revenue deferred from the prior year as timing of collections did not allow the revenue to be available for prior period's expenditures		(77,731)
------------------------------------------------------------------------------------------------------------------------------------------------------	--	----------

Arbitrage rebate is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		1,040,902
--------------------------------------------------------------------------------------------------------------------------------	--	-----------

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		110,314
--------------------------------------------------------------------------------------------------------------------------------	--	---------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		8,329,360
---------------------------------------------------------------------------------------------------------------------------------------------------	--	-----------

Decreases in compensated absences, arbitration claims and judgments, self-insurance, and other are reported as expenditures when financial resources are used in the governmental funds		176,827
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	---------

Accretion of interest on capital appreciation bonds, net of interest paid		1,380,341
---------------------------------------------------------------------------	--	-----------

Bond issuance costs reported as expenditures in the funds and amortized in the statement of activities		306,309
--------------------------------------------------------------------------------------------------------	--	---------

Underwriter's net premium reported as revenue in the funds and amortized in the statement of activities		(373,902)
---------------------------------------------------------------------------------------------------------	--	-----------

Amortization of bond issuance costs in the statement of activities		(99,725)
--------------------------------------------------------------------	--	----------

Amortization of deferred charges in the statement of activities		(158,839)
-----------------------------------------------------------------	--	-----------

Amortization of underwriter's premium in the statement of activities		356,619
----------------------------------------------------------------------	--	---------

**Change in Net Assets of Governmental Activities** **\$ 2,626,772**

# Kalamazoo Public Schools

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## Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2011

	Student Activities <u>Agency Funds</u>
<b>Assets</b> - Cash and investments (Note 3)	<b>\$ 1,261,590</b>
<b>Liabilities</b>	
Accounts payable	\$ 35,279
Due to student groups	<u>1,226,311</u>
Total liabilities	<b><u>\$ 1,261,590</u></b>

### **Note I - Summary of Significant Accounting Policies**

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

#### **Reporting Entity**

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

#### **District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. All of the School District’s district-wide activities are considered governmental activities.

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

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

**District-wide Financial 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.

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

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

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

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

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

### Note I - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental funds:

**General Fund** - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**2010 Capital Project Fund** - The 2010 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. This fund operates until the purpose for which they were created is accomplished.

Additionally, the School District reports the following fund types:

**Special Revenue Fund** - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's special revenue fund accounts for the School District's food service activities. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Debt Service Fund** - The debt service fund is used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on the School District's bond issues.

**2006 Capital Projects Fund** - The 2006 Capital Project Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. This fund operates until the purpose for which they were created is accomplished.

**2009 Capital Projects Fund** - The 2009 Capital Project Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. This fund operates until the purpose for which they were created is accomplished.

**2010 Capital Projects Qualified School Construction Bond Fund** - The 2010 Capital Project Qualified School Construction Bond Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. This fund operates until the purpose for which they were created is accomplished.

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

# Kalamazoo Public Schools

## Notes to Financial Statements June 30, 2011

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Assets or Equity

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

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are levied on December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund is recorded as inventory until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

**Restricted Assets** - The unspent bond proceeds and related interest of the Capital Project Funds require amounts to be set aside for construction. These amounts have been classified as restricted assets.

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

Buildings and building additions	20 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	5 to 10 years

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Compensated Absences** - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. 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.

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

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

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Balance** - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The School District implemented Statement No. 54 during the year.

### Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

**Accounting Change** - Effective July 1, 2010, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 54. The only impact to the School District was related to the changes to fund balance as discussed above.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and the special revenue fund. All annual appropriations lapse at fiscal year end.

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

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

# Kalamazoo Public Schools

## Notes to Financial Statements June 30, 2011

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

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The School District incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
Instructional support - Pupil support	\$ 9,269,366	\$ 9,387,806
Instructional support - School administration	8,442,973	8,584,887

**Capital Projects Fund Compliance** - The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2006 Capital Projects Fund. The project for which the 2006 School Building and Site and Refunding bonds were issued was considered complete on September 3, 2010 and the cumulative expenditures recognized for the construction period were \$75,216,772.

### Note 3 - Deposits and Investments

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

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

### Note 3 - Deposits and Investments (Continued)

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$57,617,399 had \$46,085,568 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have a policy for custodial credit risk of investments. 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 does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy does not address ways to minimize interest rate risk.

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

At year end, the School District was not invested in any debt securities (other than the U.S. government).

**Concentration of Credit Risk** - The School District places no limit on the amount the School District may invest in any one issuer. The School District does not have a policy to minimize concentration of credit risk. The School District did not have more than 5 percent invested with any one issuer.

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

# Kalamazoo Public Schools

## Notes to Financial Statements June 30, 2011

### Note 4 - Receivables and Deferred Revenue

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

	<u>General Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:			
State of Michigan	\$ 17,498,446	\$ 355,474	\$ 17,853,920
Other governmental units	1,270,778	-	1,270,778
Other	<u>608,254</u>	<u>54,946</u>	<u>663,200</u>
Net receivables	<u>\$ 19,377,478</u>	<u>\$ 410,420</u>	<u>\$ 19,787,898</u>

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 297,862	\$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>-</u>	<u>3,722,918</u>
Total	<u>\$ 297,862</u>	<u>\$ 3,722,918</u>

# Kalamazoo Public Schools

## Notes to Financial Statements June 30, 2011

### Note 5 - Capital Assets

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

	Balance July 1, 2010	Reclassifications	Additions	Disposals	Balance June 30, 2011
<b>Governmental Activities</b>					
Assets not being depreciated:					
Land	\$ 5,279,156	\$ -	\$ -	\$ -	\$ 5,279,156
Construction in progress	18,609,699	(15,984,601)	8,855,370	-	11,480,468
Subtotal	23,888,855	(15,984,601)	8,855,370	-	16,759,624
Capital assets being depreciated:					
Buildings and building improvements	174,035,045	15,984,601	2,990,850	-	193,010,496
Furniture and equipment	34,665,574	-	1,943,070	-	36,608,644
Buses and other vehicles	8,739,281	-	1,025,196	(717,285)	9,047,192
Subtotal	217,439,900	15,984,601	5,959,116	(717,285)	238,666,332
Accumulated depreciation:					
Buildings and building improvements	51,796,521	-	5,596,179	-	57,392,700
Furniture and equipment	24,320,897	-	2,753,337	-	27,074,234
Buses and other vehicles	5,029,785	-	682,997	(717,285)	4,995,497
Subtotal	81,147,203	-	9,032,513	(717,285)	89,462,431
Net capital assets being depreciated	136,292,697	15,984,601	(3,073,397)	-	149,203,901
Net capital assets	\$ 160,181,552	\$ -	\$ 5,781,973	\$ -	\$ 165,963,525

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

**Construction Commitments** - The School District has active construction projects at year end. At year end, the School District's commitments with contractors related to ongoing projects are as follows:

	Spent to Date on Ongoing Projects	Remaining Commitment
2009 Capital Projects Fund	\$ 1,748,775	\$ 437,280
2010 Capital Projects Fund	1,078,290	5,147,174
2010 Capital Projects QSCB Fund	4,123,915	1,857,661
General Fund	2,674,296	622,919

# Kalamazoo Public Schools

## Notes to Financial Statements June 30, 2011

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	2010 Capital Projects Fund	\$ 4,556
General Fund	2006 Capital Projects Fund	313,316
Other governmental funds	General Fund	<u>1,011,742</u>
	Total governmental funds	<u>\$ 1,329,614</u>

Interfund balances represent routine and temporary cash flow assistance until amounts are transferred from investment accounts.

Transfer In Fund	Transfer Out Fund	Amount
Debt Retirement	2010 Capital Projects	<u>\$ 234,000</u>

### Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds	\$ 129,180,930	\$ 31,100,000	\$ 8,263,246	\$ 152,017,684	\$ 8,127,824
Premium on issuance	3,173,856	373,902	356,619	3,191,139	356,619
Deferred charges	(1,533,459)	158,839	-	(1,374,620)	(158,839)
Notes	66,113	-	66,113	-	-
Other obligations	2,389,091	-	1,557,172	831,919	-
	<u>\$ 133,276,531</u>	<u>\$ 31,632,741</u>	<u>\$ 10,243,150</u>	<u>\$ 154,666,122</u>	<u>\$ 8,325,604</u>
Issuance premiums					

# Kalamazoo Public Schools

## Notes to Financial Statements June 30, 2011

### Note 7 - Long-term Debt (Continued)

Years Ending June 30	Governmental Activities				
	Principal	Interest	Interest Subsidy	Net Interest	Total - Net
2012	\$ 8,127,824	\$ 7,089,732	\$ (680,199)	\$ 6,409,533	\$ 14,537,357
2013	8,649,860	6,803,706	(675,881)	6,127,825	14,777,685
2014	8,320,000	6,441,308	(670,780)	5,770,528	14,090,528
2015	8,880,000	6,038,008	(664,235)	5,373,773	14,253,773
2016	9,325,000	5,607,995	(656,688)	4,951,307	14,276,307
2017-2021	49,315,000	21,402,975	(3,107,209)	18,295,766	67,610,766
2022-2026	40,025,000	10,911,958	(2,658,091)	8,253,867	48,278,867
2027-2030	19,375,000	1,761,325	(544,064)	1,217,261	20,592,261
Total	\$ 152,017,684	\$ 66,057,007	\$ (9,657,147)	\$ 56,399,860	\$ 208,417,544

#### Governmental Activities

General obligation bonds consist of the following:

Durant Non-Plaintiff bonds, dated November 24, 1998, variable principal payments through 2013, interest at 4.76 percent	\$ 302,684
2006 bonded debt and refunding bonds, \$82,175,000 serial bonds due May 1, 2026; interest from 4.00 percent to 5.25 percent, payable in annual installments of \$1,870,000 to \$7,390,000, plus interest	70,360,000
2007 refunding bonds, \$19,955,000 serial bonds due May 1, 2021; interest from 4.00 percent to 4.125 percent, payable in annual installments of \$80,000 to \$4,300,000, plus interest	19,655,000
2009 refunding bonds, \$18,715,000 serial bonds due May 1, 2016; interest from 3.00 percent to 5.00 percent, payable in annual installments of \$2,680,000 to \$2,940,000, plus interest	14,350,000
2009 bonded debt, \$17,010,000 serial bonds due May 1, 2029; interest from 1.95 percent to 6.10 percent (net of interest subsidy from Federal Treasury of 35 percent of total coupon interest paid), payable in annual installments of \$525,000 to \$1,275,000, plus interest	16,500,000
2010 bonded debt, \$24,000,000 serial bonds due May 1, 2030; interest from 3.00 percent to 4.00 percent, payable in annual installments of \$150,000 to \$2,175,000, plus interest	23,750,000
2010 bonded debt, \$7,100,000 serial bonds due May 1, 2027; interest at 6.20 percent (net of interest subsidy from Federal Treasury up to 5.37 percent), payable in interest only payments until 2027	7,100,000
Total bonded debt	<u>\$ 152,017,684</u>

# Kalamazoo Public Schools

## Notes to Financial Statements June 30, 2011

### Note 7 - Long-term Debt (Continued)

**Durant Non-Plaintiff Bond** - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources.

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 808,633
Self-insurance	<u>23,286</u>
Total	<u>\$ 831,919</u>

**Advance and Current Refundings** - In connection with the issuance of the 2010 School Building and Site Bonds and 2010 Qualified School Construction Bonds, issuance costs totaling \$306,309 have been deferred and are reported as deferred charges in the statement of net assets and are being amortized using the straight-line method over the life of the bond issue in the statement of activities. Issuance costs related to the 2010 School Building and Site Bonds and 2010 Qualified School Construction Bonds have been recognized in the current period in the fund financial statements.

In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, \$34,750,000 of bonds outstanding (related to advance refundings in prior years) are considered defeased.

### Note 8 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent bond proceeds and related interest	<u>\$ 33,611,254</u>

# Kalamazoo Public Schools

## Notes to Financial Statements June 30, 2011

### Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for errors, omissions, law enforcement liability, and medical benefits provided to employees, and participates in the Middle Cities Risk Management Pool (risk pool) for claims relating to property loss and torts. The School District is self-insured for workers' compensation claims up to \$350,000 individually and \$5,000,000 aggregately. Settled claims relating to the commercial insurance did not exceed 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.

The School District estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the district-wide statements. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2011</u>	<u>2010</u>
Estimated liability - Beginning of year	\$ 174,016	\$ 407,614
Less claims adjustment	-	(229,672)
Estimated claims incurred - Including changes in estimates	172,422	194,664
Claim payments	<u>(305,381)</u>	<u>(198,590)</u>
Estimated liability - End of year	<u>\$ 41,057</u>	<u>\$ 174,016</u>

### Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

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

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

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

**Pension Benefits** - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 10.13 percent of covered payroll for the period from July 1, 2010 through September 30, 2010 and 12.16 percent for the period from October 1, 2010 through June 30, 2011. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 to 4.3 percent of gross wages. For member investment plan members hired after June 30, 2008, a graduated fixed contribution rate is used ranging from 3 percent to 6.4 percent of wages. The School District's required and actual contributions to the plan for the years ended June 30, 2011, 2010, and 2009 were \$8,192,339, \$7,063,904, and \$6,882,639, respectively.

**Postemployment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. For members who first work after June 30, 2008, a graded premium health insurance subsidy has been put in place. 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. Required contributions for postemployment healthcare benefits are included as part of the School District's total contribution to the MPSERS plan discussed above. The employer contribution rate was 6.81 percent of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25 percent for the period from October 1, 2010 through October 30, 2010 and 8.50 percent for the period from October 1, 2010 through June 30, 2011. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2011, 2010, and 2009 were \$5,684,565, \$4,789,091, and \$4,495,923, respectively.

# Kalamazoo Public Schools

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## Notes to Financial Statements June 30, 2011

### **Note 11 - State Aid Anticipation Note**

In August 2010, the School District borrowed \$17,000,000 in two different series on the state aid anticipation note through the Michigan Municipal Bond Authority. The notes have an effective interest rate range of .40 to .80 percent. As of June 30, 2011, the School District has cash on deposit with a bank for repayment of \$12,240,000 of the \$17,000,000 state aid anticipation note. The remaining payment amount was deposited on July 20, 2011. The deposits are invested in guaranteed investment contracts, which will mature on August 22, 2011.

In August 2011, the School District borrowed \$16,725,000 on a state aid anticipation note through the Michigan Municipal Bond Authority. The note has an effective interest rate of .60 percent. The notes are collateralized by the 2011-2012 state school aid revenue.

### **Note 12 - Upcoming Accounting Pronouncements**

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the School District's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

## **Required Supplemental Information**

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# Kalamazoo Public Schools

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Over (Under) <u>Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 23,815,070	\$ 22,915,482	\$ 22,946,954	\$ 31,472
State sources	80,191,059	81,266,357	81,138,501	(127,856)
Federal sources	16,033,803	17,689,485	16,923,437	(766,048)
Interdistrict sources	<u>10,520,493</u>	<u>10,436,206</u>	<u>10,446,279</u>	<u>10,073</u>
Total revenue	130,560,425	132,307,530	131,455,171	(852,359)
<b>Expenditures</b>				
Current:				
Instruction:				
Basic program	61,513,026	63,226,724	63,225,581	(1,143)
Added needs	15,990,990	15,484,533	15,437,958	(46,575)
Adult education	<u>293,440</u>	<u>263,846</u>	<u>250,773</u>	<u>(13,073)</u>
Total instruction	77,797,456	78,975,103	78,914,312	(60,791)
Instructional support services:				
Pupil support	9,909,149	9,269,366	9,387,800	118,434
Instructional staff support	9,597,116	9,927,249	9,578,031	(349,218)
School administration	<u>8,264,504</u>	<u>8,442,973</u>	<u>8,584,883</u>	<u>141,910</u>
Total instructional support services	27,770,769	27,639,588	27,550,714	(88,874)
Noninstructional support services:				
General administration	1,188,523	1,038,216	962,936	(75,280)
Business services	1,282,954	1,209,279	1,175,447	(33,832)
Operations and maintenance	11,425,602	10,954,788	10,869,629	(85,159)
Transportation	6,387,020	6,490,891	6,410,336	(80,555)
Other central services	<u>2,602,728</u>	<u>2,593,111</u>	<u>2,530,005</u>	<u>(63,106)</u>
Total noninstructional support services	22,886,827	22,286,285	21,948,353	(337,932)
Community services	1,264,317	1,367,725	1,177,140	(190,585)
Debt service:				
Principal	66,113	66,113	66,113	-
Interest and other	301,653	301,653	194,508	(107,145)
Capital outlay	<u>469,990</u>	<u>498,179</u>	<u>418,348</u>	<u>(79,831)</u>
Total expenditures	<u>130,557,125</u>	<u>131,134,646</u>	<u>130,269,488</u>	<u>(865,158)</u>
<b>Excess of Revenue Over Expenditures</b>	3,300	1,172,884	1,185,683	12,799
<b>Fund Balance - Beginning of year</b>	<u>10,494,349</u>	<u>10,783,902</u>	<u>10,783,902</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 10,497,649</b></u>	<u><b>\$ 11,956,786</b></u>	<u><b>\$ 11,969,585</b></u>	<u><b>\$ 12,799</b></u>

## **Other Supplemental Information**

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# Kalamazoo Public Schools

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2011

	Food Service	Debt Service Fund	2006 Capital Projects	2009 Capital Projects	2010 Capital Projects QSCB	Total Nonmajor Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ -	\$ 5,028,694	\$ -	\$ -	\$ -	\$ 5,028,694
Receivables	410,420	74,700	-	-	-	485,120
Due from other funds	893,235	9	-	269,641	-	1,162,885
Inventories	93,259	-	-	-	-	93,259
Restricted assets	-	-	1,629,529	7,096,378	2,938,252	11,664,159
	<u>\$ 1,396,914</u>	<u>\$ 5,103,403</u>	<u>\$ 1,629,529</u>	<u>\$ 7,366,019</u>	<u>\$ 2,938,252</u>	<u>\$ 18,434,117</u>
Total assets						
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 173,346	\$ 128,297	\$ 994,724	\$ 244,624	\$ 960,332	\$ 2,501,323
Accrued payroll and other liabilities	52,571	-	-	-	-	52,571
Due to other funds	-	-	313,316	-	-	313,316
Deferred revenue	-	46,916	-	-	-	46,916
	<u>225,917</u>	<u>175,213</u>	<u>1,308,040</u>	<u>244,624</u>	<u>960,332</u>	<u>2,914,126</u>
Total liabilities						
<b>Fund Balances</b>						
Nonspendable - Inventories	93,259	-	-	-	-	93,259
Restricted:						
Capital projects (bonded)	-	-	321,489	7,121,395	1,977,920	9,420,804
Debt service	-	4,928,190	-	-	-	4,928,190
Food service	1,077,738	-	-	-	-	1,077,738
	<u>1,170,997</u>	<u>4,928,190</u>	<u>321,489</u>	<u>7,121,395</u>	<u>1,977,920</u>	<u>15,519,991</u>
Total fund balances						
Total liabilities and fund balances	<u>\$ 1,396,914</u>	<u>\$ 5,103,403</u>	<u>\$ 1,629,529</u>	<u>\$ 7,366,019</u>	<u>\$ 2,938,252</u>	<u>\$ 18,434,117</u>

# Kalamazoo Public Schools

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2011

	Food Service	Debt Service Fund	2006 Capital Projects	2009 Capital Projects	2010 Capital Projects QSCB	Total Nonmajor Governmental Funds
<b>Revenue</b>						
Local	\$ 1,096,431	\$13,901,509	\$ 110	\$ 22,170	\$ 20,841	\$ 15,041,061
State	379,365	1,090,096	-	-	-	1,469,461
Federal	5,260,675	-	-	-	-	5,260,675
Total revenue	6,736,471	14,991,605	110	22,170	20,841	21,771,197
<b>Expenditures</b>						
Current - Food services	6,649,367	-	-	-	-	6,649,367
Debt service:						
Principal	-	8,263,247	-	-	-	8,263,247
Interest	-	6,722,446	973,451	-	-	7,695,897
Other	-	2,207	294	206,887	77,902	287,290
Capitalized capital outlay	38,631	-	392,552	5,852,214	5,065,019	11,348,416
Total expenditures	6,687,998	14,987,900	1,366,297	6,059,101	5,142,921	34,244,217
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	48,473	3,705	(1,366,187)	(6,036,931)	(5,122,080)	(12,473,020)
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	234,000	-	-	-	234,000
Long-term debt issued	-	-	-	-	7,100,000	7,100,000
Total other financing uses	-	234,000	-	-	7,100,000	7,334,000
<b>Net Change in Fund Balances</b>	48,473	237,705	(1,366,187)	(6,036,931)	1,977,920	(5,139,020)
<b>Fund Balances - Beginning of year</b>	1,122,524	4,690,485	1,687,676	13,158,326	-	20,659,011
<b>Fund Balances - End of year</b>	<b>\$1,170,997</b>	<b>\$4,928,190</b>	<b>\$ 321,489</b>	<b>\$7,121,395</b>	<b>\$1,977,920</b>	<b>\$15,519,991</b>

# Kalamazoo Public Schools

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2011

June 30	1998 Durant Principal	2006 Debt Principal	2007 Debt Principal	2009 Debt Principal	2009 Debt Principal	2010 Debt Principal	2010 Debt Principal
2012	\$ 147,823	\$ 1,870,000	\$ 2,430,000	\$ 2,680,000	\$ 525,000	\$ 475,000	\$ -
2013	154,861	4,230,000	100,000	2,940,000	550,000	675,000	-
2014	-	4,605,000	90,000	2,925,000	550,000	150,000	-
2015	-	5,015,000	80,000	2,910,000	575,000	300,000	-
2016	-	5,450,000	80,000	2,895,000	575,000	325,000	-
2017	-	7,390,000	120,000	-	800,000	725,000	-
2018	-	3,875,000	4,000,000	-	825,000	750,000	-
2019	-	4,075,000	4,160,000	-	850,000	775,000	-
2020	-	4,275,000	4,295,000	-	925,000	775,000	-
2021	-	4,475,000	4,300,000	-	1,000,000	925,000	-
2022	-	4,675,000	-	-	1,025,000	1,775,000	-
2023	-	4,850,000	-	-	1,050,000	1,825,000	-
2024	-	5,025,000	-	-	1,100,000	1,875,000	-
2025	-	5,200,000	-	-	1,150,000	1,925,000	-
2026	-	5,350,000	-	-	1,200,000	2,000,000	-
2027	-	-	-	-	1,250,000	2,050,000	7,100,000
2028	-	-	-	-	1,275,000	2,100,000	-
2029	-	-	-	-	1,275,000	2,150,000	-
2030	-	-	-	-	-	2,175,000	-
Total	<u>\$ 302,684</u>	<u>\$ 70,360,000</u>	<u>\$ 19,655,000</u>	<u>\$ 14,350,000</u>	<u>\$ 16,500,000</u>	<u>\$ 23,750,000</u>	<u>\$ 7,100,000</u>
Principal payments due	May 15	May 1	May 1	May 1	May 1	May 1	May 1
Interest payments due	May 15	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1
Interest rate	4.76%	4.0% to 5.25%	4.0% to 4.125%	3.0% to 5.0%	1.95% to 6.1%	3.0% to 4.0%	6.2%
Original issue	<u>\$ 2,310,407</u>	<u>\$ 82,175,000</u>	<u>\$ 19,955,000</u>	<u>\$ 18,715,000</u>	<u>\$ 17,010,000</u>	<u>\$ 24,000,000</u>	<u>\$ 7,100,000</u>