

Dundee Community Schools

Dundee, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
June 30, 2007**



REHMANN ROBSON

Certified Public Accountants

DUNDEE COMMUNITY SCHOOLS

For the Year Ended June 30, 2007

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 12, 2007

Board of Education
Dundee Community Schools
Dundee, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **DUNDEE COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dundee Community Schools, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dundee Community Schools' basic financial statements. The combining fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis
Fiscal Year 2007
School Year 2006-2007

As management of the Dundee Community School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$6,353,883 (net assets). Of this amount, \$2,521,415 (unrestricted net assets) may be used to meet the district's ongoing obligations for educational programs.
- The district's total net assets increased \$792,860.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,129,519, a decrease of \$934,142 in comparison with the prior year. Approximately 92% or \$4,735,740 is available for spending at the district's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,975,566 or 15% percent of total general fund expenditures.
- Investments for the future were made by the spending of approximately \$171,284 on school improvements, vehicles and equipment. No new debt was issued to finance these projects.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, food service, athletics, debt service and capital outlay. The District has no business-type activities as of and for the year ended June 30, 2007.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service-2005, Capital Projects-2000, and Capital Projects-General funds, each of which are considered to be a major fund. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund herein to demonstrate compliance with that budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a district's financial position. In the case of the District, assets exceeded liabilities by \$6,414,221 at the close of the most recent fiscal year.

District's Net Assets

	Governmental Activities	
	June 30, 2006	June 30, 2007
Current and other assets	\$ 7,940,368	\$ 7,094,327
Capital assets, net	32,810,810	32,079,335
Total assets	<u>40,751,178</u>	<u>39,173,662</u>
Long-term liabilities outstanding	33,149,204	30,972,015
Other liabilities	2,040,951	1,847,764
Total liabilities	<u>35,190,155</u>	<u>32,819,779</u>
Net assets:		
Invested in capital assets, net of related debt	1,692,443	2,933,295
Restricted	2,501,994	899,173
Unrestricted	<u>1,366,586</u>	<u>2,521,415</u>
Total net assets	<u>\$ 5,561,023</u>	<u>\$ 6,353,883</u>

A portion of the District's net assets (46 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the District's net assets (14% or \$899,173) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (40% or \$2,521,415) may be used to meet the district's ongoing obligations to its programs. The \$2.5 million in unrestricted net assets of the governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets. The same held true for the prior fiscal year.

The results of this year's operation for the District as a whole are reported in the statement of activities, which shows the changes in net assets for the fiscal year 2007. The District has prepared financial statements following GASB Statement No. 34, revenue and expense comparison for fiscal year 2007.

District's Changes in Net Assets

	Governmental Activities	
	2005/06	2006/07
Revenue:		
Program revenue:		
Charges for services	\$ 879,888	\$ 869,799
Operating grants and contributions	1,633,269	1,323,466
General revenue:		
Property taxes	5,109,359	5,567,699
State school aid	8,954,637	9,463,264
Grants and contributions not restricted to specific programs	391,183	420,178
Other	56,531	84,303
Total revenue	17,024,867	17,728,709
Expenses:		
Instruction	7,877,739	8,208,487
Support services	5,383,503	4,881,306
Community services	50,279	55,984
Athletics	348,242	353,575
Food Service	723,490	825,277
Transfers to other districts	110,013	117,415
Depreciation - unallocated	893,649	902,759
Interest on long-term debt	1,549,883	1,591,046
Total expenses	16,936,798	16,935,849
Increase (decrease) in net assets	88,069	792,860
Net assets, beginning of year	5,472,954	5,561,023
Net assets, end of year	\$ 5,561,023	\$ 6,353,883

Governmental activities. Net assets increased by \$792,860. The key elements of this increase are as follows:

- Increase in State School Aid.
- Increase in Property tax revenues.

Financial Analysis of the Government's Funds

Governmental funds. The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,129,519, a decrease of \$934,142 in comparison with the prior year. Approximately 84% of this total amount (\$4,735,740) constitutes unreserved fund balance, which is available for spending at the district's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because the underlying assets are included in prepaids or otherwise restricted and are not available for current expenditure.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,975,566. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 15% of the total general fund expenditures and total fund balance represent approximately 18% percent of total general fund expenditures.

The unreserved fund balance of the District's general fund increased by \$191,028 during the current fiscal year and the total fund balance of the District's general fund decreased by \$24,514.

General Fund Budgetary Highlights

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

Differences between the original and final amended budgets related to updates in salaries and benefits costs and student count for the District. Once this additional information was known, subsequent budget amendments recognized the additional revenue and additional planned expenditures and the individual various District program budgets were adjusted accordingly.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2007, amounted to \$32,079,335 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment.

Long term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$28,595,719. This amount represents both general obligations of the District that do constitute an indebtedness of the District within any constitutional or statutory limitations (1996 and 2000 debt issues), and those that are not general obligations of the District, and is payable solely from state aid payments from the State of Michigan (Durant bonds).

In addition, the District has additional bonded debt of \$3,021,112 through the Michigan School Bond Loan Fund. This debt is also a general obligation of the District.

The District's total debt decreased by \$2,177,189 during the current fiscal year, due primarily to repayments on long-term obligations.

Factors Bearing on the District's Future

Our elected school board officials and administration consider many factors when setting the District's 2008 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 2008 fiscal year is 20 percent and 80 percent of the February 2007 and September 2006 student counts, respectively. The 2008 fiscal year budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 92% of all revenues received by the District are directly related to the foundation allowance (72% from the state and 20% from non-homestead local property taxes). Under State law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-08 school year, we anticipate that the fall student count will equal the estimates used in creating the 2007 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. The last conference was held in October of 2007 and, at that time, the State estimated that funds were sufficient to fund the foundation allowance with an approximate \$96 (1.4%) per student increase in the membership foundation. At the time that this audit report is being prepared, we have been given many indications that the economy is still not recovering as quickly as previously anticipated by the State. There are still cuts to be made at the State level and the District is operating based on estimates supplied by the State. If Michigan's economy continues to decline, the revenues may come in at lower levels than anticipated and the District will face the same problems in the future as it has in the past. The District will continue to meet increased contractual obligations, increasing health care costs, State mandated retirement rates and estimates of escalating utility increase through careful budget management.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Dundee Community Schools' Business Office, 420 Ypsilanti Street, Dundee, MI 48131.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Dundee Community Schools
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,735,857
Investments	120,000
Receivables	1,833,078
Deferred charges	405,392
Capital assets not being depreciated	717,154
Capital assets being depreciated, net	<u>31,362,181</u>
Total assets	<u>39,173,662</u>
Liabilities	
Accounts payable and accrued liabilities	1,723,766
Unearned revenue	123,998
Long-term debt:	
Due within one year	1,312,046
Due in more than one year	<u>29,659,969</u>
Total liabilities	<u>32,819,779</u>
Net assets	
Invested in capital assets, net of related debt	2,933,295
Restricted for:	
Debt service	445,666
Other purposes	453,507
Unrestricted	<u>2,521,415</u>
Total net assets	<u><u>\$ 6,353,883</u></u>

The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Statement of Activities
For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 8,208,487	\$ -	\$ 1,140,049	\$ (7,068,438)
Support services	4,881,306	167,645	4,083	(4,709,578)
Community services	55,984	27,343	-	(28,641)
Athletics	353,575	90,199	-	(263,376)
Food service	825,277	533,039	179,334	(112,904)
Transfers to other districts	117,415	-	-	(117,415)
Depreciation - unallocated	902,759	-	-	(902,759)
Interest on long-term debt	1,591,046	51,573	-	(1,539,473)
Total governmental activities	\$ 16,935,849	\$ 869,799	\$ 1,323,466	(14,742,584)
General revenues:				
Property taxes				5,567,699
State school aid				9,463,264
Grants and contributions not restricted to specific programs				420,178
Unrestricted investment earnings				81,153
Gain on sale of capital assets				3,150
Total general revenues				15,535,444
Change in net assets				792,860
Net assets, beginning of year				5,561,023
Net assets, end of year				\$ 6,353,883

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

Dundee Community Schools
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Debt Service- 2005	Capital Projects- 2000	Capital Projects- General	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 1,893,547	\$ 625,114	\$ 1,159,792	\$ 735,438	\$ 321,966	\$ 4,735,857
Investments	120,000	-	-	-	-	120,000
Accounts receivable	1,723,783	-	-	-	109,295	1,833,078
Due from other funds	122,188	362	-	-	219,319	341,869
Prepaid items	50,419	-	-	-	-	50,419
	<u>\$ 3,909,937</u>	<u>\$ 625,476</u>	<u>\$ 1,159,792</u>	<u>\$ 735,438</u>	<u>\$ 650,580</u>	<u>\$ 7,081,223</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Accounts payable	\$ 235,259	\$ -	\$ -	\$ -	\$ 60,338	\$ 295,597
Salaries payable	869,279	-	-	-	-	869,279
Due to other funds	76,814	19,468	-	29,034	216,553	341,869
Due to other governments	220,725	-	-	-	-	220,725
Deferred revenue	138,515	-	-	-	85,719	224,234
Total liabilities	<u>1,540,592</u>	<u>19,468</u>	<u>-</u>	<u>29,034</u>	<u>362,610</u>	<u>1,951,704</u>
Fund Balances						
Reserved for prepaid items	50,419	-	-	-	-	50,419
Reserved for special purposes	162,630	-	-	-	-	162,630
Reserved for claims	180,730	-	-	-	-	180,730
Unreserved:						
Designated for subsequent year's expenditures	418,195	-	-	-	-	418,195
Undesignated	1,557,371	606,008	1,159,792	706,404	-	4,029,575
Undesignated, reported in nonmajor:						
Special revenue funds	-	-	-	-	110,147	110,147
Debt service funds	-	-	-	-	177,823	177,823
Total fund balances	<u>2,369,345</u>	<u>606,008</u>	<u>1,159,792</u>	<u>706,404</u>	<u>287,970</u>	<u>5,129,519</u>
	<u>\$ 3,909,937</u>	<u>\$ 625,476</u>	<u>\$ 1,159,792</u>	<u>\$ 735,438</u>	<u>\$ 650,580</u>	<u>\$ 7,081,223</u>

The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2007

Fund balances - total governmental funds	\$	5,129,519
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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 are not reported in the funds.

Add: capital assets		38,887,655
Deduct: accumulated depreciation		(6,808,320)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues		100,236
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds/loans payable		(31,616,831)
Add: unamortized bond issuance costs		354,973
Add: unamortized loss on refunding		1,109,332
Deduct: unamortized bond premium		(153,306)
Deduct: accrued interest on bonds payable		(338,165)
Deduct: other long-term liabilities		(180,730)
Deduct: compensated absences		(130,480)

Net assets of governmental activities	\$	6,353,883
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The accompanying notes are an integral part of these financial statements.

Dundee Community School:
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2007

	General Fund	Debt Service- 2005	Capital Projects- 2000	Capital Projects- General	Other Governmental Funds	Total Governmental Funds
Revenues						
Local sources:						
Property taxes	\$ 2,450,224	\$ 1,745,201	\$ -	\$ -	\$ 1,372,274	\$ 5,567,699
Other local sources	956,399	40,132	113,286	54,359	634,787	1,798,963
State sources	10,015,034	-	-	-	32,285	10,047,319
Federal sources	179,046	-	-	-	147,049	326,095
Total revenues	<u>13,600,703</u>	<u>1,785,333</u>	<u>113,286</u>	<u>54,359</u>	<u>2,186,395</u>	<u>17,740,076</u>
Expenditures						
Instruction:						
Basic programs	7,255,106	-	-	-	-	7,255,106
Added needs:						
Special education	725,350	-	-	-	-	725,350
Other added needs	238,455	-	-	-	-	238,455
Total instruction	<u>8,218,911</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,218,911</u>
Support services:						
Pupil	387,145	-	-	-	-	387,145
Instructional services	259,263	-	-	-	-	259,263
General administration	317,712	-	-	-	-	317,712
School administration	874,496	-	-	-	-	874,496
Business	255,370	-	-	-	-	255,370
Maintenance	1,634,502	-	-	-	-	1,634,502
Transportation	749,632	-	-	-	-	749,632
Other support services	445,533	-	-	-	-	445,533
Total support services	<u>4,923,653</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,923,653</u>
Community services	55,984	-	-	-	-	55,984
Athletics	-	-	-	-	353,575	353,575
Food service	-	-	-	-	825,277	825,277
Transfers to other districts	117,415	-	-	-	-	117,415
Debt service:						
Principal	-	862,365	-	-	1,134,895	1,997,260
Interest and fiscal charges	-	1,511,670	-	-	333,615	1,845,285
Capital outlay and maintenance	-	-	81,219	258,789	-	340,008
Total expenditures	<u>13,315,963</u>	<u>2,374,035</u>	<u>81,219</u>	<u>258,789</u>	<u>2,647,362</u>	<u>18,677,368</u>
Revenues over (under) expenditures	<u>284,740</u>	<u>(588,702)</u>	<u>32,067</u>	<u>(204,430)</u>	<u>(460,967)</u>	<u>(937,292)</u>
Other financing sources (uses)						
Proceeds from sales of capital assets	3,150	-	-	-	-	3,150
Transfers in	-	-	-	-	263,376	263,376
Transfers out	(263,376)	-	-	-	-	(263,376)
Total other financing sources (uses)	<u>(260,226)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>263,376</u>	<u>3,150</u>
Change in fund balances	24,514	(588,702)	32,067	(204,430)	(197,591)	(934,142)
Fund balance, beginning of year	<u>2,344,831</u>	<u>1,194,710</u>	<u>1,127,725</u>	<u>910,834</u>	<u>485,561</u>	<u>6,063,661</u>
Fund balance, end of year	<u>\$ 2,369,345</u>	<u>\$ 606,008</u>	<u>\$ 1,159,792</u>	<u>\$ 706,404</u>	<u>\$ 287,970</u>	<u>\$ 5,129,519</u>

The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ (934,142)

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, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	171,284
Deduct: depreciation expense	(902,759)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: payments received on long-term Durant receivables	(14,517)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds or obtaining financing through capital leases increases long-term liabilities in the statement of net assets. Repayment of bond principal or other long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

Add: principal payments on bonds and leases	1,997,260
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest payable on bonds	311,239
Deduct: amortization of bond discounts, refunding premium, and issuance costs	(57,000)
Add: decrease in the accrual for claims payable	209,313
Add: decrease in the accrual for compensated absences	12,182
	12,182

Change in net assets of governmental activities	\$ 792,860
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The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2007

	Budget Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Local sources:				
Property taxes	\$ 2,396,882	\$ 2,457,844	\$ 2,450,224	\$ (7,620)
Other local sources	813,442	932,376	956,399	24,023
State sources	10,168,345	10,147,851	10,015,034	(132,817)
Federal sources	206,418	214,874	179,046	(35,828)
Total revenues	<u>13,585,087</u>	<u>13,752,945</u>	<u>13,600,703</u>	<u>(152,242)</u>
Expenditures				
Instruction:				
Basic programs	7,030,226	7,168,008	7,255,106	87,098
Added needs:				
Special education	736,942	733,321	725,350	(7,971)
Other added needs	358,577	392,631	238,455	(154,176)
Total instruction	<u>8,125,745</u>	<u>8,293,960</u>	<u>8,218,911</u>	<u>(75,049)</u>
Support services:				
Pupil	486,072	499,487	387,145	(112,342)
Instructional services	314,949	319,888	259,263	(60,625)
General administration	313,864	349,953	317,712	(32,241)
School administration	953,873	930,484	874,496	(55,988)
Business	273,952	262,936	255,370	(7,566)
Maintenance	2,018,864	1,910,390	1,634,502	(275,888)
Transportation	798,323	806,031	749,632	(56,399)
Other support services	409,408	468,322	445,533	(22,789)
Total support services	<u>5,569,305</u>	<u>5,547,491</u>	<u>4,923,653</u>	<u>(623,838)</u>
Community services	<u>69,465</u>	<u>63,195</u>	<u>55,984</u>	<u>(7,211)</u>
Transfers to other districts	<u>100,000</u>	<u>110,000</u>	<u>117,415</u>	<u>7,415</u>
Total expenditures	<u>13,864,515</u>	<u>14,014,646</u>	<u>13,315,963</u>	<u>(698,683)</u>
Revenues over (under) expenditures	(279,428)	(261,701)	284,740	546,441
Other financing sources (uses)				
Proceeds from sales of capital assets	-	3,150	3,150	-
Transfers out	(298,017)	(298,017)	(263,376)	34,641
Total other financing sources (uses)	<u>(298,017)</u>	<u>(294,867)</u>	<u>(260,226)</u>	<u>34,641</u>
Change in fund balance	(577,445)	(556,568)	24,514	581,082
Fund balance, beginning of year	<u>2,344,831</u>	<u>2,344,831</u>	<u>2,344,831</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,767,386</u>	<u>\$ 1,788,263</u>	<u>\$ 2,369,345</u>	<u>\$ 581,082</u>

The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Statement of Fiduciary Net Assets
June 30, 2007

	Private- Purpose Trust	Agency Fund
Assets		
Cash and cash equivalents	\$ 78,380	\$ 151,391
Investments	100,668	50,000
Accounts receivable	6,215	-
Total assets	185,263	\$ 201,391
Liabilities		
Accrued liabilities	-	\$ 5,756
Due to student groups	-	195,635
	-	\$ 201,391
Net assets		
Reserved for scholarships	\$ 185,263	

The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2007

	<u>Private- Purpose Trust</u>
Additions	
Private donations	\$ 9,478
Interest	<u>3,632</u>
Total additions	13,110
 Deductions	
Scholarships	<u>19,450</u>
Change in net assets	(6,340)
Net assets, beginning of year	<u>191,603</u>
Net assets, end of year	<u><u>\$ 185,263</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Dundee Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be included in its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year.

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

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

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

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *2005 debt service fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs of the 2005 Building and Site Bonds.

The *2000 capital projects fund* accounts for the construction of a new high school building, as well as, the acquisition of capital assets and the renovation of certain other District facilities. These projects are funded by a general obligation bond issue.

The *general capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements. These projects are funded primarily through contributions made from the District's general fund and accumulated fund balance.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *debt service* funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *private-purpose trust fund* accounts for contributions earmarked for scholarships available to qualifying students of the District.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

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

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

3. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20-50
Vehicles	8
Equipment	5-20

4. *Compensated absences*

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees accrue 10-12 days of sick leave per year, which accumulates if not used. Sick time is paid upon termination only to employees who have ten or more years of service with the District. The maximum payout upon termination varies, depending on the employee's classification (teacher, administrator, etc.).

5. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

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 in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

6. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

The District did not adopt a budget for the Food Service Special Revenue Fund.

B. Excess of expenditures over appropriations

During the year ended June 30, 2007, the District incurred expenditures in excess of the amount appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund:			
Instructions:			
Basic programs	\$ 7,168,008	\$ 7,255,106	\$ 87,098
Transfers to other districts	110,000	117,415	7,415

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 4,735,857
Investments	120,000
Statement of Fiduciary Net Assets	
Private-purpose trust:	
Cash and cash equivalents	78,380
Investments	100,668
Agency fund:	
Cash and cash equivalents	151,391
Investments	<u>50,000</u>
	<u>\$ 5,236,296</u>
Bank deposits	<u>\$ 5,236,296</u>

Statutory Authority

State statutes authorize the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The District held no investments at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$4,996,426 of the District's bank balance of \$5,492,240 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The District held no investments at year-end.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. The District held no investments at year-end.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amounts not Expected to be Collected Within One Year</u>
Receivables:				
Accounts	\$ 15,173	\$ 95	\$ 15,268	\$ -
Intergovernmental	1,694,093	23,481	1,717,574	-
Durant settlement	<u>14,517</u>	<u>85,719</u>	<u>100,236</u>	<u>85,719</u>
	<u>\$ 1,723,783</u>	<u>\$ 109,295</u>	<u>\$ 1,833,078</u>	<u>\$ 85,719</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are 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:

Unavailable:	
Durant receivable due from State annually through 2013	\$ 100,236
Unearned:	
Grant receipts in excess of cumulative expenditures	<u>123,998</u>
	<u>\$ 224,234</u>

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 717,154	\$ -	\$ -	\$ 717,154
Capital assets being depreciated:				
Land improvements	427,267	14,827	-	442,094
Buildings and improvements	36,202,686	35,009	-	36,237,695
Vehicles	1,242,236	121,448	77,790	1,285,894
Equipment	204,818	-	-	204,818
Total capital assets being depreciated	38,077,007	171,284	77,790	38,170,501
Less accumulated depreciation for:				
Land improvements	333,851	15,427	-	349,278
Buildings and improvements	4,618,022	757,371	-	5,375,393
Vehicles	870,315	119,753	77,790	912,278
Equipment	161,163	10,208	-	171,371
Total accumulated depreciation	5,983,351	902,759	77,790	6,808,320
Total capital assets being depreciated, net	32,093,656	(731,475)	-	31,362,181
Governmental activities capital assets, net	\$ 32,810,810	\$ (731,475)	\$ -	\$ 32,079,335

Depreciation expense of \$902,759 was charged to the function “unallocated depreciation”, and was not allocated to the other functions.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Financial Statements:			
Accounts payable	\$ 235,259	\$ 60,338	\$ 295,597
Salaries payable	869,279	-	869,279
Due to other governments	<u>220,725</u>	<u>-</u>	<u>220,725</u>
	<u>\$ 1,325,263</u>	<u>\$ 60,338</u>	1,385,601
Government-wide Financial Statements:			
Accrued interest on long-term debt			<u>338,165</u>
			<u>\$ 1,723,766</u>

E. Interfund receivables, payables and transfers

At June 30, 2007, interfund receivables and payables consisted of the following:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 122,188	\$ 76,814
Debt Service-2005	362	19,468
Capital Projects-General	-	29,034
Nonmajor governmental funds	<u>219,319</u>	<u>216,553</u>
	<u>\$ 341,869</u>	<u>\$ 341,869</u>

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended June 30, 2007, interfund transfers consisted of \$263,376 to nonmajor governmental funds in order to subsidize the athletics program.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 29,570,719	\$ -	\$ (975,000)	\$ 28,595,719	\$ 1,140,000
Unamortized loss on refunding	(1,157,564)	-	48,232	(1,109,332)	48,232
Unamortized bond premium	159,972	-	(6,666)	153,306	(6,666)
School Bond Loan Fund	4,043,372	-	(1,022,260)	3,021,112	-
Claims payable	390,043	-	(209,313)	180,730	-
Compensated absences	142,662	16,470	(28,652)	130,480	130,480
	<u>\$33,149,204</u>	<u>\$ 16,470</u>	<u>\$(2,193,659)</u>	<u>\$30,972,015</u>	<u>\$ 1,312,046</u>

Bonds payable at June 30, 2007, are comprised of the following issues:

General Obligation Bonds:

\$30,975,000 2000 Building and Site Bonds for new construction of high school and remodeling to existing building, due in annual installments of \$675,000 to \$1,275,000 through 2030; interest at 5.25% to 5.50% \$ 2,750,000

\$600,000 2001 Building and Site Bonds for roof replacement on existing buildings, due in annual installments of \$5,000 to \$170,000 through May 1, 2009; interest at 4.10% to 6.00% 335,000

\$25,625,000 2005 Refunding Bonds for refunding a portion of the 2000 Building and Site Bonds, due in annual installments of \$100,000 to \$1,300,000 through 2030; interest at 3.00% to 5.00% 25,425,000

* \$145,172 1998 Durant School Improvement Bonds, due in annual installments of \$7,027 to \$35,086 through 2013; interest at 4.8% 85,719

Total General Obligation Bonds Payable **\$ 28,595,719**

* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

At year end, defeased bonds outstanding were \$24,200,000, which are scheduled to be called and paid by the escrow agent in the fiscal year ended June 30, 2010.

Compensated absences and claims payable are generally liquidated by the general fund.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30	Principal	Interest	Total
2008	\$ 1,140,000	\$ 1,307,848	\$ 2,447,848
2009	1,203,079	1,250,558	2,453,637
2010	1,058,464	1,190,088	2,248,552
2011	1,058,867	1,135,776	2,194,643
2012	1,150,579	1,083,276	2,233,855
2013-2017	6,159,730	4,626,080	10,785,810
2018-2022	6,425,000	3,236,078	9,661,078
2023-2027	6,500,000	1,781,000	8,281,000
2028-2030	3,900,000	351,000	4,251,000
	<u>\$ 28,595,719</u>	<u>\$ 15,961,704</u>	<u>\$ 44,557,423</u>

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2007, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance	\$ 4,043,372	\$ 422,834	\$ 4,466,206
Additions	-	184,535	184,535
Reductions	<u>(1,022,260)</u>	<u>(487,178)</u>	<u>(1,509,438)</u>
Ending balance	<u>\$ 3,021,112</u>	<u>\$ 120,191</u>	<u>\$ 3,141,303</u>

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The 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 District has purchased commercial insurance for general liability, employee injuries/workers' compensation, property and casualty and health claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

B. Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

C. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 29 are recognized as revenue when collected.

D. Defined benefit pension plan

Plan Description

The Dundee Community Schools contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Dundee Community Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the Dundee Community Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were \$1,371,851, \$1,195,342, and \$1,107,745, respectively, equal to the required contributions for each year.

During the year ended June 30, 2007, the Office of Retirement Systems issued a credit to all Michigan School Districts against the MPSERS contribution for the 2006/07 fiscal year by reducing State Aid cash payments. The amount of the credit for the Districts is \$213,044.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

* * * * *

**COMBINING FUND
FINANCIAL STATEMENTS**

Dundee Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue		Debt	
	Food Service	Athletic	1996 Debt	1996-2001 Debt
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 201,292	\$ 5,266	\$ 14,913	\$ 9,271
Accounts receivable	23,481	95	-	-
Due from other funds	245	155,720	2,420	1,531
<u>TOTAL ASSETS</u>	\$ 225,018	\$ 161,081	\$ 17,333	\$ 10,802
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 60,338	\$ -	\$ -	\$ -
Due to other funds	112,875	102,739	-	590
Deferred revenue	-	-	-	-
Total liabilities	173,213	102,739	-	590
Fund balances				
Unreserved, undesignated	51,805	58,342	17,333	10,212
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 225,018	\$ 161,081	\$ 17,333	\$ 10,802

<u>Service</u>			<u>Total Nonmajor Governmental Funds</u>
2000 Debt	Durant		
\$ 91,224	\$ -	\$	321,966
-	85,719		109,295
59,403	-		219,319
<hr/>			
\$ 150,627	\$ 85,719	\$	650,580
<hr/> <hr/>			

\$ -	\$ -	\$	60,338
349	-		216,553
-	85,719		85,719
<hr/>			
349	85,719		362,610

150,278	-		287,970
<hr/>			

\$ 150,627	\$ 85,719	\$	650,580
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Dundee Community Schools
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue		Debt	
	Food Service	Athletic	1996 Debt	1996-2001 Debt
Revenues				
Local sources:				
Property taxes	\$ -	\$ -	\$ 140,544	\$ 19,538
Other local sources	533,147	90,199	2,410	311
State sources	32,285	-	-	-
Federal sources	147,049	-	-	-
Total revenues	712,481	90,199	142,954	19,849
Expenditures				
Athletics	-	353,575	-	-
Food service	825,277	-	-	-
Debt service:				
Principal	-	-	195,000	5,000
Interest and fiscal charges	-	-	10,538	15,125
Total expenditures	825,277	353,575	205,538	20,125
Revenue over (under) expenditures	(112,796)	(263,376)	(62,584)	(276)
Other financing sources				
Transfers in	-	263,376	-	-
Change in fund balances	(112,796)	-	(62,584)	(276)
Fund balance, beginning of year	164,601	58,342	79,917	10,488
Fund balance, end of year	\$ 51,805	\$ 58,342	\$ 17,333	\$ 10,212

<u>Service</u> <u>2000</u> <u>Debt</u>	<u>Durant</u>	<u>Total</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
\$ 1,212,192	\$ -	\$ 1,372,274
8,720	-	634,787
-	-	32,285
-	-	147,049
<u>1,220,912</u>	<u>-</u>	<u>2,186,395</u>
-	-	353,575
-	-	825,277
934,895	-	1,134,895
307,952	-	333,615
<u>1,242,847</u>	<u>-</u>	<u>2,647,362</u>
(21,935)	-	(460,967)
-	-	263,376
(21,935)	-	(197,591)
<u>172,213</u>	<u>-</u>	<u>485,561</u>
<u>\$ 150,278</u>	<u>\$ -</u>	<u>\$ 287,970</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 12, 2007

Board of Education
Dundee Community Schools
Dundee, Michigan

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *DUNDEE COMMUNITY SCHOOLS* as of and for the year ended June 30, 2007, and have issued our report thereon dated November 12, 2007. 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 Dundee Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Dundee Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Dundee Community Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Dundee Community Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Dundee Community Schools' financial statements that is more than inconsequential will not be prevented or detected by Dundee Community Schools' internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Finding 2007-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the district's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting)

Condition: As is the case with many smaller and medium-sized entities, the district has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the district's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the district lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible

Officials: The District has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the district to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2007-2 Audit Adjustments

Criteria: The District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Several significant adjustments were necessary to agree key accounts to their proper underlying balances. In addition, the General Fund and Debt Service Funds were out of balance.

Cause: Internal controls did not detect all adjustment necessary to properly record year-end adjustments in the current year. In addition, closing entries from the prior year were not properly posted.

Effect: As a result of this condition, the District is not able to produce accurate financial information.

**View of
Responsible**

Officials: At the end of the previous fiscal year account balances were compared and agreed to the final trial balance as audited. However, in the rollover from prior year to current year all balances did not roll over correctly. We operated under the assumption that the software was operating correctly. As we began the audit and discovered the discrepancy we were able to make the appropriate corrections. The previous year's trial balance was again examined and found to have the correct balances. This software will not be in use in the current fiscal year and we are optimistic these issues will not continue.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Dundee Community Schools' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 and 2007-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dundee Community Schools' 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*.

We noted certain matters that we reported to management of Dundee Community Schools, in a separate letter dated November 12, 2007.

Dundee Community Schools' responses to the findings identified in our audit are described above. We did not audit Dundee Community Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, others within the organization, 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.

