

# **Dearborn Heights School District No. 7**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# Dearborn Heights School District No. 7

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## Independent Auditor's Report

To the Board of Education  
Dearborn Heights School District No. 7

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Dearborn Heights School District No. 7 as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dearborn Heights School District No. 7's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Dearborn Heights School District No. 7 as of June 30, 2007 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is 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  
Dearborn Heights School District No. 7

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dearborn Heights School District No. 7's basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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 October 1, 2007 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 & Moran, PLLC*

October 1, 2007

# **Dearborn Heights School District No. 7**

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

This section of Dearborn Heights School District No. 7's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the years ended June 30, 2007 and 2006. 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 Dearborn Heights School District No. 7 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 fund, the General Fund, with all other funds presented in one column 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**

District-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 revenues and expenses are taken into account regardless of when cash is received or paid.

# Dearborn Heights School District No. 7

## 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 revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, 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 Cafeteria and Athletics Funds are examples) 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.

# Dearborn Heights School District No. 7

## 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 assets and liabilities. 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, 2007 and 2006:

TABLE I

|  | Governmental Activities |                |
|--|-------------------------|----------------|
|  | 2007                    | 2006           |
|  | (in millions)           |                |
| <b>Assets</b>  |                         |                |
| Current and other assets                                 | \$ 8.9                  | \$ 9.9         |
| Capital assets   | 10.6                    | 9.8            |
| Total assets   | 19.5                    | 19.7           |
| <b>Liabilities</b>                                       |                         |                |
| Current liabilities                                      | 4.2                     | 4.1            |
| Long-term liabilities                                    | 2.7                     | 3.5            |
| Total liabilities  | 6.9                     | 7.6            |
| <b>Net Assets</b>  |                         |                |
| Invested in property and equipment - Net of related debt | 7.4                     | 5.6            |
| Restricted   | 0.5                     | 0.8            |
| Unrestricted   | 4.7                     | 5.7            |
| Total net assets   | <u>\$ 12.6</u>          | <u>\$ 12.1</u> |

# Dearborn Heights School District No. 7

## Management's Discussion and Analysis (Continued)

The above analysis focuses on the net assets (see Table 1). 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 \$12.6 million and \$12.1 million at June 30, 2007 and 2006, respectively. Capital assets, net of related debt, totaling \$7.4 million compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets, in the amount of \$0.5 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, \$4.7 million, was unrestricted.

The \$4.7 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 (see Table 2), which shows the changes in net assets for fiscal years 2007 and 2006.

TABLE 2

|                                 | Governmental Activities |        |
|---------------------------------|-------------------------|--------|
|                                 | 2007                    | 2006   |
|                                 | (in millions)           |        |
| <b>Revenue</b>                  |                         |        |
| Program revenue:                |                         |        |
| Charges for services            | \$ 1.0                  | \$ 1.0 |
| Federal grants and entitlements | 1.4                     | 1.5    |
| State categoricals              | 1.3                     | 1.6    |
| Operating grants                | 0.2                     | 0.2    |
| General revenue:                |                         |        |
| Property taxes                  | 3.0                     | 2.7    |
| State foundation allowance      | 19.5                    | 18.5   |
| Other                           | 0.4                     | 0.3    |
| Total revenue                   | 26.8                    | 25.8   |

# Dearborn Heights School District No. 7

## Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

|                                   | Governmental Activities |               |
|-----------------------------------|-------------------------|---------------|
|                                   | 2007                    | 2006          |
|                                   | (in millions)           |               |
| <b>Functions/Program Expenses</b> |                         |               |
| Instruction                       | \$ 15.5                 | \$ 15.3       |
| Support services                  | 8.0                     | 7.0           |
| Community services                | 0.5                     | 0.5           |
| Food services                     | 1.0                     | 1.0           |
| Athletics                         | 0.4                     | 0.4           |
| Interest on long-term debt        | 0.1                     | 0.2           |
| Depreciation (unallocated)        | 0.8                     | 0.7           |
| Total functions/program expenses  | 26.3                    | 25.1          |
| <b>Increase in Net Assets</b>     | <b>\$ 0.5</b>           | <b>\$ 0.7</b> |

As reported in the statement of activities, the cost of all of our governmental activities this year was \$26.3 million. Certain activities were partially funded from those who benefited from the programs (\$1.0 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2.9 million). We paid for the remaining “public benefit” portion of our governmental activities with \$3.0 million in taxes, \$19.5 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

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.

# **Dearborn Heights School District No. 7**

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$5.8 million, which is a decrease of \$1.2 million from last year. The primary reason for the decrease is as follows:

In the General Fund, our principal operating fund, the fund balance decreased approximately \$400,000. The change is mainly due to the cost of General Fund operations, primarily salaries, benefits and utilities, increasing 3.7 percent over fiscal year 2006.

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

Our Special Revenue Funds, combined, showed a fund balance increase of approximately \$46,000.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$27,000. Millage rates were levied at a slightly lower rate than fiscal year 2006; however, an increase in the taxable value of homestead and non-homestead property resulted in an increase in fund balance. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The combined Capital Projects Funds fund balance decreased a net \$931,000. The Capital Projects Fund and the Capital Project Sinking Fund fund balances decreased by approximately \$655,000 and \$244,000, respectively. In prior years, the General Fund made an operating transfer to the Capital Projects Fund to purchase School District buses. The Sinking Fund held the monies on behalf of the Capital Projects Fund since the School District did not maintain a separate bank account at a financial institution for the Capital Projects Fund. As these monies remained unspent, they were transferred back to the General Fund per prior year board resolution. The Durant Non-Plaintiff Bond Fund fund balance decreased by approximately \$39,000. Unspent monies were transferred to the General Fund.

### **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in 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 School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were no significant revisions made to the 2006-2007 General Fund original budget except for revisions to state source revenues. Budgeted state source revenues were increased 1 percent or \$298,000 due to an increase in state aid and the School District recognizing certain categorical revenues that had been deferred in prior years.

# Dearborn Heights School District No. 7

## Management's Discussion and Analysis (Continued)

Budgeted expenditures were increased 1.1 percent or \$270,000. Operations and maintenance and capital outlay budgets were adjusted in the final budget. The amount of transfers to other funds established in the budget represents support provided by the General Fund to other School District functions.

Significant variances between the final budget and actual amounts are as follows:

|                                  | <u>Budget</u> | <u>Actual</u> |
|----------------------------------|---------------|---------------|
| Revenues:                        |               |               |
| Interdistrict sources            | \$ 952,596    | \$ 184,136    |
| Federal sources                  | 1,032,230     | 917,591       |
| Expenditures:                    |               |               |
| General Fund - Support services: |               |               |
| Pupil                            | 1,033,503     | 1,182,696     |
| Instructional staff              | 384,457       | 187,592       |
| Pupil transportation             | 320,210       | 457,378       |
| General Fund - Capital outlay    | 418,860       | 554,081       |

Included in the interdistrict source revenue budget is operating transfers which are recorded as other financing sources. Also, the School District did not expend the entire amount awarded for federal programs.

The expenditure variances are due to certain salaries being charged to the incorrect function, unanticipated transportation charges for field trips, and additional technology expenditures.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

As of June 30, 2007, the School District had net \$10.6 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents an 8 percent increase (including additions, disposals, and depreciation) from last year.

## Dearborn Heights School District No. 7

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

|                                     | 2007                        | 2006                       |
|-------------------------------------|-----------------------------|----------------------------|
| Land                                | \$ 40,000                   | \$ 40,000                  |
| Construction in progress            | 119,529                     | 50,435                     |
| Buildings and building improvements | 14,556,087                  | 13,257,144                 |
| Vehicles                            | 105,000                     | 105,000                    |
| Furniture and equipment             | <u>9,372,431</u>            | <u>9,095,650</u>           |
| Total capital assets                | 24,193,047                  | 22,548,229                 |
| Less accumulated depreciation       | <u>13,571,933</u>           | <u>12,719,591</u>          |
| Net capital assets                  | <u><u>\$ 10,621,114</u></u> | <u><u>\$ 9,828,638</u></u> |

This year's additions of approximately \$1.6 million included building renovations. No new debt was issued for these additions.

#### **Debt**

At the end of this year, the School District had approximately \$3.0 million in general obligation bonds outstanding versus \$4.0 million in the previous year - a decrease of 25 percent.

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 \$3.0 million is significantly below this statutorily imposed limit.

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

# **Dearborn Heights School District No. 7**

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

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

Our elected officials and administration consider many factors when setting the School District's 2007-2008 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 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2007-2008 budget was adopted on June 4, 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 85 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess 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. To stabilize the School District's enrollment, approximately 35 percent of the School District's population is admitted under Schools of Choice. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School 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. Based on the results of the most recent conference, the School District has kept the foundation allowance at the same level as fiscal year ended June 30, 2007.

# Dearborn Heights School District No. 7

## Statement of Net Assets June 30, 2007

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b>Assets</b>                                      |                                    |
| Cash and investments (Note 3)                      | \$ 4,431,601                       |
| Receivables:                                       |                                    |
| Taxes  | 235,584                            |
| Due from other governmental units                  | 3,756,540                          |
| Prepaid costs                                      | 455,851                            |
| Restricted assets (Note 8)                         | 14,078                             |
| Capital assets - Net (Note 5)                      | <u>10,621,114</u>                  |
| Total assets                                       | 19,514,768                         |
| <b>Liabilities</b>                                 |                                    |
| Accounts payable                                   | 403,334                            |
| Accrued payroll and other liabilities              | 2,236,123                          |
| Accrued liabilities                                | 390,796                            |
| Unearned revenue (Note 4)                          | 56,456                             |
| Long-term liabilities (Note 7):                    |                                    |
| Due within one year                                | 1,160,000                          |
| Due in more than one year                          | <u>2,681,397</u>                   |
| Total liabilities                                  | <u>6,928,106</u>                   |
| <b>Net Assets</b>                                  |                                    |
| Investment in capital assets - Net of related debt | 7,364,384                          |
| Restricted:  |                                    |
| Debt service                                       | 324,091                            |
| Capital projects                                   | 231,735                            |
| Unrestricted                                       | <u>4,666,452</u>                   |
| Total net assets                                   | <u><b>\$ 12,586,662</b></u>        |

# Dearborn Heights School District No. 7

## Statement of Activities Year Ended June 30, 2007

|   | Program Revenues     |                      |                                | Governmental  |
|---|----------------------|----------------------|--------------------------------|---|
|   | Expenses             | Charges for Services | Operating Grants/Contributions | Activities  |
|   |                      |                      |                                | Net (Expense) Revenue and Changes in Net Assets         |
| <b>Functions/Programs</b>                     |                      |                      |                                |   |
| Primary government - Governmental activities: |                      |                      |                                |   |
| Instruction                                   | \$ 15,478,028        | \$ 459,322           | \$ 1,550,241                   | \$ (13,468,465)   |
| Support services                              | 7,985,782            | -                    | 807,372                        | (7,178,410)   |
| Food services                                 | 1,003,816            | 521,774              | 527,862                        | 45,820  |
| Athletics                                     | 412,052              | 32,185               | -                              | (379,867)   |
| Community services                            | 471,575              | -                    | 48,066                         | (423,509)   |
| Interest on long-term debt                    | 180,678              | -                    | -                              | (180,678)   |
| Depreciation (unallocated)                    | 852,342              | -                    | -                              | (852,342)   |
| <b>Total governmental activities</b>          | <b>\$ 26,384,273</b> | <b>\$ 1,013,281</b>  | <b>\$ 2,933,541</b>            | <b>(22,437,451)</b>                                     |
| General revenues:                             |                      |                      |                                |   |
| Taxes:  |                      |                      |                                |   |
| Property taxes, levied for general purposes   |                      |                      |                                | 2,104,173   |
| Property taxes, levied for debt services      |                      |                      |                                | 904,899   |
| State aid not restricted to specific purposes |                      |                      |                                | 19,517,261  |
| Interest and investment earnings              |                      |                      |                                | 271,969   |
| Other   |                      |                      |                                | 78,126  |
|   |                      |                      |                                | <u>22,876,428</u>                                       |
|   |                      |                      |                                | <b>Change in Net Assets</b> 438,977                     |
|   |                      |                      |                                | <b>Net Assets - Beginning of year</b> <u>12,147,685</u> |
|   |                      |                      |                                | <b>Net Assets - End of year</b> <u>\$ 12,586,662</u>    |

# Dearborn Heights School District No. 7

## Governmental Funds Balance Sheet June 30, 2007

|  | General Fund        | Other<br>Nonmajor<br>Governmental<br>Funds | Total               |
|--|---------------------|--|---------------------|
| <b>Assets</b>                                  |                     |  |                     |
| Cash and investments (Note 3)                  | \$ 3,798,858        | \$ 646,821                                 | \$ 4,445,679        |
| Receivables:                                   |                     |  |                     |
| Taxes  | 88,406              | 147,178                                    | 235,584             |
| Accounts receivable                            | 250,677             | -  | 250,677             |
| Due from other governmental units              | 3,505,863           | -  | 3,505,863           |
| Due from other funds (Note 6)                  | 176,649             | 161,895                                    | 338,544             |
| Prepaid costs                                  | 455,851             | -  | 455,851             |
| <b>Total assets</b>                            | <b>\$ 8,276,304</b> | <b>\$ 955,894</b>                          | <b>\$ 9,232,198</b> |
| <b>Liabilities and Fund Balances</b>           |                     |  |                     |
| <b>Liabilities</b>                             |                     |  |                     |
| Accounts payable                               | \$ 295,417          | \$ 107,917                                 | \$ 403,334          |
| Accrued payroll and benefits                   | 2,226,863           | 9,260                                      | 2,236,123           |
| Accrued liabilities                            | 355,576             | -  | 355,576             |
| Due to other funds (Note 6)                    | 115,704             | 222,840                                    | 338,544             |
| Deferred revenue (Note 4)                      | 90,607              | -  | 90,607              |
| <b>Total liabilities</b>                       | <b>3,084,167</b>    | <b>340,017</b>                             | <b>3,424,184</b>    |
| <b>Fund Balances</b>                           |                     |  |                     |
| Reserved:                                      |                     |  |                     |
| Encumbrances                                   | 196,652             | -  | 196,652             |
| Capital projects - Bonded                      | -                   | 245,966                                    | 245,966             |
| Debt service                                   | -                   | 324,091                                    | 324,091             |
| Prepays  | 455,851             | -  | 455,851             |
| Designated for 2007-2008 budgeted expenditures | 1,604,543           | -  | 1,604,543           |
| Unreserved - Undesignated, reported in:        |                     |  |                     |
| General Fund                                   | 2,935,091           | -  | 2,935,091           |
| Special Revenue Funds                          | -                   | 45,820                                     | 45,820              |
| <b>Total fund balances</b>                     | <b>5,192,137</b>    | <b>615,877</b>                             | <b>5,808,014</b>    |
| <b>Total liabilities and fund balances</b>     | <b>\$ 8,276,304</b> | <b>\$ 955,894</b>                          | <b>\$ 9,232,198</b> |

# Dearborn Heights School District No. 7

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2007

**Fund Balance - Total Governmental Funds** \$ 5,808,014

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 governmental funds:

|                          |                     |            |
|--------------------------|---------------------|------------|
| Capital assets           | \$ 24,193,047       |            |
| Accumulated depreciation | <u>(13,571,933)</u> | 10,621,114 |

|   |        |
|---|--------|
| Other long-term assets not available to pay current period expenditures, therefore deferred in the governmental funds | 34,151 |
|---|--------|

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

|                      |             |
|----------------------|-------------|
| Bonds payable        | (3,235,741) |
| Compensated absences | (605,656)   |

|   |                 |
|---|-----------------|
| Accrued interest payable is not included as a liability in governmental funds | <u>(35,220)</u> |
|---|-----------------|

**Net Assets - Governmental Activities** **\$ 12,586,662**

# Dearborn Heights School District No. 7

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

|  | General Fund        | Other Nonmajor<br>Governmental<br>Funds | Total               |
|--|---------------------|---|---------------------|
| <b>Revenue</b>                             |                     |   |                     |
| Local sources                              | \$ 1,557,268        | \$ 2,834,708                            | \$ 4,391,976        |
| State sources                              | 20,787,061          | 56,418                                  | 20,843,479          |
| Federal sources                            | 917,591             | 471,444                                 | 1,389,035           |
| Interdistrict sources                      | 184,136             | -                                       | 184,136             |
| Total revenue                              | 23,446,056          | 3,362,570                               | 26,808,626          |
| <b>Expenditures</b>                        |                     |   |                     |
| Current:                                   |                     |   |                     |
| Instruction                                | 15,185,406          | -                                       | 15,185,406          |
| Support services                           | 7,921,251           | -                                       | 7,921,251           |
| Community services                         | 471,575             | -                                       | 471,575             |
| Food service                               | -                   | 1,003,816                               | 1,003,816           |
| Athletics                                  | -                   | 412,052                                 | 412,052             |
| Debt service:                              |                     |   |                     |
| Principal                                  | -                   | 990,000                                 | 990,000             |
| Interest                                   | -                   | 176,090                                 | 176,090             |
| Other                                      | -                   | 2,197                                   | 2,197               |
| Capital outlay                             | 554,081             | 1,290,025                               | 1,844,106           |
| Intergovernmental transfers                | 24,255              | -                                       | 24,255              |
| Total expenditures                         | 24,156,568          | 3,874,180                               | 28,030,748          |
| <b>Excess of Expenditures Over Revenue</b> | (710,512)           | (511,610)                               | (1,222,122)         |
| <b>Other Financing Sources (Uses)</b>      |                     |   |                     |
| Transfers in (Note 6)                      | 726,587             | 644,222                                 | 1,370,809           |
| Transfers out (Note 6)                     | (379,867)           | (990,942)                               | (1,370,809)         |
| Total other financing sources (uses)       | 346,720             | (346,720)                               | -                   |
| <b>Net Change in Fund Balances</b>         | (363,792)           | (858,330)                               | (1,222,122)         |
| <b>Fund Balances - Beginning of year</b>   | 5,555,929           | 1,474,207                               | 7,030,136           |
| <b>Fund Balances - End of year</b>         | <b>\$ 5,192,137</b> | <b>\$ 615,877</b>                       | <b>\$ 5,808,014</b> |

# Dearborn Heights School District No. 7

## 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, 2007

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,222,122)

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

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

|                            |                  |         |
|----------------------------|------------------|---------|
| Depreciation expense       | \$ (852,342)     |         |
| Capitalized capital outlay | <u>1,644,818</u> | 792,476 |

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection.

In the current year, previously recognized revenue that is deemed uncollectible has been written off 16,244

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (4,288)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 990,000

Compensated absences are recorded when earned in the statement of activities. In the current year, more was paid out than was earned (133,333)

**Change in Net Assets of Governmental Activities** **\$ 438,977**

# Dearborn Heights School District No. 7

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## Fiduciary Fund - Agency Statement of Fiduciary Assets and Liabilities June 30, 2007

### Assets

|                      |              |
|----------------------|--------------|
| Cash and investments | \$ 96,196    |
| Due from other funds | <u>2,079</u> |

|              |                         |
|--------------|-------------------------|
| Total assets | <u><u>\$ 98,275</u></u> |
|--------------|-------------------------|

|  |                         |
|--|-------------------------|
| <b>Liabilities - Due to student groups</b> | <u><u>\$ 98,275</u></u> |
|--|-------------------------|

# **Dearborn Heights School District No. 7**

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**Notes to Financial Statements  
June 30, 2007**

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

The accounting policies of Dearborn Heights School District No. 7 (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. 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. All of the School District's government-wide activities are considered governmental activities.

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

# Dearborn Heights School District No. 7

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## Notes to Financial Statements June 30, 2007

### 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.

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 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, 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.

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

# Dearborn Heights School District No. 7

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## Notes to Financial Statements June 30, 2007

### 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.

Additionally, the School District reports the following fund types:

**Sinking Fund Capital Projects Fund** - The Sinking Fund Capital Projects Fund records capital project activities funded with Sinking Fund millage.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Cafeteria and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Debt Service Funds** - Debt Service Funds are used to record tax and interest revenue and the payment of interest, principal, and other expenditures on long-term debt.

**Capital Projects Funds** - The Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling. The funds are kept open until the purpose for which the fund was created has been accomplished.

**Fiduciary Fund - Agency Fund** - The Agency Fund is used to account for assets held by the School District as an agent. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

#### **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."

# Dearborn Heights School District No. 7

## Notes to Financial Statements June 30, 2007

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered delinquent on March 1 the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

**Prepaid Costs** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

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

|                                  |             |
|----------------------------------|-------------|
| Buildings and building additions | 20-50 years |
| Vehicles                         | 5-15 years  |
| Furniture and other equipment    | 5-20 years  |

**Compensated Absences (Vacation and Sick Leave)** - 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 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.

# Dearborn Heights School District No. 7

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**Notes to Financial Statements  
June 30, 2007**

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

**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.

**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.

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

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General, Special Revenue, Debt Service, and Capital Projects Funds. 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. Significant amendments during the year related to adjusting the budget to reflect an increase in state source revenue due to an increase in state aid revenue and the School District recognizing certain categorical revenue that had been deferred in prior years. Additionally, the budget was adjusted to reflect an increase in operations and maintenance and capital outlay expenditures.

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

# Dearborn Heights School District No. 7

## Notes to Financial Statements June 30, 2007

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

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

|                                  | <u>Budget</u> | <u>Actual</u> |
|----------------------------------|---------------|---------------|
| General Fund - Support services: |               |               |
| Pupil                            | \$ 1,033,503  | \$ 1,182,696  |
| Pupil transportation             | 320,210       | 457,378       |
| General Fund - Capital outlay    | 418,860       | 554,081       |

The variances are due to certain salaries being charged to pupil support services that were budgeted as added needs instruction expense, unanticipated transportation charges for field trips, and additional technology expenditures.

**Fund Deficit** - The School District has an accumulated fund balance in the \$490,000 Issue Debt Service Fund.

**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 Capital Projects \$7,200,000 Fund. The project for which the technology bonds were issued was considered substantially complete on August 31, 2005, and the cumulative expenditures recognized for the construction period were \$7,330,142.

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

### Note 3 - Deposits and Investments

State statutes 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.

# Dearborn Heights School District No. 7

## Notes to Financial Statements June 30, 2007

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

The School District has designated eight financial institutions for the deposit of its funds.

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 \$158,152 had \$18,300 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 following investment securities were uninsured and unregistered and held in the following manner:

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>How Held</u>                                    |
|------------------------|-----------------------|--|
| U.S. government bonds  | \$5,830               | Held by counterparty in the School District's name |

**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.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations.

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

| <u>Investment</u>         | <u>Fair Value</u>   | <u>Maturities</u> | <u>Rating</u> | <u>Rating Organization</u> |
|---------------------------|---------------------|-------------------|---------------|----------------------------|
| Chase investment pools    | \$ 3,925,931        | Not required      | AAA           | Moody's                    |
| Comerica investment pools | 585,236             | Not required      | AI/PI         | S&P/Moody's                |
| Total investments         | <u>\$ 4,511,167</u> |                   |               |                            |

# Dearborn Heights School District No. 7

## Notes to Financial Statements June 30, 2007

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

**Concentration of Credit Risk** - The School District's current policy places no limit on the amount the School District may invest in any one issuer, nor does it minimize concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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

### Note 4 - Deferred Revenue

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

|   | <u>Unavailable</u> | <u>Unearned</u>  |
|---|--------------------|------------------|
| Grant reimbursements not collected  | \$ 11,031          | \$ -             |
| Grant and categorical aid payment received<br>prior to meeting all eligibility requirements | -                  | 56,456           |
| Other deferred revenue  | <u>23,120</u>      | <u>-</u>         |
| Total   | <u>\$ 34,151</u>   | <u>\$ 56,456</u> |

# Dearborn Heights School District No. 7

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

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

|                                       | Balance<br>July 1, 2006 | Reclassifications | Additions         | Disposals and<br>Adjustments | Balance<br>June 30, 2007 |
|---------------------------------------|-------------------------|-------------------|-------------------|------------------------------|--------------------------|
| Capital assets not being depreciated: |                         |                   |                   |                              |                          |
| Land                                  | \$ 40,000               | \$ -              | \$ -              | \$ -                         | \$ 40,000                |
| Construction in progress              | 50,435                  | (50,435)          | 119,529           | -                            | 119,529                  |
| Subtotal                              | 90,435                  | (50,435)          | 119,529           | -                            | 159,529                  |
| Capital assets being depreciated:     |                         |                   |                   |                              |                          |
| Building and building improvements    | 13,257,144              | 50,435            | 1,248,508         | -                            | 14,556,087               |
| Vehicles                              | 105,000                 | -                 | -                 | -                            | 105,000                  |
| Furniture and equipment               | 9,095,650               | -                 | 276,781           | -                            | 9,372,431                |
| Subtotal                              | 22,457,794              | 50,435            | 1,525,289         | -                            | 24,033,518               |
| Accumulated depreciation:             |                         |                   |                   |                              |                          |
| Building and building improvements    | 5,881,456               | -                 | 437,126           | -                            | 6,318,582                |
| Vehicles                              | 71,208                  | -                 | 7,249             | -                            | 78,457                   |
| Furniture and equipment               | 6,766,927               | -                 | 407,967           | -                            | 7,174,894                |
| Subtotal                              | 12,719,591              | -                 | 852,342           | -                            | 13,571,933               |
| Net capital assets being depreciated  | 9,738,203               | -                 | 672,947           | -                            | 10,461,585               |
| Net governmental capital assets       | <u>\$ 9,828,638</u>     | <u>\$ -</u>       | <u>\$ 792,476</u> | <u>\$ -</u>                  | <u>\$ 10,621,114</u>     |

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 related to the Capital Projects Sinking Fund totaling \$889,000. The remaining commitment at year end is \$884,685.

# Dearborn Heights School District No. 7

## Notes to Financial Statements June 30, 2007

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

The composition of interfund balances is as follows:

| Fund Due To                 | Fund Due From     |                             | Total             |
|-----------------------------|-------------------|-----------------------------|-------------------|
|                             | General Fund      | Nonmajor Governmental Funds |                   |
| General Fund                | \$ -              | \$ 176,649                  | \$ 176,649        |
| Nonmajor governmental funds | 115,704           | 46,191                      | 161,895           |
| Total                       | <u>\$ 115,704</u> | <u>\$ 222,840</u>           | <u>\$ 338,544</u> |

The interfund balance in the Capital Projects Sinking Fund represents monies the General Fund loaned to the Capital Projects Sinking Fund for construction projects in prior years. The interfund balances in the Debt Service Funds represents property tax collections for the Capital Projects Sinking Fund that have not been transferred as of year end. The remaining interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund investment accounts.

### Interfund Transfers

|                             | Transfers Out     |                             | Total               |
|-----------------------------|-------------------|-----------------------------|---------------------|
|                             | General Fund      | Nonmajor Governmental Funds |                     |
| Transfers in:               |                   |                             |                     |
| General Fund                | \$ -              | \$ 726,587                  | \$ 726,587          |
| Nonmajor governmental funds | 379,867           | 264,355                     | 644,222             |
| Total                       | <u>\$ 379,867</u> | <u>\$ 990,942</u>           | <u>\$ 1,370,809</u> |

Transfers provided funding for debt service and subsidized operations in the Athletics Fund. Also, in prior years, the General Fund made an operating transfer to the Capital Projects Fund to purchase School District buses. The Sinking Fund held the monies on behalf of the Capital Projects Fund since the School District did not maintain a separate bank account at a financial institution for the Capital Projects Fund. As these monies remained unspent, they were transferred back to the General Fund per prior year board resolution.

# Dearborn Heights School District No. 7

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt

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

Long-term obligation activity can be summarized as follows:

|                               | Beginning<br>Balance | Additions         | Reductions          | Ending<br>Balance   | Due Within<br>One Year |
|-------------------------------|----------------------|-------------------|---------------------|---------------------|------------------------|
| Governmental activities:      |                      |                   |                     |                     |                        |
| Bonds payable                 | \$ 4,225,741         | \$ -              | \$ 990,000          | \$ 3,235,741        | \$ 1,035,000           |
| Other obligations             | 472,323              | 240,158           | 106,825             | 605,656             | 125,000                |
| Total governmental activities | <u>\$ 4,698,064</u>  | <u>\$ 240,158</u> | <u>\$ 1,096,825</u> | <u>\$ 3,841,397</u> | <u>\$ 1,160,000</u>    |

Annual debt service requirements to maturity for the above governmental bond obligations are as follows:

|       | Principal           | Interest          | Total               |
|-------|---------------------|-------------------|---------------------|
| 2008  | \$ 1,035,000        | \$ 132,950        | \$ 1,167,950        |
| 2009  | 1,113,633           | 94,033            | 1,207,666           |
| 2010  | 1,005,538           | 94,381            | 1,099,919           |
| 2011  | 25,937              | 3,884             | 29,821              |
| 2012  | 27,170              | 2,649             | 29,819              |
| 2013  | 28,463              | 1,355             | 29,818              |
| Total | <u>\$ 3,235,741</u> | <u>\$ 329,252</u> | <u>\$ 3,564,993</u> |

### Governmental Activities

General obligation bonds consist of the following:

|   |                     |
|---|---------------------|
| \$2,000,000 February 1, 1999 capital improvement bonds, due in annual installments of \$245,000 to \$265,000 through May 1, 2009; interest at 3.90% | \$ 510,000          |
| \$7,200,000 June 15, 1999 technology bonds, due in annual installments of \$790,000 to \$860,000 through May 1, 2010; interest at 4.50% to 4.60%    | <u>2,475,000</u>    |
| Total bonded debt   | <u>\$ 2,985,000</u> |

# Dearborn Heights School District No. 7

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## Notes to Financial Statements June 30, 2007

### 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. The Durant Non-Plaintiff Bond is comprised of the following issue: \$424,653 serial bonds due in annual installments of \$23,633 to \$145,538 through May 15, 2013; interest at 4.76 percent. Ending balance of the Durant Non-Plaintiff Bond was \$250,741 as of June 30, 2007.

**Other Obligations** - Other long-term obligations are comprised of employee-compensated absences valued under Governmental Accounting Standards Board Statement No. 16.

### Note 8 - Restricted Assets

The balance of the governmental activities restricted asset account is comprised of unspent bond proceeds and related interest in the amount of \$14,078.

### Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET/SEG risk management pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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.

# Dearborn Heights School District No. 7

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## Notes to Financial Statements June 30, 2007

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

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at P.O. Box 30171, Lansing, MI 48909-7671.

**Funding Policy** - Employer contributions to the MPERS 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, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34 percent and 17.74 percent of the covered payroll to the plan for the periods from July 1, 2006 through September 30, 2006 and October 1, 2006 through June 30, 2007, respectively. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS plan for the years ended June 30, 2007, 2006, and 2005 were \$2,884,730, \$2,774,972, and \$2,217,988, respectively.

**Postemployment Benefits** - Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages 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 coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

## **Required Supplemental Information**

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# Dearborn Heights School District No. 7

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

|   | Original<br>Budget  | Final<br>Budget     | Actual              | Over (Under)<br>Final Budget |
|---|---------------------|---------------------|---------------------|------------------------------|
| <b>Revenue</b>                          |                     |                     |                     |                              |
| Local sources                           | \$ 1,482,412        | \$ 1,480,612        | \$ 1,557,268        | \$ 76,656                    |
| State sources                           | 20,410,814          | 20,708,480          | 20,787,061          | 78,581                       |
| Federal sources                         | 1,019,295           | 1,032,230           | 917,591             | (114,639)                    |
| Interdistrict sources                   | 948,134             | 952,596             | 184,136             | (768,460)                    |
| Total revenue                           | 23,860,655          | 24,173,918          | 23,446,056          | (727,862)                    |
| <b>Expenditures - Current</b>           |                     |                     |                     |                              |
| Instruction:                            |                     |                     |                     |                              |
| Basic programs                          | 11,901,652          | 11,724,680          | 11,660,503          | (64,177)                     |
| Added needs                             | 3,633,719           | 3,615,921           | 3,524,903           | (91,018)                     |
| Support services:                       |                     |                     |                     |                              |
| Pupil                                   | 1,055,204           | 1,033,503           | 1,182,696           | 149,193                      |
| Instructional staff                     | 201,502             | 384,457             | 187,592             | (196,865)                    |
| General administration                  | 798,571             | 863,696             | 919,716             | 56,020                       |
| School administration                   | 1,646,475           | 1,633,631           | 1,657,014           | 23,383                       |
| Business services                       | 487,561             | 484,561             | 474,468             | (10,093)                     |
| Operations and maintenance              | 2,676,510           | 2,812,779           | 2,811,941           | (838)                        |
| Pupil transportation                    | 320,210             | 320,210             | 457,378             | 137,168                      |
| Central staff                           | 373,166             | 333,308             | 230,446             | (102,862)                    |
| Community services                      | 489,224             | 489,224             | 471,575             | (17,649)                     |
| Other transactions                      | 60,000              | 60,000              | 24,255              | (35,745)                     |
| Capital outlay                          | 261,130             | 418,860             | 554,081             | 135,221                      |
| Total expenditures                      | 23,904,924          | 24,174,830          | 24,156,568          | (18,262)                     |
| <b>Other Financing Sources (Uses) -</b> |                     |                     |                     |                              |
| Transfers in (out)                      | (325,764)           | (397,321)           | 346,720             | 744,041                      |
| <b>Net Change in Fund Balance</b>       | (370,033)           | (398,233)           | (363,792)           | 34,441                       |
| <b>Fund Balance - July 1, 2006</b>      | 5,555,929           | 5,555,929           | 5,555,929           | -                            |
| <b>Fund Balance - June 30, 2007</b>     | <u>\$ 5,185,896</u> | <u>\$ 5,157,696</u> | <u>\$ 5,192,137</u> | <u>\$ 34,441</u>             |

## **Other Supplemental Information**

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# Dearborn Heights School District No. 7

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|   | Special Revenue Funds |                  | Debt Service Funds |                      |
|---|-----------------------|------------------|--------------------|----------------------|
|   | Cafeteria             | Athletics        | \$490,000<br>Issue | \$7,200,000<br>Issue |
| <b>Assets</b>   |                       |                  |                    |                      |
| Cash and cash equivalents                                       | \$ -                  | \$ -             | \$ -               | \$ 219,718           |
| Taxes receivable  | -                     | -                | -                  | 147,178              |
| Due from other funds  | 99,009                | 10,162           | -                  | -                    |
| Total assets  | <b>\$ 99,009</b>      | <b>\$ 10,162</b> | <b>\$ -</b>        | <b>\$ 366,896</b>    |
| <b>Liabilities and Fund Balances (Deficit)</b>                  |                       |                  |                    |                      |
| <b>Liabilities</b>  |                       |                  |                    |                      |
| Accounts payable  | \$ 53,189             | \$ 902           | \$ -               | \$ -                 |
| Accrued payroll and benefits                                    | -                     | 9,260            | -                  | -                    |
| Due to other funds  | -                     | -                | 4,780              | 38,025               |
| Total liabilities   | 53,189                | 10,162           | 4,780              | 38,025               |
| <b>Fund Balances (Deficit)</b>                                  |                       |                  |                    |                      |
| Reserved:   |                       |                  |                    |                      |
| Capital projects - Bonded                                       |                       |                  |                    |                      |
| Debt service  | -                     | -                | (4,780)            | 328,871              |
| Unreserved - Undesignated, reported in<br>Special Revenue Funds | 45,820                | -                | -                  | -                    |
| Total fund balances (deficit)                                   | 45,820                | -                | (4,780)            | 328,871              |
| Total liabilities and fund<br>balances (deficit)                | <b>\$ 99,009</b>      | <b>\$ 10,162</b> | <b>\$ -</b>        | <b>\$ 366,896</b>    |

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007**

Capital Projects Funds

| Capital Projects<br>Sinking Fund | \$2,000,000 Issue      | Capital Projects<br>\$7,200,000 Issue | Total                    |
|----------------------------------|------------------------|---------------------------------------|--------------------------|
| \$ 413,025                       | \$ 4,584               | \$ 9,494                              | \$ 646,821               |
| -                                | -                      | -                                     | 147,178                  |
| <u>35,688</u>                    | <u>-</u>               | <u>17,036</u>                         | <u>161,895</u>           |
| <b><u>\$ 448,713</u></b>         | <b><u>\$ 4,584</u></b> | <b><u>\$ 26,530</u></b>               | <b><u>\$ 955,894</u></b> |
|                                  |                        |                                       |                          |
| \$ 53,826                        | \$ -                   | \$ -                                  | \$ 107,917               |
| -                                | -                      | -                                     | 9,260                    |
| <u>176,649</u>                   | <u>3,386</u>           | <u>-</u>                              | <u>222,840</u>           |
| 230,475                          | 3,386                  | -                                     | 340,017                  |
|                                  |                        |                                       |                          |
| 218,238                          | 1,198                  | 26,530                                | 245,966                  |
| -                                | -                      | -                                     | 324,091                  |
| <u>-</u>                         | <u>-</u>               | <u>-</u>                              | <u>45,820</u>            |
| <u>218,238</u>                   | <u>1,198</u>           | <u>26,530</u>                         | <u>615,877</u>           |
| <b><u>\$ 448,713</u></b>         | <b><u>\$ 4,584</u></b> | <b><u>\$ 26,530</u></b>               | <b><u>\$ 955,894</u></b> |

# Dearborn Heights School District No. 7

|  | Special Revenue Funds |             | Debt Service      |                   |
|--|-----------------------|-------------|-------------------|-------------------|
|  | Cafeteria             | Athletics   | \$490,000 Issue   | \$7,200,000 Issue |
| <b>Revenue</b>                                     |                       |             |                   |                   |
| Local sources                                      | \$ 521,774            | \$ 32,185   | \$ -              | \$ 930,824        |
| State sources                                      | 56,418                | -           | -                 | -                 |
| Federal sources                                    | 471,444               | -           | -                 | -                 |
| Total revenue                                      | 1,049,636             | 32,185      | -                 | 930,824           |
| <b>Expenditures</b>                                |                       |             |                   |                   |
| Current:   |                       |             |                   |                   |
| Food services                                      | 1,003,816             | -           | -                 | -                 |
| Athletics  | -                     | 412,052     | -                 | -                 |
| Debt service:                                      |                       |             |                   |                   |
| Principal  | -                     | -           | -                 | 755,000           |
| Interest   | -                     | -           | -                 | 147,035           |
| Other  | -                     | -           | 1,622             | 275               |
| Capital outlay                                     | -                     | -           | -                 | -                 |
| Total expenditures                                 | 1,003,816             | 412,052     | 1,622             | 902,310           |
| <b>Excess of Revenue Over (Under) Expenditures</b> | 45,820                | (379,867)   | (1,622)           | 28,514            |
| <b>Other Financing Sources (Uses)</b>              |                       |             |                   |                   |
| Transfers in                                       | -                     | 379,867     | -                 | -                 |
| Transfers out                                      | -                     | -           | -                 | -                 |
| Total other financing sources (uses)               | -                     | 379,867     | -                 | -                 |
| <b>Net Change in Fund Balances</b>                 | 45,820                | -           | (1,622)           | 28,514            |
| <b>Fund Balances (Deficit) - Beginning of year</b> | -                     | -           | (3,158)           | 300,357           |
| <b>Fund Balances (Deficit) - End of year</b>       | <b>\$ 45,820</b>      | <b>\$ -</b> | <b>\$ (4,780)</b> | <b>\$ 328,871</b> |

**Other Supplemental Information - Combining Statement of Revenue,  
Expenditures, and Changes in Fund Balances (Deficit)  
Nonmajor Governmental Funds  
Year Ended June 30, 2007**

| Funds             |                                  | Capital Projects Funds |                                     |                                       |                          |                   |  |
|-------------------|----------------------------------|------------------------|-------------------------------------|---------------------------------------|--------------------------|-------------------|--|
| \$2,000,000 Issue | Capital Projects<br>Sinking Fund | \$2,000,000 Issue      | Durant Non-<br>Plaintiff Bond Issue | Capital Projects<br>\$7,200,000 Issue | Capital Projects<br>Fund | Total             |  |
| \$ -              | \$ 1,310,427                     | \$ -                   | \$ -                                | \$ 7,335                              | \$ 32,163                | \$ 2,834,708      |  |
| -                 | -                                | -                      | -                                   | -                                     | -                        | 56,418            |  |
| -                 | -                                | -                      | -                                   | -                                     | -                        | 471,444           |  |
| -                 | 1,310,427                        | -                      | -                                   | 7,335                                 | 32,163                   | 3,362,570         |  |
| -                 | -                                | -                      | -                                   | -                                     | -                        | 1,003,816         |  |
| -                 | -                                | -                      | -                                   | -                                     | -                        | 412,052           |  |
| 235,000           | -                                | -                      | -                                   | -                                     | -                        | 990,000           |  |
| 29,055            | -                                | -                      | -                                   | -                                     | -                        | 176,090           |  |
| 300               | -                                | -                      | -                                   | -                                     | -                        | 2,197             |  |
| -                 | 1,290,025                        | -                      | -                                   | -                                     | -                        | 1,290,025         |  |
| 264,355           | 1,290,025                        | -                      | -                                   | -                                     | -                        | 3,874,180         |  |
| (264,355)         | 20,402                           | -                      | -                                   | 7,335                                 | 32,163                   | (511,610)         |  |
| 264,355           | -                                | -                      | -                                   | -                                     | -                        | 644,222           |  |
| -                 | (264,355)                        | -                      | (39,049)                            | -                                     | (687,538)                | (990,942)         |  |
| 264,355           | (264,355)                        | -                      | (39,049)                            | -                                     | (687,538)                | (346,720)         |  |
| -                 | (243,953)                        | -                      | (39,049)                            | 7,335                                 | (655,375)                | (858,330)         |  |
| -                 | 462,191                          | 1,198                  | 39,049                              | 19,195                                | 655,375                  | 1,474,207         |  |
| <b>\$ -</b>       | <b>\$ 218,238</b>                | <b>\$ 1,198</b>        | <b>\$ -</b>                         | <b>\$ 26,530</b>                      | <b>\$ -</b>              | <b>\$ 615,877</b> |  |

# Dearborn Heights School District No. 7

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2007

| June 30                | Durant                   | \$2,000,000                | \$7,200,000                |
|------------------------|--------------------------|----------------------------|----------------------------|
|                        | Principal                | Issue                      | Issue                      |
| 2008                   | \$ -                     | \$ 245,000                 | \$ 790,000                 |
| 2009                   | 23,633                   | 265,000                    | 825,000                    |
| 2010                   | 145,538                  | -                          | 860,000                    |
| 2011                   | 25,937                   | -                          | -                          |
| 2012                   | 27,170                   | -                          | -                          |
| 2013                   | 28,463                   | -                          | -                          |
| <b>Total</b>           | <b><u>\$ 250,741</u></b> | <b><u>\$ 510,000</u></b>   | <b><u>\$ 2,475,000</u></b> |
| Principal payments due | May 15                   | May 1                      | May 1                      |
| Interest payments due  | May 15                   | May 1 and<br>November 1    | May 1 and<br>November 1    |
| Interest rate          | 4.76%                    | 3.9%                       | 4.50% to<br>4.60%          |
| Original issue         | <b><u>\$ 424,653</u></b> | <b><u>\$ 2,000,000</u></b> | <b><u>\$ 7,200,000</u></b> |