

School District of the City of River Rouge

**Financial Report
with Supplementary Information
June 30, 2009**

School District of the City of River Rouge

Contents

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets (Deficit)	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit)	15
Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)	16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities	17
Fiduciary Fund - Statement of Fiduciary Assets and Liabilities	18
Notes to Financial Statements	19-34
Required Supplementary Information	35
Budgetary Comparison Schedule - General Fund	36
Other Supplementary Information	37
Nonmajor Governmental Funds:	
Combining Balance Sheet	38
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	39
Schedule of Indebtedness	40
Federal Awards Supplemental Information	Issued Under Separate Cover



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Board of Education
School District of the City of River Rouge

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of River Rouge as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of River Rouge'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, each major fund, and the aggregate remaining fund information of the School District of the City of River Rouge as of June 30, 2009 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 2 to the financial statements and the management's discussion and analysis, the School District has incurred expenditures in excess of revenues of \$1.5 million in the General Fund. The General Fund is in a \$2.2 million deficit position at June 30, 2009. The administration's plans in regard to these matters are also described in Note 2 and the management's discussion and analysis.

As described in Note 9, the School District has implemented a new method of reporting and recording the other postemployment benefit obligations, as required by the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of June 30, 2009.

To the Board of Directors
School District of the City of River Rouge

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of River Rouge's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplementary information is presented for the purpose of additional analysis and is not required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated October 22, 2009 on our consideration of the School District of the City of River Rouge's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Morse, PLLC

October 22, 2009

School District of the City of River Rouge

Management's Discussion and Analysis

This section of the School District of the City of River Rouge's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2009. 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 the School District of the City of River Rouge financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and the Debt Service 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 Supplementary Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)

Budgetary Information for Major Funds

Other Supplementary Information

School District of the City of River Rouge

Management's Discussion and Analysis (Continued)

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 (deficit) 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. These two statements report the School District's net assets (deficit) - the difference between assets and liabilities, as reported in the statement of net assets (deficit) - 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 (deficit) and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

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

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service 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:

School District of the City of River Rouge

Management's Discussion and Analysis (Continued)

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 (deficit) and the statement of activities) and governmental funds in a reconciliation.

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.

School District of the City of River Rouge

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net assets (deficit) provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets (deficit) as of June 30, 2009 and 2008:

	Governmental Activities	
	June 30	
	2009	2008
	(in millions)	
Assets		
Current and other assets	\$ 4.2	\$ 4.6
Capital assets	36.8	38.7
Total assets	41.0	43.3
Liabilities		
Current liabilities	9.2	7.6
Long-term liabilities	55.6	50.1
Total liabilities	64.8	57.7
Net Assets (Deficit)		
Invested in capital assets - Net of related debt	(8.4)	(8.2)
Restricted	0.1	0.2
Unrestricted	(15.5)	(6.4)
Total net assets (deficit)	\$ (23.8)	\$ (14.4)

The above analysis focuses on the net assets (deficit) (see Table I). The change in net assets (deficit) (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were a negative (\$23.8 million) at June 30, 2009. Capital assets, net of related debt totaling (\$8.4 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 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 net deficit of \$15.5 million represents the accumulated results of all past years' operations. Long-term liabilities are greater than the current and capital assets of the School District; therefore, the net assets are negative. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

School District of the City of River Rouge

Management's Discussion and Analysis (Continued)

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets (deficit) for fiscal years 2009 and 2008:

TABLE 2

	Governmental Activities	
	2009	2008
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.2	\$ 0.1
Operating grants and contributions	4.1	3.4
General revenue:		
Property taxes	6.6	9.1
State foundation allowance	5.7	4.3
Other	(0.4)	1.2
Total revenue	<u>16.2</u>	<u>18.1</u>
Functions/Program Expenses		
Instruction	7.0	7.6
Support services	13.1	7.4
Athletics	0.3	0.2
Food services	0.8	0.8
Community services	0.2	0.1
Interest on long-term debt	2.5	2.4
Depreciation (unallocated)	1.7	1.8
Total functions/program expenses	<u>25.6</u>	<u>20.3</u>
Increase in Net Assets (Deficit)	(9.4)	(2.2)
Net Assets (Deficit) - Beginning of year	<u>(14.4)</u>	<u>(12.2)</u>
Net Assets (Deficit) - End of year	<u><u>\$ (23.8)</u></u>	<u><u>\$ (14.4)</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$9.4 million. Certain activities were partially funded from those who benefited from the programs (\$.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$6.6 million in taxes, \$5.7 million in State foundation allowance, and with our other revenues, i.e., interest and general entitlements.

School District of the City of River Rouge

Management's Discussion and Analysis (Continued)

The School District experienced a change in net assets of \$9.4 million. Key reasons for the change in net assets were:

- A new accounting standard (GASB No. 45) requires the School District to record a long-term liability for postretirement health benefits for retirees that the School District has a contractual obligation to fund. The present value of this liability was approximately \$7 million.
- An increase in borrowing and the related accrued interest on the outstanding debt associated with the School Bond Loan Fund and School Loan Revolving Fund
- A significant decrease in local property taxes collections

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

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund deficit of \$2.0 million, which is a change of \$1.6 million from last year. The primary reasons for the change are as follows:

In the General Fund, our principal operating fund, the fund balance deficit increased \$1.5 million to a deficit of \$2.2 million. The change is mainly due to:

- Universal Service Fund (E-Rate) monies not being received by year end and recognized as revenue
- Reduced property tax revenue due to a significant decrease in collections
- Utilities and benefits (especially Blue Cross health premiums which increased 38.9 percent) increasing while the overall foundation allowance remained stagnant

Our Special Revenue Funds resulted in expenditures exceeding revenue by approximately \$331,000. The Special Revenue Funds were supported by the General Fund through an operating transfer to cover the revenue shortfall.

School District of the City of River Rouge

Management's Discussion and Analysis (Continued)

The Debt Service Fund showed a fund balance decrease of approximately \$62,000. 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.

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 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 supplementary information of these financial statements.

There were significant revisions made to the 2008-2009 General Fund original budget. The budgeted revenues were decreased by approximately \$825,000 to account for the decrease in discretionary revenue, property tax collections, and related increase in federal stabilization (stimulus funds). Budgeted expenditures were increased approximately \$566,000. Capital outlay expenditures in the amount of \$360,000 that represent Dunn School renovations were not originally budgeted. These renovations are being funded by a debt agreement entered into with Wayne RESA. There were no other significant amendments during the year.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2009, the School District had \$65.4 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment.

	2009	2008
Land	\$ 2,652,835	\$ 2,652,835
Construction in progress	1,089,808	-
Buildings and building improvements	53,268,621	55,403,061
Buses and other vehicles	149,000	149,000
Furniture and equipment	8,228,247	8,148,274
Total capital assets	65,388,511	66,353,170
Less accumulated depreciation	(28,552,378)	(27,673,956)
Net capital assets	<u>\$ 36,836,133</u>	<u>\$ 38,679,214</u>

School District of the City of River Rouge

Management's Discussion and Analysis (Continued)

During 2009, the School District had a net decrease in capital assets of \$1 million. While the School District had significant capital asset additions related to the Dunn School renovation resulting in a note payable to Wayne RESA, the School District also recognized one of its idle buildings being treated as an impaired asset, resulting in the write-down of its net book value (historical costs net of accumulated depreciation).

A major capital project is planned for the 2009-2010 fiscal year provided the bond that will be included on the November 3, 2009 ballot for voter approval passes. This bond would allow the School District to remodel and replace the Sabbath elementary school heating and ventilation systems including electrical and roofing medications. We anticipate capital additions will be approximately \$800,000 greater than the 2008-2009 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$50.4 million in debt outstanding versus \$51.2 million in the previous year - a change of 1.6 percent. This debt consisted of general obligation and Durant Non-Plaintiff bonds, school bond loan and revolving funds, Honeywell Energy Loans, and a new school renovation note. Loan payments to repay the renovation note to Wayne RESA will equal the rent received from Southgate schools for the use of Dunn. This loan is at zero percent interest.

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 \$32.7 million is significantly below this \$53.8 million statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, and healthcare for certain retirees, based on their respective contract. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The River Rouge School District Deficit Elimination Plan (DEP), adopted by the Board of Education and approved by the State Department of Education, was implemented commencing with the 2008-2009 fiscal year. This plan was based on the following factors: reviewing FTEs across the School District, discontinuance and/or renegotiation of outstanding vendor contracts, and revaluating building repairs based upon a priority schedule or until an external funding source could be located.

School District of the City of River Rouge

Management's Discussion and Analysis (Continued)

Our elected officials and administration consider many factors when setting the School District's 2009-2010 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009-2010 fiscal year is 25 percent and 75 percent of the February 2009 and September 2009 student counts, respectively. The 2009-2010 budget was adopted in June 2009, based on an estimate of students that will be enrolled in September 2009. Approximately 75 percent to 80 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. Based on early enrollment data at the start of the 2009-2010 school year, we anticipate that the fall student count will be close to the estimates used in creating the original 2009-2010 budget. Once the final student count and related per pupil funding are validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Affecting the approved DEP is our reliance on the State's ability to collect revenues to fund its appropriation to school districts. As many of you are aware, the State of Michigan has been one of the hardest hit states in the current economic downturn. For 2009-2010, the governor and legislature continue to work through the State's worsening budget issues. Districts were asked to establish budgets for the upcoming school year without knowing the level of funding to be provided from the State. We have developed our budget using a zero change in the per pupil foundation allowance. The State is currently behind in its revenue estimates and all districts were recently notified of a \$292 cut to their foundation allowances. This "cut" will result in an additional \$300,000 of unexpected loss revenue to our School District on top of the hold harmless monies of \$300,000 that were eliminated. These items were unexpected and affect our budget plan and the DEP that we are required to follow. We will continue to monitor the situation and amend our current budget and corresponding DEP accordingly.

Contacting the District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

School District of the City of River Rouge

Statement of Net Assets (Deficit) June 30, 2009

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 1,546,090
Receivables (Note 4)	2,453,157
Inventories	10,609
Prepaid costs and other assets	210,981
Restricted assets (Note 3)	4,258
Capital assets - Net (Note 5)	<u>36,836,133</u>
Total assets	41,061,228
Liabilities	
Accounts payable	346,560
Accrued payroll and other liabilities	1,092,890
State aid anticipation note (Note 10)	4,051,755
Other accrued liabilities	405,383
Due to other governments	520,334
Noncurrent liabilities (Note 7):	
Due within one year	2,862,683
Due in more than one year	<u>55,559,996</u>
Total liabilities	<u>64,839,601</u>
Net Assets (Deficit)	
Invested in capital assets - Net of related debt	(8,433,372)
Restricted - Debt service	141,848
Unrestricted	<u>(15,486,849)</u>
Total net assets (deficit)	<u>\$ (23,778,373)</u>

School District of the City of River Rouge

Statement of Activities Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 7,025,521	\$ -	\$ 2,834,185	\$ (4,191,336)
Support services	13,149,473	-	-	(13,149,473)
Athletics	283,506	8,552	-	(274,954)
Food services	744,719	72,311	551,586	(120,822)
Community services	175,761	99,547	752,667	676,453
Payments to other public schools (ISDs, LEAs)	3,500	-	-	(3,500)
Interest	2,502,798	-	-	(2,502,798)
Depreciation expense (unallocated)	1,718,143	-	-	(1,718,143)
Total primary government	\$ 25,603,421	\$ 180,410	\$ 4,138,438	(21,284,573)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				3,591,545
Property taxes, levied for debt service				2,963,824
State aid not restricted to specific purposes				5,716,256
Federal sources - Unrestricted				433,863
Interest and investment earnings				49,474
Other (Note 1)				(842,866)
Total general revenues				11,912,096
Change in Net Assets				(9,372,477)
Net Assets (Deficit) - Beginning of year				(14,405,896)
Net Assets (Deficit) - End of year				\$ (23,778,373)

School District of the City of River Rouge

Governmental Funds Balance Sheet June 30, 2009

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 1,546,090	\$ -	\$ -	\$ 1,546,090
Receivables (Note 4)	2,169,914	206,569	76,674	2,453,157
Due from other funds (Note 6)	113,262	-	1,355	114,617
Inventories	10,609	-	-	10,609
Prepaid costs and other assets	210,981	-	-	210,981
Restricted assets (Note 3)	-	4,258	-	4,258
Total assets	\$ 4,050,856	\$ 210,827	\$ 78,029	\$ 4,339,712
Liabilities and Fund Balances (Deficit)				
Liabilities				
Accounts payable	\$ 259,036	\$ -	\$ 25,735	\$ 284,771
Accrued payroll-related liabilities	1,092,890	-	-	1,092,890
State aid anticipation note (Note 10)	4,051,755	-	-	4,051,755
Other accrued liabilities	25,936	-	-	25,936
Due to other governmental units	520,334	-	-	520,334
Due to other funds (Note 6)	63,144	68,979	44,283	176,406
Deferred revenue (Note 4)	203,171	-	-	203,171
Total liabilities	6,216,266	68,979	70,018	6,355,263
Fund Balances (Deficit)				
Reserved:				
Debt service	-	141,848	-	141,848
Inventories	10,609	-	-	10,609
Prepaid costs	156,749	-	-	156,749
Unreserved - Undesignated, reported in:				
General Fund	(2,332,768)	-	-	(2,332,768)
Special Revenue Funds	-	-	8,011	8,011
Total fund balances (deficit)	(2,165,410)	141,848	8,011	(2,015,551)
Total liabilities and fund balances (deficit)	\$ 4,050,856	\$ 210,827	\$ 78,029	\$ 4,339,712

School District of the City of River Rouge

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) June 30, 2009

Fund Balance (Deficit) Reported in Governmental Funds \$ (2,015,551)

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

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

Cost of capital assets	\$ 65,388,511	
Accumulated depreciation	<u>(28,552,378)</u>	36,836,133

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

Bonds including premium and deferred charges and notes payable	(50,441,572)	
Compensated absences	(1,026,360)	
Other postemployment benefits	<u>(6,954,747)</u>	(58,422,679)

Accrued interest payable is not included as a liability in governmental funds (257,318)

Other long-term assets are not available to pay current period expenditures, therefore are deferred in the governmental funds 203,171

Other liabilities are not due and payable in the current period and are not reported in the governmental funds (122,129)

Net Assets (Deficit) of Governmental Activities **\$ (23,778,373)**

School District of the City of River Rouge

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2009

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 3,984,157	\$ 2,990,928	\$ 80,863	\$ 7,055,948
State sources	6,776,543	208,956	65,134	7,050,633
Federal sources	1,909,207	-	551,586	2,460,793
Governmental - Intergovernmental	24,464	-	-	24,464
Total revenue	12,694,371	3,199,884	697,583	16,591,838
Expenditures				
Current:				
Instruction:				
Basic program	5,682,476	-	-	5,682,476
Added needs	1,390,720	-	-	1,390,720
Support services:				
Pupil	839,234	-	-	839,234
Instructional staff	421,939	-	-	421,939
General administration	565,668	-	-	565,668
School administration	618,340	-	-	618,340
Business	413,256	-	-	413,256
Operations and maintenance	2,240,462	-	-	2,240,462
Pupil transportation services	597,899	-	-	597,899
Central	518,360	-	-	518,360
Athletics	-	-	283,506	283,506
Food services	-	-	744,719	744,719
Community services	150,797	-	-	150,797
Debt service:				
Principal	233,906	1,775,610	-	2,009,516
Interest	109,905	1,633,559	-	1,743,464
Capital outlay	442,078	-	-	442,078
Payments to other public schools (ISDs, LEAs)	3,500	-	-	3,500
Total expenditures	14,228,540	3,409,169	1,028,225	18,665,934
Excess of Expenditures Over Revenue	(1,534,169)	(209,285)	(330,642)	(2,074,096)
Other Financing Sources (Uses)				
Transfers in (Note 6)	-	-	334,648	334,648
Transfers out (Note 6)	(334,648)	-	-	(334,648)
Face value of debt issued	337,141	-	-	337,141
School Bond Loan Revolving Fund proceeds	-	147,608	-	147,608
Total other financing sources	2,493	147,608	334,648	484,749
Net Change in Fund Balances	(1,531,676)	(61,677)	4,006	(1,589,347)
Fund Balances (Deficit) - Beginning of year	(633,734)	203,525	4,005	(426,204)
Fund Balances (Deficit) - End of year	<u>\$ (2,165,410)</u>	<u>\$ 141,848</u>	<u>\$ 8,011</u>	<u>\$ (2,015,551)</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

School District of the City of River Rouge

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2009

Net Change in Fund Balances (Deficit) - Total Governmental Funds	\$ (1,589,347)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	\$ (1,718,143)
Capitalized capital outlay	<u>417,114</u>
	(1,301,029)
The net effect of other transactions involving capital assets that decreased net assets	(1,294,719)
Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	131,148
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities	(484,749)
Net underwriter's discount/premium reported as expenditures/revenue in the funds and amortized in the statement of activities	50,010
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,009,516
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	29,616
Compensated absences are recorded when earned in the statement of activities. In the current year, more was paid out than was earned	68,107
Accrued interest on School Bond Loan Fund is recorded in the statement of activities when incurred and not reported in governmental funds until paid	(788,950)
Accrued other postemployment benefits are reported in the statement of activities at the time it is earned	(6,954,747)
Fair value of donated assets are recorded as revenue on the statement of activities	<u>752,667</u>
Change in Net Assets (Deficit) of Governmental Activities	<u>\$ (9,372,477)</u>

School District of the City of River Rouge

Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2009

	Agency Funds
Assets - Due from General Fund	<u>\$ 61,789</u>
Liabilities - Due to student groups	<u>\$ 61,789</u>

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note I - Summary of Significant Accounting Policies

The accounting policies of the School District of the City of River Rouge (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 (deficit) 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 district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program 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.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-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.

Other - During the current year, the School District determined a building was impaired. As a result, the cost of the building and accumulated depreciation were written off, resulting in an impairment expense of \$1,294,719 recorded on the statement of activities. Other classification also includes investment earnings and miscellaneous revenue of \$451,853.

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.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

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.

Debt Service Fund - The Debt Service Fund is used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on the long-term debt.

Additionally, the School District reports the following fund types:

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

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

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

Assets, Liabilities, and Net Assets or Equity

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

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. 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 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note I - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventory recorded in the General Fund consists of centrally warehoused operating supplies for the School District. Inventory-type items are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Restricted Assets - Tax revenue collected has been set aside for debt principal and interest payments. These amounts have been classified as restricted assets.

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

Buildings, building additions, furniture, equipment, buses, and other vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	5 to 10 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 leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Other Postemployment Benefits - The liability for other postemployment benefits reported in the district-wide statements consists of contractual obligations for the School District to provide health insurance benefits to eligible retirees.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

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 (deficit). Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

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

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

Fund 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.

Risks and Uncertainties - The School District invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

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

Accounting Change - Effective July 1, 2008, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). Changes to the School District's financial statements as a result of the implementation of GASB 45 are an additional liability and expense of approximately \$7 million recorded on the district-wide financial statements. See Note 9 for additional description of the plan.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund, Debt Service Fund, and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

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

The budget document presents information by fund and by function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the 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.

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. As of June 30, 2009, there were no material outstanding encumbrances.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Fund Deficits - The School District has a General Fund deficit at June 30, 2009 of \$2,165,410. State law requires the School District to establish a deficit reduction plan with the Michigan Department of Education. The School District is currently working with the Department of Education to have a plan submitted for approval prior to the December 15, 2009 due date.

Note 3 - Deposits and Investments

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

The School District has designated three banks 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:

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note 3 - Deposits and Investments (Continued)

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 (certificates of deposit, checking and savings accounts) of \$225,180 was fully insured and collateralized. The School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not hold investments subject to custodial credit risk at year end.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

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

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Maturities	Rating	Rating Organization
MILAF - MAX Series/Cash Management	\$ 1,415,462	N/A	AAAm	Standard & Poor's
National City Municipal Investment Fund	53,000	N/A	Not required	Not required
Total investments	<u>\$ 1,468,462</u>			

Concentration of Credit Risk

The School District's investment policy does not place a limit on the amount the School District may invest in any one issuer. The School District's policy minimized 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. More than 5 percent of the School District's investments are in investment funds; these funds are 95 percent of the School District's total investments.

Foreign Currency Risk

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

Note 4 - Receivables and Deferred Revenue

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

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Receivables:				
Taxes	\$ 321,877	\$ 206,569	\$ -	\$ 528,446
Intergovernmental	1,642,800	-	76,674	1,719,474
Other	205,237	-	-	205,237
Total receivables	<u>\$ 2,169,914</u>	<u>\$ 206,569</u>	<u>\$ 76,674</u>	<u>\$ 2,453,157</u>

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note 4 - Receivables and Deferred Revenue (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

	Governmental Funds	
	Unavailable	Unearned
Other receivables not received within 60 days of year end	\$ 203,171	\$ -

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2008	Additions	Disposals/ Impairments	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 2,652,835	\$ -	\$ -	\$ 2,652,835
Construction in progress	-	1,089,808	-	1,089,808
Subtotal	2,652,835	1,089,808	-	3,742,643
Capital assets being depreciated:				
Buildings and improvements	55,403,061	-	2,134,440	53,268,621
Furniture and equipment	8,148,274	79,973	-	8,228,247
Buses and other vehicles	149,000	-	-	149,000
Subtotal	63,700,335	79,973	2,134,440	61,645,868
Accumulated depreciation:				
Buildings and improvements	20,225,888	1,242,388	839,721	20,628,555
Furniture and equipment	7,299,068	475,755	-	7,774,823
Buses and other vehicles	149,000	-	-	149,000
Subtotal	27,673,956	1,718,143	839,721	28,552,378
Net capital assets being depreciated	36,026,379	(1,638,170)	1,294,719	33,093,490
Net capital assets	\$ 38,679,214	\$ (548,362)	\$ 1,294,719	\$ 36,836,133

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

Asset Impairment - Capital assets reported in the governmental activities include idle and impaired assets of \$1,294,719.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Debt Service Fund	Nonmajor governmental funds	
General Fund	\$ -	\$ 68,979	\$ 44,283	\$ 113,262
Nonmajor governmental funds	1,355	-	-	1,355
Fiduciary funds	61,789	-	-	61,789
Total	<u>\$ 63,144</u>	<u>\$ 68,979</u>	<u>\$ 44,283</u>	<u>\$ 176,406</u>

Interfund balances represent the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. These balances are expected to be repaid within one year.

During the year ended June 30, 2009, the General Fund transferred funds totaling \$275,206 and \$59,442 to the Athletic and Food Service Funds, respectively, for general operating purposes.

Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes are also general obligations of the School District. The Energy Conservation Agreement is also a general obligation of the School District. Other long-term obligations include compensated absences, other post-employment benefits, the School Bond Loan Fund, and the School Loan Revolving Fund.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds	\$ 31,635,000	\$ -	\$ 1,625,000	\$ 30,010,000	\$ 1,720,000
Less deferred amounts:					
Bond premiums	1,644,367	-	116,050	1,528,317	116,050
Deferred charges (interest) from refunding bonds	(935,566)	-	(66,040)	(869,526)	(66,040)
Total bonds payable	32,343,801	-	1,675,010	30,668,791	1,770,010
Durant Non-Plaintiff Bond	261,499	-	150,610	110,889	25,820
School Bond Loan Fund	16,598,215	784,056	-	17,382,271	-
School Loan Revolving Fund	68,058	152,502	-	220,560	-
Energy Conservation Agreement	1,955,826	-	233,906	1,721,920	247,645
School Renovation Note	-	337,141	-	337,141	95,000
Employee compensated absences	1,094,467	-	68,107	1,026,360	125,245
Other postemployment benefits	-	6,954,747	-	6,954,747	598,963
Total governmental activities	<u>\$ 52,321,866</u>	<u>\$ 8,228,446</u>	<u>\$ 2,127,633</u>	<u>\$ 58,422,679</u>	<u>\$ 2,862,683</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,088,465	\$ 1,595,408	\$ 3,683,873
2011	2,219,240	1,493,632	3,712,872
2012	2,355,927	1,385,194	3,741,121
2013	2,435,722	1,299,115	3,734,837
2014	2,516,160	1,172,288	3,688,448
2015-2019	12,869,436	3,862,511	16,731,947
2020-2022	7,695,000	769,500	8,464,500
Total	<u>\$ 32,179,950</u>	<u>\$ 11,577,648</u>	<u>\$ 43,757,598</u>

General obligation bonds consist of \$38,655,000 2002 refunding bonds due in annual installments of \$1,720,000 to \$2,565,000 through May 1, 2022, with interest from 4.00 percent to 5.25 percent.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

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: \$442,871 School Improvement Bond, Series 1998, due in annual installments of \$25,820 to \$29,684 through May 15, 2013, with interest at 4.76 percent.

The Energy Conservation Agreement consists of the following:

Date	Original Amount	Due Date	Interest Rate	Remaining to Maturity	
				Interest	Principal
Energy Conservation Agreement					
03/13/2000	\$ 3,239,929	03/15/2015	5.79	\$ 323,406	\$ 1,633,352
03/15/2001	171,929	03/15/2015	5.79	17,537	88,568
Total	<u>\$ 3,411,858</u>			<u>\$ 340,943</u>	<u>\$ 1,721,920</u>

School Bond Loan - The school bond loan payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates fluctuated during the year, ranging from 4.1250 percent to 6.1250 percent. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 8.83 mills. The School District is required to levy mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note 7 - Long-term Debt (Continued)

School Loan Revolving Fund - The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in accordance with Section 9 of Act No. 92 of the Public Acts of 2005, as amended. Interest rates went into effect beginning October 1, 2005 pursuant to Public Act 92. Interest fluctuated throughout the year from 4.30682 percent to 6.21978 percent. Repayment begins as soon as annual tax collections exceed annual debt service payment requirements. The predetermined mandatory final loan repayment date is May 1, 2028. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

School Renovation Note - The school renovation note is due in annual installments ranging from \$52,141 to \$95,000 through June 20, 2013. The note bears no interest.

Advance and Current Refundings - In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2009, \$31,075,000 of bonds outstanding are considered defeased.

Note 8 - 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 health benefits claims and participates in the SET-SEG (risk pool) for claims related to property, workers' compensation, and general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

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

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

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 10.17 percent of covered payroll for the period from July 1, 2008 through September 30, 2008 and 9.73 percent for the period from October 1, 2008 through June 30, 2009. Basic plan members make no contributions, but member investment plan or MIP plus members contribute at rates ranging from 3 percent to 6.4 percent of gross wages, depending on the plan. The School District's required and actual contributions to the plan for the years ended June 30, 2009, 2008, and 2007 were \$736,100, \$755,300, and \$1,071,800, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2008 through September 30, 2008 and 6.81 percent for the period from October 1, 2008 through June 30, 2009. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2009, 2008, and 2007 were \$494,200, \$463,200, and \$669,200, respectively.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Other Postemployment Benefits - The School District has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The School District pays the full cost of the required premium for these benefits. Currently, 52 retirees are receiving postemployment health benefits. Funding for the closed plan is based on the School District paying 100 percent of the monthly insurance premiums for eligible retirees on a "pay as you go" basis. For the fiscal year ended June 30, 2009, the School District made payments for postemployment health benefit premiums of approximately \$444,000. The School District obtains healthcare coverage through a private insurer. The liability associated with these benefits was calculated using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 total plan members and is recorded in long-term debt. As of June 30, 2009, the accrued liability for benefits was \$6,954,747, all of which was unfunded. The liability was calculated using the following assumptions: a discount rate of 3 percent, 2009 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid, premium inflation rate of 5 percent based on historical actual increases, life expectancies based on mortality tables from the National Center for Health Statistics, and the 2002 version of the United States Life Tables for Males and Females.

Note 10 - State Aid Anticipation Note

On August 20, 2008, the School District borrowed \$3,500,000 in a state aid anticipation note. The note bears interest at 1.70 percent and is due August 20, 2009. On April 7, 2009, the School District borrowed an additional \$500,000 in a state aid anticipation note. The note bears interest at .60 percent and is due on August 20, 2009. At June 30, 2009, the School District has accrued interest of \$51,755 on the notes.

Note 11 - Subsequent Events

On August 20, 2009, the School District borrowed \$4,000,000 at 0.85 percent annual interest on a state aid anticipation note. The note, plus interest, is due August 20, 2010.

Note 12 - Contingent Liabilities

The School District is a defendant in multiple arbitration cases related to employment matters. It is not possible to predict with certainty whether or not the School District will ultimately be successful in any of the legal matters or, if not, what the impact will be based on current information.

School District of the City of River Rouge

Notes to Financial Statements June 30, 2009

Note 12 - Contingent Liabilities (Continued)

The School District's largest taxpayer, National Steel - Great Lakes Division, filed Chapter 11 bankruptcy and was ultimately sold to U.S. Steel Corporation. U.S. Steel Corporation has filed a petition with the tax tribunal requesting a reduction in its assessed and taxable valuation for the December 2002 and 2003 tax years (affecting the School District's July 2003 through June 2004 fiscal year) based on the purchase price paid in the bankruptcy sale. U.S. Steel Corporation is requesting reduction of approximately 60 percent from the original value set by the City of River Rouge. If successful, the City and, subsequently, the School District, would have refund obligations from the General and Debt Service Funds. During 2009, the School District was required to pay approximately \$257,000 related to this matter.

Required Supplementary Information

School District of the City of River Rouge

Required Supplementary Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources	\$ 6,625,052	\$ 4,209,000	\$ 3,984,157	\$ (224,843)
State sources	5,373,509	6,687,424	6,776,543	89,119
Federal sources	1,616,525	2,025,459	1,909,207	(116,252)
Governmental - Intergovernmental	<u>177,699</u>	<u>45,363</u>	<u>24,464</u>	<u>(20,899)</u>
Total revenue	13,792,785	12,967,246	12,694,371	(272,875)
Expenditures				
Current:				
Instruction:				
Basic program	5,698,512	5,551,447	5,682,476	131,029
Added needs	<u>1,227,724</u>	<u>1,374,391</u>	<u>1,390,720</u>	<u>16,329</u>
Total instruction	6,926,236	6,925,838	7,073,196	147,358
Support services:				
Pupil	729,932	851,942	839,234	(12,708)
Instructional staff	350,910	412,851	421,939	9,088
General administration	482,255	607,504	565,668	(41,836)
School administration	692,558	611,131	618,340	7,209
Business services	401,790	501,603	413,256	(88,347)
Transportation and maintenance	2,347,151	2,249,076	2,240,462	(8,614)
Pupil transportation service	580,250	560,200	597,899	37,699
Central staff and other	<u>573,434</u>	<u>572,565</u>	<u>518,360</u>	<u>(54,205)</u>
Total support services	6,158,280	6,366,872	6,215,158	(151,714)
Community services	144,211	142,622	150,797	8,175
Debt service	343,811	343,811	343,811	-
Capital outlay	-	360,000	442,078	82,078
Payments to other public schools (ISDs, LEAs)	<u>-</u>	<u>-</u>	<u>3,500</u>	<u>3,500</u>
Total expenditures	<u>13,572,538</u>	<u>14,139,143</u>	<u>14,228,540</u>	<u>89,397</u>
Excess of Revenue Over (Under)				
Expenditures	220,247	(1,171,897)	(1,534,169)	(362,272)
Other Financing Sources (Uses)				
Transfers out	(232,597)	(354,872)	(334,648)	20,224
Face value of debt issued	<u>-</u>	<u>-</u>	<u>337,141</u>	<u>337,141</u>
Net Change in Fund Balance (Deficit)	(12,350)	(1,526,769)	(1,531,676)	(4,907)
Fund Balance (Deficit) - Beginning of year	<u>12,822</u>	<u>(633,734)</u>	<u>(633,734)</u>	<u>-</u>
Fund Balance (Deficit) - End of year	<u>\$ 472</u>	<u>\$ (2,160,503)</u>	<u>\$ (2,165,410)</u>	<u>\$ (4,907)</u>

Other Supplementary Information

School District of the City of River Rouge

Other Supplementary Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2009

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Athletics	Food Services	
Assets			
Receivables	\$ -	\$ 76,674	\$ 76,674
Due from other funds	1,355	-	1,355
Total assets	<u>\$ 1,355</u>	<u>\$ 76,674</u>	<u>\$ 78,029</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 852	\$ 24,883	\$ 25,735
Due to other funds	-	44,283	44,283
Total liabilities	852	69,166	70,018
Fund Balances - Unreserved fund balance	<u>503</u>	<u>7,508</u>	<u>8,011</u>
Total liabilities and fund balances	<u>\$ 1,355</u>	<u>\$ 76,674</u>	<u>\$ 78,029</u>

School District of the City of River Rouge

Other Supplementary Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2009

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Athletics</u>	<u>Food Services</u>	
Revenue			
Local sources	\$ 8,552	\$ 72,311	\$ 80,863
State sources	-	65,134	65,134
Federal sources	-	551,586	551,586
Total revenue	<u>8,552</u>	<u>689,031</u>	<u>697,583</u>
Expenditures - Current			
Support services:			
Athletics	283,506	-	283,506
Food services	-	744,719	744,719
Total expenditures	<u>283,506</u>	<u>744,719</u>	<u>1,028,225</u>
Excess of Expenditures Over Revenue	(274,954)	(55,688)	(330,642)
Other Financing Sources -			
Transfers in	<u>275,206</u>	<u>59,442</u>	<u>334,648</u>
Net Change in Fund Balances	252	3,754	4,006
Fund Balances - Beginning of year	<u>251</u>	<u>3,754</u>	<u>4,005</u>
Fund Balances - End of year	<u><u>\$ 503</u></u>	<u><u>\$ 7,508</u></u>	<u><u>\$ 8,011</u></u>

School District of the City of River Rouge

Other Supplementary Information Schedule of Bonded Indebtedness Year Ended June 30, 2009

June 30	Durant Non- Plaintiff Bond Principal	2002 Refunding Bonds Principal
2010	\$ 25,820	\$ 1,720,000
2011	27,049	1,835,000
2012	28,336	1,955,000
2013	29,684	2,060,000
2014	-	2,205,000
2015	-	2,345,000
2016	-	2,505,000
2017	-	2,560,000
2018	-	2,565,000
2019	-	2,565,000
2020	-	2,565,000
2021	-	2,565,000
2022	-	2,565,000
Total	\$ 110,889	\$ 30,010,000
Principal payments due	May 15	May 1
Interest payments due	May 15	November 1 and May 1
Interest rate	4.76%	4.00% to 5.25%
Original issue	\$ 422,871	\$ 38,655,000