

# **School District of the City of River Rouge**

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

# School District of the City of River Rouge

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## 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 remaining fund information of the School District of the City of River Rouge (the "School District") as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 remaining fund information of the School District of the City of River Rouge as of June 30, 2011 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.

During the year, the School District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 1. As a result of this required implementation, the Athletic Fund, previously classified as a special revenue fund, is now reported as a part of the General Fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

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

As more fully described in Note 2 to the financial statements, the General Fund is in a \$2,987,287 deficit position at June 30, 2011. Management represents that the School District anticipates an increase in students for the fiscal year ending June 30, 2012, thus helping to reduce the fund balance deficit. As of the report date, the pupil count has increased 59 students, from 1,090 (2010 fall count) to 1,149 (September unaudited pupil count). State law requires the School District to continue to implement cost-cutting initiatives that will enable it to bring expenditures in line with expected current revenue and eliminate the General Fund deficit.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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 supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated November 9, 2011 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. 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*

November 9, 2011

# 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, 2011. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand 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 the other fund presented in one column as non-major Food Services Fund. 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 General Fund

Other Supplemental 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 revenue 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 revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District. The statement of net assets (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 another fund to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

# School District of the City of River Rouge

## 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 (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, 2011 and 2010:

	Governmental Activities	
	June 30	
	2011	2010
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 4.4	\$ 5.0
Capital assets	<u>34.9</u>	<u>36.0</u>
Total assets	39.3	41.0
<b>Liabilities</b>		
Current liabilities	9.7	10.6
Long-term liabilities	<u>46.7</u>	<u>47.6</u>
Total liabilities	56.4	58.2
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	(5.0)	(7.2)
Restricted	0.2	0.1
Unrestricted - As restated	<u>(12.3)</u>	<u>(10.1)</u>
Total net assets (deficit) - As restated	<u>\$ (17.1)</u>	<u>\$ (17.2)</u>

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 (\$17.1 million) at June 30, 2011. Capital assets, net of related debt totaling (\$5.0 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.

# School District of the City of River Rouge

## Management's Discussion and Analysis (Continued)

The net deficit of \$17.1 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.

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 2011 and 2010:

TABLE 2

	Governmental Activities	
	Year Ended	
	2011	2010
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 0.1	\$ 0.1
Operating grants and contributions	4.8	4.5
General revenue:		
Property taxes	6.7	7.1
State foundation allowance	5.8	6.0
Other postemployment benefits- As restated	-	6.8
Federal stabilization	0.3	0.3
Other	0.8	0.6
Total revenue	18.5	25.4
<b>Functions/Program Expenses</b>		
Instruction	7.0	6.7
Support services	6.4	6.9
Athletics	0.2	0.2
Food services	0.6	0.7
Community services	0.1	0.1
Other	0.1	0.1
Interest on long-term debt	2.5	2.6
Depreciation (unallocated)	1.5	1.5
Total functions/program expenses	18.4	18.8
<b>Increase in Net Assets (Deficit)</b>	0.1	6.6
<b>Net Assets (Deficit) - Beginning of year - As restated</b>	(17.2)	(23.8)
<b>Net Assets (Deficit) - End of year</b>	\$ (17.1)	\$ (17.2)

# **School District of the City of River Rouge**

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

As reported in the statement of activities, the cost of all of our governmental activities this year was \$18.4 million. Certain activities were partially funded from those who benefited from the programs (\$.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$6.7 million in taxes, \$5.8 million in state foundation allowance, and with our other revenue, i.e., interest and general entitlements.

The School District experienced an increase in net assets of \$0.1 million. Key reasons for the change in net assets were as follows:

- An increase in "other" revenue that was due to the School District receiving a \$250,000 community foundation grant for 2010-2011. This revenue helped to offset losses in the state foundation allowance and property tax collections.
- A decrease in support services expenditures due to moving 53 retired employees to the Michigan Public School Retirement System (MPERS) plan.
- The privatization of the custodial and maintenance staff and a reduction in central office staff positions

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 approximately \$2.8 million, which is a change of approximately \$0.2 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 decreased \$68,000 to an ending June 30, 2011 deficit of \$2,987,287. This positive change is due to the School District decreasing expenditures by more than the decrease in revenue; therefore, the School District was able to realize an operating surplus.
- There was an increase in the debt service fund balance of \$113,160. 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. The School District continues to borrow from the School Bond Loan Revolving Fund to supplement property tax revenue in making the annual bond payments.

# School District of the City of River Rouge

## Management's Discussion and Analysis (Continued)

- There was an increase in the Food Service Fund fund balance of \$24,907 due to the fixed meal price contract that has enabled the School District to keep food service costs in line with revenue. The Food Service Fund balance is \$55,396 at June 30, 2011.

### 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 revenue 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 supplemental information of these financial statements.

There were revisions made to the 2010-2011 General Fund original budget as a result of the reduction in state aid due to an unexpected decrease in students. There were also changes made due to an increase in federal funding that affected both the revenue and the expenditure budget. The actual results were better by approximately \$.2 million due to the School District receiving \$.1 million in prior year adjustments from the State after the final budget was approved. The remaining \$.1 variance was spread across several function lines.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2011, the School District had \$66.4 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment.

	<u>2011</u>	<u>2010</u>
Land	\$ 2,652,835	\$ 2,652,835
Construction in progress	-	-
Buildings and building improvements	54,450,727	54,424,949
Buses and other vehicles	149,000	149,000
Furniture and equipment	<u>9,180,520</u>	<u>8,828,957</u>
Total capital assets	66,433,082	66,055,741
Less accumulated depreciation	<u>(31,502,861)</u>	<u>(30,008,198)</u>
Net capital assets	<u><u>\$ 34,930,221</u></u>	<u><u>\$ 36,047,543</u></u>

# **School District of the City of River Rouge**

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

During 2011, the School District had a net decrease in capital assets of \$1.1 million. While the School District realized an increase in capital asset additions related to the purchase of computers and equipment (\$.4 million) and \$25,000 in building renovations, the School District simultaneously saw an increase in accumulated depreciation of \$1.5 million.

More detailed information about our capital assets is provided in the notes to the financial statements.

### ***Debt***

At the end of this year, the School District had \$49.1 million in debt outstanding and other long-term obligations versus \$50.1 million in the previous year - a decrease of 2 percent. This debt consisted of general obligation and Durant Non-Plaintiff bonds, School Bond Loan and Revolving Funds, Honeywell Energy loans, employee compensated absences, retiree benefits, and a school renovation note. During the year, the School District defaulted on interest and principal payments of \$343,811 related to the Energy Conservation Agreement (Honeywell) due to a dispute with the contract. This dispute is currently being addressed by the School District's legal counsel. Loan payments to repay the renovation note to Wayne RESA will be made from the rent proceeds from Southgate schools for the use of Dunn School. This loan does not have an interest rate.

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 \$2 million is significantly below this statutorily imposed limit.

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

Our elected officials and administration consider many factors when setting the School District's 2011-2012 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 2011-2012 fiscal year is 10 percent and 90 percent of the February 2011 and September 2011 student counts, respectively. The 2011-2012 budget was adopted in June 2011 based on an estimate of students that will be enrolled in September 2011. Approximately 38 percent to 43 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 2011-2012 school year, we anticipate that the fall student count will be very close to the estimates used in creating the 2011-2012 original 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. As of the report date, the pupil count has increased 59 students, from 1,090 (2010 fall count) to 1,149 (September unaudited pupil count).

# **School District of the City of River Rouge**

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

The School District is currently operating under a deficit elimination plan (DEP). This DEP was adopted by the Board of Education and approved by the State Department of Education (State) commencing with the 2008-2009 fiscal year for a three-year period. Subsequent amendments to the plan have also been approved. Currently, the School District is on track with the plan to exit the deficit situation by the required timeframe. The financial challenges continue to include decreasing revenue from the State's per-pupil funding and a decrease in property tax collections due to the millage renewal not passing.

Affecting the approved DEP is our reliance on the State's ability to collect revenue to fund its appropriation to school districts. As many of you are aware, the State of Michigan continues to struggle in its funding of schools in the current economic downturn. We have developed our budget using a \$470 proration in the per-pupil foundation allowance. This foundation allowance "cut" will result in approximately \$517,000 of lost revenue to our School District. However, the School District has the ability to restore \$200 per pupil of the reduction through "best practices" and a MPSERS credit. This will yield the School District approximately \$220,000 back from the original \$470 per pupil "cut." This credit has been included in the School District's General Fund budget. Additionally, the State has not restored the 20J funding that has cost our School District approximately \$320,000 in lost revenue. However, the School District has been able to realize expenditure reductions for the 2011-2012 year through wage and benefit concessions and continued operating efficiencies. These expenditure reductions make up for the loss in state revenue, therefore enabling the School District to adopt a balanced operating budget. The current budget is in compliance with the March 2011 deficit elimination plan approved by the Michigan Department of Education.

### **Contacting the School 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, 2011

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments (Note 3)	\$ 1,597,381
Receivables (Note 4)	2,764,491
Prepaid costs and other assets	51,685
Restricted assets (Note 3)	5,631
Capital assets - Net (Note 5)	<u>34,930,221</u>
Total assets	39,349,409
<b>Liabilities</b>	
Accounts payable	537,995
Accrued payroll and other liabilities	1,282,322
State aid anticipation note (Note 11)	4,720,000
Due to other funds	56,059
Due to other governments	99,851
Energy conservation agreement (Notes 2 and 7)	687,621
Deferred revenue (Note 4)	8,029
Noncurrent liabilities (Note 7):	
Due within one year	2,366,935
Due in more than one year	<u>46,717,274</u>
Total liabilities	<u>56,476,086</u>
<b>Net Assets (Deficit)</b>	
Invested in capital assets - Net of related debt	(4,976,399)
Restricted:	
Debt service	180,830
Food service	55,396
Unrestricted	<u>(12,386,504)</u>
Total net assets (deficit)	<u><b>\$ (17,126,677)</b></u>

# School District of the City of River Rouge

## Statement of Activities Year Ended June 30, 2011

	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
Instruction	\$ 6,951,906	\$ -	\$ 3,065,962	\$ (3,885,944)
Support services	6,422,345	-	1,261,040	(5,161,305)
Athletics	179,457	7,275	-	(172,182)
Food services	632,394	93,367	563,934	24,907
Community services	128,904	53,305	-	(75,599)
Payments to other public schools (ISDs, LEAs)	75,000	-	-	(75,000)
Interest	2,525,749	-	-	(2,525,749)
Depreciation expense (unallocated)	1,499,304	-	-	(1,499,304)
Total primary government	<u>\$ 18,415,059</u>	<u>\$ 153,947</u>	<u>\$ 4,890,936</u>	(13,370,176)
General revenue:				
Taxes:				
Property taxes - Levied for general purposes				3,762,809
Property taxes - Levied for debt service				2,966,845
State aid not restricted to specific purposes				5,806,922
Federal sources - Unrestricted (ARRA)				281,107
Interest and investment earnings				2,799
Loss on the sale of capital assets				(40,867)
Community Foundation Grant				250,000
Walter White Guidance Center Program				225,568
Other				212,170
Total general revenue				<u>13,467,353</u>
<b>Change in Net Assets</b>				97,177
<b>Net Assets (Deficit) - As restated - Beginning of year (Note 14)</b>				<u>(17,223,854)</u>
<b>Net Assets (Deficit) - End of year</b>				<u><b>\$ (17,126,677)</b></u>

# School District of the City of River Rouge

## Governmental Funds Balance Sheet June 30, 2011

	General Fund	Debt Service Fund	Nonmajor Fund - Food Services Fund	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 1,597,381	\$ -	\$ -	\$ 1,597,381
Receivables (Note 4)	2,581,395	143,182	39,914	2,764,491
Due from other funds (Note 6)	-	32,267	120,788	153,055
Prepaid costs and other assets	51,685	-	-	51,685
Restricted assets (Note 3)	-	5,631	-	5,631
	<u>\$ 4,230,461</u>	<u>\$ 181,080</u>	<u>\$ 160,702</u>	<u>\$ 4,572,243</u>
Total assets				
<b>Liabilities and Fund Balances (Deficit)</b>				
<b>Liabilities</b>				
Accounts payable	\$ 432,439	\$ 250	\$ 105,306	\$ 537,995
Accrued payroll-related liabilities	1,060,694	-	-	1,060,694
State aid anticipation note (Note 11)	4,720,000	-	-	4,720,000
Due to other governmental units	99,851	-	-	99,851
Energy conservation agreement (Notes 2 and 7)	687,621	-	-	687,621
Due to other funds (Note 6)	209,114	-	-	209,114
Deferred revenue (Note 4)	8,029	-	-	8,029
	<u>7,217,748</u>	<u>250</u>	<u>105,306</u>	<u>7,323,304</u>
Total liabilities				
<b>Fund Balances</b>				
Nonspendable - Prepays	37,655	-	-	37,655
Restricted:				
Debt Service	-	180,830	-	180,830
Food Service	-	-	55,396	55,396
Unassigned	<u>(3,024,942)</u>	<u>-</u>	<u>-</u>	<u>(3,024,942)</u>
Total fund balances (deficit)	<u>(2,987,287)</u>	<u>180,830</u>	<u>55,396</u>	<u>(2,751,061)</u>
Total liabilities and fund balances (deficit)	<u>\$ 4,230,461</u>	<u>\$ 181,080</u>	<u>\$ 160,702</u>	<u>\$ 4,572,243</u>

# 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, 2011

**Fund Balance (Deficit) Reported in Governmental Funds** \$ (2,751,061)

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	\$ 66,433,082	
Accumulated depreciation	<u>(31,502,861)</u>	34,930,221

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	(48,519,896)	
Compensated absences	(318,652)	
Other postemployment benefits	<u>(245,661)</u>	(49,084,209)

Accrued interest payable is not included as a liability in governmental funds (221,628)

**Net Assets (Deficit) of Governmental Activities** **\$ (17,126,677)**

# School District of the City of River Rouge

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

	General Fund	Debt Service Fund	Nonmajor Fund - Food Services Fund	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 4,463,668	\$ 2,967,344	\$ 93,367	\$ 7,524,379
State sources	6,640,897	31,100	-	6,671,997
Federal sources	3,712,788	-	563,934	4,276,722
Governmental - Intergovernmental	9,373	-	-	9,373
Total revenue	14,826,726	2,998,444	657,301	18,482,471
<b>Expenditures</b>				
Current:				
Instruction	7,096,953	-	-	7,096,953
Support services	6,463,275	-	-	6,463,275
Athletics	179,457	-	-	179,457
Food services	-	-	632,394	632,394
Community services	128,904	-	-	128,904
Debt service:				
Principal	310,048	1,862,049	-	2,172,097
Interest	81,620	1,412,013	-	1,493,633
Other	-	251	-	251
Capital outlay	422,849	-	-	422,849
Payments to other public schools (ISDs, LEAs)	75,000	-	-	75,000
Total expenditures	14,758,106	3,274,313	632,394	18,664,813
<b>Excess of Expenditures Under (Over) Revenue</b>	68,620	(275,869)	24,907	(182,342)
<b>Other Financing Sources - School Bond Loan</b>				
Revolving Fund proceeds (Note 7)	-	389,029	-	389,029
<b>Net Change in Fund Balances</b>	68,620	113,160	24,907	206,687
<b>Fund Balances (Deficit) - Beginning of year</b>	(3,055,907)	67,670	30,489	(2,957,748)
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ (2,987,287)</b>	<b>\$ 180,830</b>	<b>\$ 55,396</b>	<b>\$ (2,751,061)</b>

# 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, 2011

<b>Net Change in Fund Balances (Deficit) - Total Governmental Funds</b>	\$	206,687
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	\$	(1,499,304)
Capitalized capital outlay	<u>422,849</u>	(1,076,455)
The net effect of other transactions involving capital assets that decreased net assets		(40,867)
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities		(389,029)
Net underwriter's discount/premium is 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)		2,172,097
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		38,033
Compensated absences are recorded when earned in the statement of activities. In the current year, more was paid out than was earned		207,210
Accrued interest on School Bond Loan Fund is recorded in the statement of activities when incurred and not reported in governmental funds until paid		(964,774)
Accrued other postemployment benefits are reported in the statement of activities at the time it is earned		<u>(105,735)</u>
<b>Change in Net Assets (Deficit) of Governmental Activities</b>	<b>\$</b>	<b><u>97,177</u></b>

# School District of the City of River Rouge

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

	Agency Funds
<b>Assets - Due from General Fund</b>	<b><u>\$ 56,059</u></b>
<b>Liabilities</b>	
Accounts payable	\$ 298
Due to student activities	<u>55,761</u>
Total liabilities	<b><u>\$ 56,059</u></b>

# School District of the City of River Rouge

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## Notes to Financial Statements June 30, 2011

### 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 revenue, 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 revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

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

# School District of the City of River Rouge

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## Notes to Financial Statements June 30, 2011

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

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

**District-wide Financial Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

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

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

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## Notes to Financial Statements June 30, 2011

### 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 Fund** - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's special revenue fund includes the Food Services Fund. Any operating deficit generated by this activity 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 is 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, 2011

### Note 1 - 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 (Sick Leave)** - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated 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. See Note 13 for additional information.

# School District of the City of River Rouge

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## Notes to Financial Statements June 30, 2011

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

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

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

# School District of the City of River Rouge

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## Notes to Financial Statements June 30, 2011

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

The Board of Education has adopted a fund balance policy. The fund balance policy prescribes the minimum fund balance as 15 percent of expenditures. This is deemed to be the prudent amount to maintain the School District's ability to meet obligations as they come due throughout the year.

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

**Accounting Change** - Effective July 1, 2010, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 54. In addition to the changes to fund balance discussed above, the School District changed its presentation of the athletics activity in the governmental funds. Previously the athletics function was reported as a special revenue fund. With the adoption of GASB No. 54, the activity no longer met the criteria to be classified as a special revenue fund and the activity is now reported in the General Fund. The Athletics Fund did not have a fund balance as of June 30, 2010.

### 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.

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. There were no significant amendments during the year.

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, 2011, there were no material outstanding encumbrances.

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

# School District of the City of River Rouge

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## Notes to Financial Statements June 30, 2011

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

**Fund Deficits and Management's Plans** - The School District has an accumulated fund balance deficit in the General Fund. As required by state law, the School District has filed a deficit elimination plan with the State of Michigan. The original plan was approved in February 2009 and covered a three-year period. The most recent plan was approved in March 2011 and extends to 2014-2015. The School District is confident that the approved plan will succeed as the student enrollment numbers came in as expected for the 2011-2012 year. As of the report date, the pupil count has increased by 59 students, from 1,090 (2010 fall count) to 1,149 (September unaudited pupil count). Additionally, the School District has realized extensive cost savings through wage and benefit concessions, staff reductions, privatization, and operational efficiencies.

**Debt Compliance** -The School District is disputing its energy conservation agreement with Citicorp for many reasons. The School District's attorneys have corresponded with Citicorp regarding the invalidation of the contract. As such, the School District has been advised not to make principal and interest payments on this debt. As of June 30, 2011, this dispute has not been resolved; therefore, the School District did not make the 2010-2011 payment. The School District has not paid on this debt since 2009 and the accumulated payments in arrears total \$687,621, which includes \$496,097 of principal and \$191,524 of interest. These amounts are presented as current obligations in the School District's fund level and government-wide financial statements. See Note 7 for additional information.

### 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, 2011

### 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 of \$906,528 had \$463,874 of bank deposits (certificates of deposit, checking, money markets, and savings accounts) that were uninsured and uncollateralized. 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.

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>
MILAF - MIMAX Series/Cash Management	<u>\$ 1,141,380</u>	N/A	AAAm	Standard & Poor's

# School District of the City of River Rouge

## Notes to Financial Statements June 30, 2011

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

**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.

**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	\$ 188,966	\$ 143,182	\$ -	\$ 332,148
Intergovernmental	1,307,925	-	39,914	1,347,839
Other	1,084,504	-	-	1,084,504
Total receivables	<u>\$ 2,581,395</u>	<u>\$ 143,182</u>	<u>\$ 39,914</u>	<u>\$ 2,764,491</u>

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

	Governmental Funds	
	Unavailable	Unearned
Grant and categorical aid payment received prior to meeting all eligibility requirements	\$ -	\$ 8,029

# School District of the City of River Rouge

## Notes to Financial Statements June 30, 2011

### Note 5 - Capital Assets

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

	Balance July 1, 2010	Additions	Disposals/ Transfers	Balance June 30, 2011
<b>Governmental Activities</b>				
Capital assets not being depreciated - Land	\$ 2,652,835	\$ -	\$ -	\$ 2,652,835
Subtotal	2,652,835	-	-	2,652,835
Capital assets being depreciated:				
Buildings and improvements	54,424,949	25,778	-	54,450,727
Furniture and equipment	8,828,957	397,071	(45,508)	9,180,520
Buses and other vehicles	149,000	-	-	149,000
Subtotal	63,402,906	422,849	(45,508)	63,780,247
Accumulated depreciation:				
Buildings and improvements	21,862,799	1,268,786	-	23,131,585
Furniture and equipment	7,996,399	230,518	(4,641)	8,222,276
Buses and other vehicles	149,000	-	-	149,000
Subtotal	30,008,198	1,499,304	(4,641)	31,502,861
Net capital assets being depreciated	33,394,708	(1,076,455)	(40,867)	32,277,386
Net capital assets	\$ 36,047,543	\$ (1,076,455)	\$ (40,867)	\$ 34,930,221

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

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

The composition of interfund balances is as follows:

Fund Due To	Fund Due From General Fund
Debt service fund	\$ 32,267
Nonmajor governmental funds	120,788
Fiduciary fund	56,059

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.

# School District of the City of River Rouge

## Notes to Financial Statements June 30, 2011

### 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 and notes are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, other postemployment benefits, the School Bond Loan Fund, and the School Loan Revolving Fund.

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>
<b>Governmental Activities</b>					
Bonds	\$ 28,290,000	\$ -	\$ 1,835,000	\$ 26,455,000	\$ 1,955,000
Less deferred amounts:					
Bond premiums	1,412,267	-	116,050	1,296,217	116,050
Deferred charges (interest) from refunding bonds	(803,486)	-	(66,040)	(737,446)	(66,040)
Energy Conservation Agreement	1,488,014	-	262,191	1,225,823	277,592
School Renovation Note	287,145	-	47,857	239,288	47,857
Durant Non-Plaintiff Bond	85,069	-	27,049	58,020	28,336
	<u>30,759,009</u>	<u>-</u>	<u>2,222,107</u>	<u>28,536,902</u>	<u>2,358,795</u>
Total bonds payable					
School Bond Loan Fund	18,375,565	940,888	-	19,316,453	-
School Loan Revolving Fund	253,626	412,915	-	666,541	-
Employee compensated absences	525,862	-	207,210	318,652	8,140
Other postemployment benefits (Note 14)	139,926	105,735	-	245,661	-
	<u>139,926</u>	<u>105,735</u>	<u>-</u>	<u>245,661</u>	<u>-</u>
Total governmental activities	<u>\$ 50,053,988</u>	<u>\$ 1,459,538</u>	<u>\$ 2,429,317</u>	<u>\$ 49,084,209</u>	<u>\$ 2,366,935</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>
2012	\$ 2,308,784	\$ 1,392,602	\$ 3,701,386
2013	2,431,438	1,306,958	3,738,396
2014	2,564,017	1,180,593	3,744,610
2015	2,736,032	1,051,629	3,787,661
2016	2,552,860	900,763	3,453,623
2017-2021	12,820,000	2,564,750	15,384,750
2022	2,565,000	128,250	2,693,250
	<u>2,565,000</u>	<u>128,250</u>	<u>2,693,250</u>
Total	<u>\$ 27,978,131</u>	<u>\$ 8,525,545</u>	<u>\$ 36,503,676</u>

General obligation bonds consist of \$38,655,000 2002 refunding bonds due in annual installments of \$1,955,000 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, 2011

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

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

The Durant Non-Plaintiff Bond is comprised of the following issue: \$442,871 School Improvement Bond, Series 1998, due in annual installments of \$28,336 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
<b>Energy Conservation Agreement</b>					
03/13/2000	\$ 3,239,929	03/15/2015	5.79%	\$ 343,949	\$ 1,633,352
03/15/2001	<u>171,929</u>	03/15/2015	5.79	<u>17,537</u>	<u>88,568</u>
Total	<u>\$ 3,411,858</u>			<u>\$ 361,486</u>	<u>\$ 1,721,920</u>

See Note 2 for additional information regarding noncompliance with the energy conservation agreement. Overall, the School District has not paid on this debt since 2009 and the accumulated total related to nonpayment is \$687,621, which includes \$496,097 of principal and \$191,524 of interest. See Note 2 for additional information.

**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 5.75 percent to 5.00 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

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## Notes to Financial Statements June 30, 2011

### 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 3.22 percent to 4.80 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 of \$47,857 through June 30, 2015. 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, 2011, \$27,550,000 of bonds outstanding are considered defeased.

### Note 8 - 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 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 supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

# School District of the City of River Rouge

## Notes to Financial Statements June 30, 2011

### **Note 8 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

**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 for basic plan members was 10.13 percent of covered payroll for the period from July 1, 2010 through September 30, 2010 and 12.16 percent for the period from October 1, 2010 through June 30, 2011. The employer contribution rate for pension plus plan members was 10.66 percent for the period from October 1, 2010 through June 30, 2011. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages, or up to 6.4 percent of gross wages for members entering the MIP Plus plan on or after July 1, 2008. The School District's required and actual contributions to the plan for the years ended June 30, 2011, 2010, and 2009 were \$613,400, \$674,200, and \$736,100, 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 6.81 percent of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25 percent for the period from October 1, 2010 through October 31, 2010, and 8.50 percent for the period from November 1, 2010 through June 30, 2011. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended July 30, 2011, 2010, and 2009 were \$397,300, \$462,400, and \$494,200, respectively.

### **Note 9 - Other Postemployment Benefits**

**Plan Description** - The School District had elected to provide postemployment health benefits to certain retirees and their beneficiaries. The School District obtained healthcare coverage through a private insurer. During fiscal year June 30, 2010, the School District altered its postretirement benefits for a group of retirees whose healthcare premiums had previously been paid for in whole by the School District. As of June 30, 2011, the current plan requires the School District to reimburse the 51 retirees for the monthly MPSERS pension for the monthly retiree healthcare premium withheld from their pension payment plus certain deductibles, copays, and prescription costs.

# School District of the City of River Rouge

## Notes to Financial Statements June 30, 2011

### Note 9 - Other Postemployment Benefits (Continued)

Additionally, in an effort to make the retirees "whole," the School District has contracted with a health reimbursement company to process receipts submitted by the retirees. These receipts are for the difference between co-pays and deductibles from the River Rouge Blue Cross plan to the Michigan Public Schools Retirement Plan. The maximum liability for the reimbursements is approximately \$80,000 annually, including a \$1,836 annual administrative fee.

This is a single-employer defined benefit plan administered by the School District. The benefits are provided under collective bargaining agreements as well as individual employment contracts. The plan does not issue a separate stand-alone financial statement.

**Funding Policy** - The School District has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

**Funding Progress** - For the year ended June 30, 2011, the School District has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2010. The actuarial valuation analysis is performed at a minimum of every three years by a certified independent actuary. The annual required contribution and percentage contributed to the plan were as follows:

	Fiscal Year Ended June 30	
	2011	2010
Annual required contribution (ARC)	\$ 146,903	\$ 147,002
Claims or premiums paid by the School District	46,765	7,076
Percentage of ARC contributed	1 %	1 %

# School District of the City of River Rouge

## Notes to Financial Statements June 30, 2011

### Note 9 - Other Postemployment Benefits (Continued)

The funding progress of the plan is as follows:

	Valuation as of	
	2011	2010
Actuarial value of assets	\$ -	\$ -
Actuarial accrued liability (AAL)	1,434,809	1,434,809
Unfunded AAL (UAAL)	1,434,809	1,434,809
Funded ratio	- %	- %
UAAL as a percentage of covered payroll	- %	- %
Annual required contribution (recommended)		\$ 146,903
Interest on the prior year's net OPEB obligation		5,597
Less adjustment to the annual required contribution		-
Annual OPEB cost		152,500
Amounts contributed:		
Payments of current premiums		46,765
Advance funding		-
Increase in net OPEB obligation		105,735
OPEB obligation - As restated - Beginning of year		139,926
OPEB obligation - End of year		\$ 245,661

**Annual Retiree Healthcare Cost** - The ARC includes the employer normal cost and amortization of the unfunded actuarial accrued liabilities. The remaining amortization period is 12 years as of the most recent actuarial valuation dated June 30, 2010.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

# School District of the City of River Rouge

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## Notes to Financial Statements June 30, 2011

### **Note 9 - Other Postemployment Benefits (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the projected unit credit (level dollar) actuarial cost method was used. The actuarial assumptions included a 4.0 percent discount rate and life expectancies based on the IRS 2010 Annuitant Static (sex-distinct) Mortality Table.

### **Note 10 - 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.

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

On August 20, 2010, the School District borrowed \$4,320,000 in a state aid anticipation note. The note bears interest at 0.40 percent and is due August 20, 2011. On April 14, 2011, the School District borrowed an additional \$400,000 in state aid. The note bears interest at 1.460 percent and is due August 22, 2011. At June 30, 2011, the School District incurred borrowing costs of \$104,244 which included issuance costs and interest expense. Additionally, there was accrued interest of \$16,049 on the note. The notes were repaid in accordance with the terms of the note.

### **Note 12 - Subsequent Events**

On August 22, 2011, the School District borrowed \$4,100,000 at 0.311 percent annual interest on a state aid anticipation note. The note, plus interest, is due August 20, 2012.

# School District of the City of River Rouge

## Notes to Financial Statements June 30, 2011

### Note 13 - Contingent Liabilities

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 2003 through 2007 tax years 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 Fund and debt service fund. As of June 30, 2011, the administration has no ability to estimate the outcome. However, subsequent to year end, the School District hired legal counsel to keep the School District abreast of the settlement talks between the parties. It is reasonable to assume there will be an approximate settlement of \$4 million. The particulars of the settlement such as the breakdown between the General Fund and debt service fund and the potential for interest due is unknown. The Michigan Department of Education is expected to immediately reimburse the district for any general fund obligations resulting from this settlement.

### Note 14 - Net Assets (Deficit) - Restatement

**Restatement of Beginning Government-wide Net Assets (Deficit)** - The financial statements for the year ended June 30, 2011 reflect a restatement in order to record the net OPEB obligation related to other postemployment benefits as defined by GASB pronouncement 45. The effect of this adjustment was to decrease the net deficit at June 30, 2010 by \$1,294,883. This restatement does not affect the fund financial statements.

	<u>Governmental Activities</u>
Net deficit - June 30, 2010 - As previously reported	\$ (18,518,737)
Adjustment for net OPEB obligation	<u>1,294,883</u>
Net deficit - June 30, 2010 - As restated	<u>\$ (17,223,854)</u>

### Note 15 - Upcoming Accounting Pronouncements

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

## **Required Supplemental Information**

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# School District of the City of River Rouge

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget (Negative) Positive
<b>Revenue</b>				
Local sources	\$ 4,344,093	\$ 4,605,268	\$ 4,463,668	\$ (141,600)
State sources	7,804,428	6,424,634	6,640,897	216,263
Federal sources	2,416,614	4,707,117	3,712,788	(994,329)
Intergovernmental	273,264	9,600	9,373	(227)
Total revenue	<u>14,838,399</u>	<u>15,746,619</u>	<u>14,826,726</u>	<u>(919,893)</u>
<b>Expenditures - Current</b>				
Instruction:				
Basic program	6,252,457	4,961,598	4,804,933	(156,665)
Added needs	1,723,204	2,583,183	2,292,020	(291,163)
Total instruction	<u>7,975,661</u>	<u>7,544,781</u>	<u>7,096,953</u>	<u>(447,828)</u>
Support services:				
Pupil	707,253	552,496	545,866	(6,630)
Instructional staff	741,248	1,556,954	1,153,422	(403,532)
General administration	539,131	646,408	652,262	5,854
School administration	555,249	495,516	479,297	(16,219)
Business services	515,162	501,672	492,793	(8,879)
Operations and maintenance	1,876,530	1,993,711	1,930,528	(63,183)
Pupil transportation service	660,194	720,872	715,060	(5,812)
Central staff and other	457,633	509,709	494,047	(15,662)
Total support services	<u>6,052,400</u>	<u>6,977,338</u>	<u>6,463,275</u>	<u>(514,063)</u>
Athletics	186,530	190,770	179,457	(11,313)
Community services	106,553	287,949	128,904	(159,045)
Debt service	100,000	391,668	391,668	-
Capital outlay	25,000	404,538	422,849	18,311
Outgoing transfers and other transactions	172,602	75,000	75,000	-
Total expenditures and other transactions	<u>14,618,746</u>	<u>15,872,044</u>	<u>14,758,106</u>	<u>(1,113,938)</u>
<b>Net Change in Fund Balance (Deficit)</b>	219,653	(125,425)	68,620	194,045
<b>Fund Deficit - Beginning of year</b>	<u>(3,055,907)</u>	<u>(3,055,907)</u>	<u>(3,055,907)</u>	<u>-</u>
<b>Fund Deficit - End of year</b>	<u><b>\$ (2,836,254)</b></u>	<u><b>\$ (3,181,332)</b></u>	<u><b>\$ (2,987,287)</b></u>	<u><b>\$ 194,045</b></u>

## **Other Supplemental Information**

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# School District of the City of River Rouge

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

June 30	Durant Non- Plaintiff Bond Principal	2002 Refunding Bonds Principal
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	<b>\$ 58,020</b>	<b>\$ 26,455,000</b>
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	<b>\$ 422,871</b>	<b>\$ 38,655,000</b>