

**Dearborn Heights School District No. 7
Dearborn Heights, Michigan**

FINANCIAL STATEMENTS

June 30, 2011

Dearborn Heights School District No. 7

Dearborn Heights, Michigan

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June 30, 2011

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Dearborn Heights School District No. 7

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dearborn Heights School District No. 7, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dearborn Heights School District No. 7's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Dearborn Heights School District No. 7 as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, on our consideration of Dearborn Heights School District No. 7's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the Table of Contents, are not required parts 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.

As discussed in Note K, during the year the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As a result of this implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new classifications under GASB Statements No. 54, as applicable.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dearborn Heights School District No. 7's basic financial statements. The accompanying other supplementary information, as identified in the Table of Contents, is presented for the purpose of additional analysis and is not a 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 26, 2011

This section of Dearborn Heights School District No. 7's annual 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.

Dearborn Heights School District No. 7, a K-12 school district located in Wayne County, Michigan, is in its seventh year of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Dearborn Heights School District No. 7's overview of the financial results for the fiscal year ended June 30, 2011.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Dearborn Heights School District No. 7 financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the 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 Capital Projects Sinking Fund individually, and the Special Revenue Funds and remaining Debt Service Funds collectively, as other non-major governmental funds. The remaining statement, the Statement of Assets and Liabilities - Fiduciary Fund, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared 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 - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The *District-wide Financial Statements* are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the *District-wide Financial Statements*.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, Capital Project Funds, and the Special Revenue (School Service) Fund which is comprised of Cafeteria.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2011 and 2010:

Condensed Statement of Net Assets
as of June 30, 2011 and 2010

	Governmental Activities 2011	Governmental Activities 2010
Assets		
Current and other assets	\$ 5,086,810	\$ 5,895,644
Capital assets	<u>12,181,211</u>	<u>12,025,307</u>
Total Assets	17,268,021	17,920,951
Liabilities		
Current liabilities	4,534,847	5,429,078
Noncurrent liabilities	<u>552,000</u>	<u>593,659</u>
Total Liabilities	5,086,847	6,022,737
Net Assets		
Invested in capital assets, net of related debt	12,125,578	11,943,737
Restricted	257,538	126,895
Unrestricted	<u>(201,942)</u>	<u>(172,418)</u>
Total Net Assets	<u>\$ 12,181,174</u>	<u>\$ 11,898,214</u>

Analysis of Financial Position:

As detailed above, the District shows a positive total net asset value of \$12,181,174 for the fiscal year ended June 30, 2011. This statement has been affected by the following factor:

- Construction projects continued through the 2010-2011 year for the major building modifications to include media centers and labs and parking and paving.
- The district continued to pay-down its long-term debt and has not taken on any new debt.

Results of Operations:

For the fiscal year ended June 30, 2011 and 2010, the district-wide results of operations were:

	Governmental Activities 2011	Governmental Activities 2010
Revenues:		
Program Revenues		
Charges for service	\$ 715,727	\$ 746,672
Operating and capital grants	4,255,680	4,507,973
General Revenues		
Property taxes	2,225,486	3,380,463
State school aid-unrestricted	19,695,531	18,090,476
State fiscal stabilization funds - ARRA	329,883	800,049
Education jobs funds	632,675	-
Other	122,398	77,774
Total Revenues	27,977,380	27,603,407
Functions/Program Expenses:		
Instruction	17,276,601	16,813,171
Supporting services	7,897,236	7,676,645
Community services	283,222	312,036
Food services	1,279,119	1,245,775
Athletics	-	347,021
Payments to other schools	25,419	30,463
Interest on long-term debt	3,072	87,520
Unallocated depreciation	929,751	907,473
Total Expenses	27,694,420	27,420,104
Change in Net Assets	\$ 282,960	\$ 183,303

Analysis of Results of Operations:

During the fiscal year ended June 30, 2011, the District's net assets increased by \$282,960.

A. Governmental Fund Operating Results

The District's expenditures and other financing uses from governmental fund operations exceeded revenues and other financing sources by \$13,371 for the fiscal year ended June 30, 2011. Further discussion of the District's operating results is available in the section entitled "Results of 2010-2011 Operations" located on the following pages.

B. Capital Outlay in Excess of Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2010-2011, the District's current year depreciation was less than the investment in new or replacement assets, causing a decrease in net district assets. The District's overall net assets were increased by \$155,903 calculated as the difference between new capital investments of \$1,425,357, depreciation allocated against the useful lives of district assets of \$929,751, and reclassifications of construction in progress of \$339,703.

C. Long-Term Debt Activities

The District decreased its long-term debt obligations during 2010-2011 by making principal payments amounting to \$25,937; reduction in accrued interest cost of \$811 on outstanding debt was incurred by the District during the year. Also, compensated absences, early retirement incentives and accrued vacation liabilities decreased by \$113,680. As a result of these activities, net district long-term debt liabilities decreased by \$139,617.

Results of 2010-2011 Operations

During the fiscal year ended June 30, 2011, the District's net assets increased by \$282,960. A few additional significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Dearborn Heights School District No. 7 such as: salaries and benefits for teachers, classroom aides, administrators, secretaries, custodians, maintenance staff, librarians, counselors, and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's expenditures from General Fund operations exceeded revenues by \$250,650 for the fiscal year ended June 30, 2011. The General Fund as of June 30, 2011, had a fund balance of \$271,561 or 1% of expenditures for the 2010-2011 fiscal year. The School District continues to seek ways to become more efficient, as well as increase revenues to build fund equity, and deal with fluctuations in school funding at the State level, while still continuing to provide optimal educational services for children.

B. Debt Service Fund Operations

The Debt Service Funds consist of two (2) separate debt funds as follows: Durant Non Plaintiff bonds and the \$7,200,000 1999 general obligation bond Issue. The Debt Service Funds are set up to collect taxes and pay annual debt payments. At June 30, 2011, the Debt Service Funds had \$322,290 in fund equity available for future bond payments.

The School District levies taxes to make debt payment obligations. Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations. The District had no School Bond Loan Fund obligations in 2010-2011. The District had Durant resolution bonds and compensated absences outstanding at June 30, 2011, which totaled \$679,170. The District paid principal of \$25,937 to leave \$55,633 outstanding on the Durant Non-Plaintiff Bonds at year-end. A detailed presentation of the District's long-term debt is presented in Note E of the notes to the financial statements.

C. School Service Funds

The Dearborn Heights School District No. 7 also has one school service fund: Cafeteria Fund.

The Cafeteria Fund is a fund that reports the food service program activities. In 2010-2011, the Cafeteria Fund had revenues and other financing sources of \$1,448,363 and expenditures of \$1,293,145. In addition, the Cafeteria Fund transferred \$48,581 to the General Fund for the allowable percentage administrative costs. The Cafeteria Fund is self-supporting and had a fund balance of \$150,034 at the end of the fiscal year.

D. Capital Projects Sinking Fund

The Capital Projects Sinking Fund is designated for the disbursement of monies from the approved Sinking Fund millage to fund capital improvements and related activities. The fund is kept open for as long as there are funds unspent from the Sinking Fund millage.

Dearborn Heights School District No. 7

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2011

Net Investment in Capital Assets

The District's net investment in capital assets increased \$155,904 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2010</u>	<u>Net Change</u>	<u>Balance June 30, 2011</u>
Capital Assets	\$ 28,163,337	\$ 1,085,655	\$ 29,248,992
Less: accumulated depreciation	<u>(16,138,030)</u>	<u>(929,751)</u>	<u>(17,067,781)</u>
Net investment in capital outlay	<u>\$ 12,025,307</u>	<u>\$ 155,904</u>	<u>\$ 12,181,211</u>

In 1999, Dearborn Heights School District No. 7 voters approved a \$40,660,000 general obligation bond issue. In 2001, another general obligation bond issue totaling \$22,175,000 was approved by voters. The proceeds from those bond issues were used for constructing new facilities and additions and partial remodeling of existing school facilities, and equipping and re-equipping facilities. This year's additions of approximately \$1,400,000 include media centers and labs and parking lots and paving. Approximately \$340,000 of this year's additions was a reclassification of prior year construction in progress. No new debt was issued for these additions as the above items were funded with Sinking Fund dollars.

IMPORTANT ECONOMIC FACTORS

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of prior year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead property valuation

Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Dearborn Heights School District No. 7 foundation allowance was Foundation Allowance per student for the 2010-2011 school year

Student Enrollment

The District's State Aid Membership for 2010-2011 was Students. The District's enrollment increased from the prior school year's Fall student count. The following summarizes the State Aid Membership counts for the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2010-2011	2,989	149
2009-2010	2,840	-13
2008-2009	2,853	-50
2007-2008	2,903	1
2006-2007	2,902	-9

Subsequent to year-end June 30, 2011, preliminary student enrollments for 2011-2012 indicate that enrollments have increased by approximately 90 students from 2010-2011.

2. Property Taxes levied for General Operations (General Fund Non-homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2010-2011 fiscal year was \$1,134,155.

3. Sinking Fund Property Taxes

The voters of Dearborn Heights School District No. 7 approved a Sinking Fund millage to fund capital improvements and related activities. The District's Sinking Fund levy, which is used to pay the capital related costs, is based on the taxable valuation of all properties: non-homestead and homestead. For the 2010-2011, the District Sinking Fund millage levy was 4.6682 mills that generated revenue of \$1,085,860.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Expenditures and Other Uses Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2010-2011	\$ 24,298,440	\$ 25,183,073	\$ 25,680,776	-5.4%	-1.9%
2009-2010	25,445,075	25,289,825	25,064,683	1.5%	0.9%

General Fund Revenues and Other Sources, Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2010-2011	\$ 24,352,440	\$ 25,396,139	\$ 25,455,545	4.5%	0.2%
2009-2010	24,409,374	23,992,479	23,871,965	-2.2%	0.9%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Dearborn Heights School District No. 7 amends its budget periodically during the school year. The June 2011 budget amendment was the final budget for the fiscal year.

Dearborn Heights School District No. 7

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2011

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 24,298,440	100.0
Total Expenditures Final Budget	<u>25,183,073</u>	<u>103.6</u>
Increase in Budget Expenditures	<u>\$ 884,633</u>	<u>3.64</u>

The District's actual expenditures were more than the final budget by \$497,703 or 1.9 percent.

Some of the significant changes in expenditure budgets for the year include:

- Basic program costs were increased by \$435,992.
- Total added needs costs were increased by \$328,069.
- School administration costs were increased by \$89,211.
- Central costs were increased by \$99,531.

Revenue Change from Original to Final Budget:

		<u>Percent</u>
Total Revenues Original Budget	\$ 24,352,440	100.0
Total Revenues Final Budget	<u>25,396,139</u>	<u>104.3</u>
Increase in Budget Revenues	<u>\$ 1,043,699</u>	<u>4.3</u>

The District's final actual general fund revenues differed from the final budget by \$59,406, a positive variance of 0.23 percent from the final budget.

The final revenue budget reflects the following changes from the Original Budget.

- Local revenue was decreased by \$208,198.
- State revenue was increased by \$816,877.
- Federal revenue was increased by \$695,482.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2011 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2012 fiscal year is 10 percent and 90 percent of the February 2011 and September 2011 student counts, respectively. The 2012 fiscal year budget was adopted in June 2011, based on an estimate of students that will be enrolled in September 2011. Approximately 85 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. For the school year 2011-2012, the districts foundation allowance will decrease from \$7,316 to \$6,846. There will be one time funding available to the district of \$185 per pupil. Based on early enrollment data at the start of the 2011-2012 school year we anticipate that the fall student count will be on target with the estimates used in creating the 2012 fiscal year budget. Due to economic factors, the resident community of the district has become more transient. The district added a virtual academy option at the high school level, and continued to advertise in an attempt to stabilize enrollment. The district also negotiated salary reductions and health care contributions ranging from 20-35 percent from employee groups in anticipation of reduced state aid funding. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

In fiscal year 2011, for those hired before July 1, 2010, the health and pension charge to employers in the District's retirement plan had been 20.66 percent of payroll, which was comprised of 8.50 percent for health and 12.16 for pension. The contribution rate for fiscal year 2012 is set at 24.46 percent of payroll, which is comprised of 8.50 percent for health and 15.96 percent for pension. In fiscal year 2011, for those hired on or after July 1, 2010, the health and pension charge to employers in the District's retirement plan had been 19.16 percent of payroll, which was comprised of 8.50 percent for health and 10.66 percent for pension. The contribution rate for fiscal year 2012 is set at 23.23 percent of payroll, which is comprised of 8.50 percent for health and 14.73 percent for pension.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact:

Ms. Angela S. Rudolph
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Dearborn Heights, MI 48125
Phone: (313) 278-1900

BASIC FINANCIAL STATEMENTS

Dearborn Heights School District No. 7

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 496,734
Taxes receivable	223,580
Due from other governmental units	4,307,783
Prepays	<u>58,713</u>
Total current assets	5,086,810
Noncurrent assets	
Capital assets not being depreciated	126,669
Capital assets, net of accumulated depreciation	<u>12,054,542</u>
Total noncurrent assets	<u>12,181,211</u>
TOTAL ASSETS	17,268,021
LIABILITIES	
Current liabilities	
Accounts payable	925,181
Accrued payroll	1,726,725
Accrued liabilities	1,222,721
Unearned revenue	66,466
Note payable	466,584
Current portion of compensated absences and early retirement	100,000
Current portion of long-term debt	<u>27,170</u>
Total current liabilities	4,534,847
Noncurrent liabilities	
Noncurrent portion of compensated absences and early retirement	523,537
Noncurrent portion of long-term debt	<u>28,463</u>
Total noncurrent liabilities	<u>552,000</u>
TOTAL LIABILITIES	5,086,847
NET ASSETS	
Invested in capital assets, net of related debt	12,125,578
Restricted for:	
Debt service	322,290
Capital projects	(64,752)
Unrestricted	<u>(201,942)</u>
TOTAL NET ASSETS	<u>\$ 12,181,174</u>

See accompanying notes to financial statements.

Dearborn Heights School District No. 7

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 17,276,601	\$ 242,486	\$ 3,100,565	\$ (13,933,550)
Supporting services	7,897,236	48,789	132,567	(7,715,880)
Community services	283,222	-	-	(283,222)
Food services	1,279,119	424,452	1,022,548	167,881
Payments to other public schools (ISDs, LEAs)	25,419	-	-	(25,419)
Interest on long-term debt	3,072	-	-	(3,072)
Unallocated depreciation	929,751	-	-	(929,751)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 27,694,420	\$ 715,727	\$ 4,255,680	(22,723,013)
General Revenues				
Taxes				
				1,139,626
				1,085,860
				19,695,531
				329,883
				632,675
				233
				122,165
		TOTAL GENERAL REVENUES		23,005,973
		CHANGE IN NET ASSETS		282,960
		Net assets, beginning of year		11,898,214
		Net assets, end of year		\$ 12,181,174

See accompanying notes to financial statements.

Dearborn Heights School District No. 7

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	General Fund	Capital Projects Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 440,302	\$ 25,996	\$ 30,436	\$ 496,734
Taxes receivable	150,652	72,928	-	223,580
Due from other governmental units	4,307,783	-	-	4,307,783
Due from other funds	-	57,324	689,710	747,034
Prepays	58,713	-	-	58,713
TOTAL ASSETS	<u>\$ 4,957,450</u>	<u>\$ 156,248</u>	<u>\$ 720,146</u>	<u>\$ 5,833,844</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 456,359	\$ 221,000	\$ 247,822	\$ 925,181
Accrued payroll	1,726,725	-	-	1,726,725
Accrued liabilities	1,222,721	-	-	1,222,721
Due to other funds	747,034	-	-	747,034
Deferred revenue	66,466	-	-	66,466
Note payable	466,584	-	-	466,584
TOTAL LIABILITIES	4,685,889	221,000	247,822	5,154,711
FUND BALANCES				
Nonspendable				
Prepays	58,713	-	-	58,713
Restricted for:				
Debt service	-	-	322,290	322,290
Assigned to:				
Food service	-	-	150,034	150,034
Subsequent year's expenditures	212,848	-	-	212,848
Unassigned	-	(64,752)	-	(64,752)
TOTAL FUND BALANCES	<u>271,561</u>	<u>(64,752)</u>	<u>472,324</u>	<u>679,133</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,957,450</u>	<u>\$ 156,248</u>	<u>\$ 720,146</u>	<u>\$ 5,833,844</u>

See accompanying notes to financial statements.

Dearborn Heights School District No. 7

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2011

Total fund balances - governmental funds \$ 679,133

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 29,248,992	
Accumulated depreciation is	<u>(17,067,781)</u>	
		12,181,211

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds payable	(55,633)	
Compensated absences and early retirement	<u>(623,537)</u>	
		<u>(679,170)</u>

Net assets of governmental activities \$ 12,181,174

Dearborn Heights School District No. 7

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2011

	General Fund	Capital Projects Sinking Fund	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES				
Local sources	\$ 1,572,251	\$ 1,092,232	\$ 425,815	\$ 3,090,298
State sources	21,063,853	-	95,308	21,159,161
Federal sources	2,664,137	-	957,060	3,621,197
TOTAL REVENUES	25,300,241	1,092,232	1,478,183	27,870,656
EXPENDITURES				
Current				
Instruction	17,429,529	-	-	17,429,529
Supporting services	7,955,084	-	-	7,955,084
Community services	285,594	-	-	285,594
Food service	-	-	1,290,978	1,290,978
Other	-	-	12,168	12,168
Debt service	-	-	29,820	29,820
Capital outlay	10,569	949,422	2,167	962,158
TOTAL EXPENDITURES	25,680,776	949,422	1,335,133	27,965,331
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(380,535)	142,810	143,050	(94,675)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	48,581	-	-	48,581
Transfers to other funds	-	-	(48,581)	(48,581)
Payments to other public schools (ISDs, LEAs)	(25,419)	-	-	(25,419)
Interdistrict	106,723	-	-	106,723
TOTAL OTHER FINANCING SOURCES (USES)	129,885	-0-	(48,581)	81,304
NET CHANGE IN FUND BALANCES	(250,650)	142,810	94,469	(13,371)
Fund balances (deficit), beginning of year	522,211	(207,562)	377,855	692,504
Fund balances (deficit), end of year	<u>\$ 271,561</u>	<u>\$ (64,752)</u>	<u>\$ 472,324</u>	<u>\$ 679,133</u>

See accompanying notes to financial statements.

Dearborn Heights School District No. 7

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

Net change in fund balances - total governmental funds \$ (13,371)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,085,654	
Depreciation expense	<u>(929,751)</u>	
Excess of capital outlay over depreciation expense		155,903

Repayment and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayments reduce long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current period, these amounts consist of:

Bond principal retirement		25,937
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. In the current period, these amounts consist of:

Decrease in accrued interest payable		811
Decrease in compensated absences and early retirement		<u>113,680</u>

Change in net assets of governmental activities \$ 282,960

Dearborn Heights School District No. 7

STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND

June 30, 2011

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 155,868
LIABILITIES	
Due to others	\$ 9,318
Due to student groups	146,550
TOTAL LIABILITIES	<u>\$ 155,868</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Dearborn Heights School District No. 7 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 4*, these financial statements present the financial activities of Dearborn Heights School District No. 7. The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources to support the educational programs and general operations of the District.
- b. Capital Projects Sinking Fund - The Capital Projects Sinking Fund is used to record capital projects activities funded with Sinking Fund millage.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue funds. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for the General Fund and all Special Revenue Funds.
- g. The budget, as presented, has been amended in a legally permissible manner.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts, pooled investment accounts, and short-term investments with an original maturity of 90 days or less. Cash equivalents are recorded at cost, which approximates market value.

7. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2011 to be paid in July and August 2011. The total amount of due from other governmental units consists of State Aid.

9. Capital Assets

Capital assets include land and improvements, buildings and improvements, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one (1) year. Capital assets also include individual cost items that are less than \$5,000 if the items were part of a large purchase to equip buildings. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	20 - 50 years
Furniture and other equipment	5 - 20 years
Buses and other vehicles	5 - 15 years

The District has no assets that would be classified as infrastructure assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Compensated absences consist of earned but unused accumulated vacation and sick leave benefits, early retirement incentives, and other severance benefits. Accumulated vested severance amounts and nonvested severance amounts that are probably to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Deferred/Unearned Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred/unearned revenue until the period in which eligible expenditures are incurred.

12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term. In the fund financial statements, long-term debt is recognized as a liability when due or when resources have been accumulated in the fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability.

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year for approximately 50 percent of the taxes that are due September 30, and December 1 for the remainder of the taxes that are due February 28 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 property tax revenues are recognized when levied to the extent that they result in current revenue (collected within 60 days of year-end).

The District levies taxes of \$18 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$4.6682 per \$1,000 of taxable valuation for the Sinking Fund. These levies generated \$1,134,155 and \$1,085,860 in property tax revenue for the General Fund and Capital Projects Sinking Fund, respectively.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2011, the foundation allowance was based on the average of pupil membership counts taken in February 2010 and September 2010. The average calculation was weighted 25% for the February 2010 count and 75% for the September 2010 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

16. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

17. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Dearborn Heights School District No. 7

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2011, the carrying amount of the District's deposits was \$622,682 and the bank balance was \$702,182 of which \$266,368 was covered by Federal depository insurance. The balance of \$435,814 was uninsured and uncollateralized.

Investments

As of June 30, 2011, the carrying amounts and market values for the type of investment as reported in the cash and cash equivalents captions on the financial statements is as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Insured or registered for which the securities are held By the District's agent in the District's name - U.S. Government Bonds	\$ 6,065	\$ 6,065	N/A
Uncategorized - Pooled investment funds Cash management funds	<u>20,983</u>	<u>20,983</u>	N/A
Totals	<u>\$ 27,048</u>	<u>\$ 27,048</u>	N/A

The pooled investment funds are not categorized at a risk level because they are not evidenced by securities that exist in physical or book entry form.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2011, none of the District's investments were rated due to the types of investments held by the District.

Interest Rate Risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270 day maturity. The District minimizes its 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; and, 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 District's cash requirements.

Concentration of Credit Risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District policy places no limit on the amount the District may invest in any one issuer. The District minimizes the concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Dearborn Heights School District No. 7

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUEDCustodial Credit Risk

The District has adopted a policy that indicates how the District will minimize custodial risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party. The District's policy limits the types of investments and depositories to those complying with State statute, and also requires prequalification of financial institutions, brokers/dealers, intermediaries and advisors. The District does not hold any investments subject to custodial credit risk of investments at year end.

As of June 30, 2011, the District's cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 496,734</u>	<u>\$ 155,868</u>	<u>\$ 652,602</u>

The District had \$2,872 of imprest cash on hand.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balance July 1, 2010</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2011</u>
Capital assets not being depreciated				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Construction in progress	<u>339,703</u>	<u>86,669</u>	<u>(339,703)</u>	<u>86,669</u>
Total capital assets not being depreciated	379,703	86,669	(339,703)	126,669
Capital assets being depreciated				
Land improvements	584,425	47,236	-	631,661
Buildings and building improvements	17,383,494	1,233,502	-	18,616,996
Vehicles	105,000	-	-	105,000
Furniture and equipment	<u>9,710,716</u>	<u>57,950</u>	<u>-</u>	<u>9,768,666</u>
Total capital assets being depreciated	27,783,635	1,338,688	-0-	29,122,323

Dearborn Heights School District No. 7

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE C: CAPITAL ASSETS - CONTINUED

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2011</u>
Less accumulated depreciation for:				
Land improvements	\$ (202,542)	\$ (30,402)	\$ -	\$ (232,944)
Building and building improvements	(7,662,055)	(569,400)	-	(8,231,455)
Vehicles	(92,280)	(3,287)	-	(95,567)
Furniture and equipment	(8,181,153)	(326,662)	-	(8,507,815)
Total accumulated depreciation	<u>(16,138,030)</u>	<u>(929,751)</u>	<u>-0-</u>	<u>(17,067,781)</u>
Total capital assets being depreciated, net	<u>11,645,605</u>	<u>408,937</u>	<u>-0-</u>	<u>12,054,542</u>
Capital assets, net	<u>\$ 12,025,308</u>	<u>\$ 495,606</u>	<u>\$ (339,703)</u>	<u>\$ 12,181,211</u>

NOTE D: SHORT-TERM NOTES

On August 20, 2010 the District issued short-term State School Aid Anticipation Notes in the amounts of \$3,490,000 for the purpose of funding operating expenditures during periods of low cash flows. This short-term note, which has a net outstanding balance of \$466,584 at June 30, 2011, is reported in the financial statements under the caption notes payable, which includes interest payable of \$3,977.

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2011.

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities					
Durant Non-Plaintiff Bonds	\$ 81,570	\$ -	\$ 25,937	\$ 55,633	\$ 27,170
Other Obligations	<u>737,217</u>	<u>-</u>	<u>113,680</u>	<u>623,537</u>	<u>100,000</u>
Total Governmental Activities	<u>\$ 818,787</u>	<u>\$ -0-</u>	<u>\$ 139,617</u>	<u>\$ 679,170</u>	<u>\$ 127,170</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Durant Non-Plaintiff Bonds

Bonds resulting from Durant Settlement in the original amount of \$424,653, dated November 24, 1998, are payable to Michigan Municipal Bonding Authority in annual installments ranging from \$27,170 to \$28,463, with interest of 4.76 percent through May 15, 2013.

\$ 55,633

Dearborn Heights School District No. 7

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE E: LONG-TERM DEBT - CONTINUED

Other Obligations

Other long-term obligations include the following:

Employee compensated absences	\$ 523,537
Early retirement incentive pay	<u>100,000</u>
	<u>\$ 623,537</u>

Annual Requirements for Bonded Debt

The annual requirements to pay the bonds principal and interest outstanding for the long-term debt are as follows.

Years Ending June 30,	Governmental Activities		
	Principal	Interest	Totals
2012	\$ 27,170	\$ 2,649	\$ 29,819
2013	<u>28,463</u>	<u>1,355</u>	<u>29,818</u>
	<u>\$ 55,633</u>	<u>\$ 4,004</u>	<u>\$ 59,637</u>

Compensated Absences

In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have bested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including payroll taxes, amount to \$523,537 as of June 30, 2011. This amount has been reported as a noncurrent liability in the statement of net assets.

Early Retirement Incentive

On September 15, 2009, the District entered into an employee severance plan agreement with Educators Preferred Corporation (EPC) to provide an early retirement incentive program to eligible employees. As an incentive for certain eligible teaching staff to take early retirement, the District offered an early retirement incentive program which consists of payment of an incentive amount plus accumulated unpaid compensated absences over the course of three (3) annual payments each due September 15. The liability for early retirement payments related to teaching staff and principals that have retired as of June 30, 2011 was \$100,000.

NOTE F: DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, unearned deferred revenue was:

	<u>Unearned</u>
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>\$ 66,466</u>

Dearborn Heights School District No. 7

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE G: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2011 are as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General Fund		
Capital Projects Sinking Fund	\$ -	\$ 57,324
Nonmajor Governmental Funds	-	689,710
	<u>-0-</u>	<u>747,034</u>
Capital Projects Sinking Fund		
General Fund	<u>57,324</u>	<u>-</u>
	57,324	-0-
Nonmajor Governmental Funds		
General Fund	<u>689,710</u>	<u>-</u>
	<u>\$ 747,034</u>	<u>\$ 747,034</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE H: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to the General Fund are as follows:

Nonmajor governmental funds	<u>\$ 48,581</u>
-----------------------------	------------------

The transfer from the nonmajor governmental fund to the General Fund was to fund indirect administrative expenses.

NOTE I: EMPLOYEE PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2010, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE I: EMPLOYEE PENSION AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Plan Description - continued

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990 through June 30, 2008 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); and \$510 plus 4.3% of all wages over \$15,000. Employees first hired on or after July 1, 2008 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); and \$510 plus 6.4% of all wages over \$15,000. In addition, employees first hired on or after July 1, 2010, are required to contribute 3% of all wages to a retiree health care fund and 2% to a hybrid defined contribution pension plan.

Pension Benefits

Employer contributions to the pension system result from 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.

For the period of July 1, 2010 to September 30, 2010, the District was required to contribute 16.94% for employees who first worked before July 1, 2010 and, if the employees first worked on or after July 1, 2010, the contribution was 15.44% of covered compensation for all wages to the Plan. For the period of October 1, 2010 to October 31, 2010, the District was required to contribute 19.41% for employees who first worked before July 1, 2010 and, if the employee first worked on or after July 1, 2010, the contribution was 17.91% of the covered compensation for all wages to the Plan. For the period of November 1, 2010 to June 30, 2011, the District was required to contribute 20.66% for employees who first worked before July 1, 2010 and, if the employee first worked on or after July 1, 2010, the contribution was 19.16% of covered compensation for all wages to the Plan. Basic plan members make no contributions, but the MIP members contribute at rates ranging from 3 percent to 6.4 percent of gross wages. The Districts required and actual contributions to the Plan for the years ended June 30, 2011, 2010, and 2009 were \$2,879,493, \$2,526,249, and \$2,559,146, respectively.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE I: EMPLOYEE PENSION AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Other 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. A component of the employer contribution rate for the pension plan factors into its other postemployment benefits and is paid by the District.

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, and is included in the above required contributions.

NOTE J: FUND DEFICIT

The School District has an accumulated fund deficit in the Capital Projects Sinking Fund of \$64,752.

NOTE K: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

In February 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 upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved have been replaced with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the District's highest level of decision-making authority is the Board of Education. The formal action that is required to be taken to establish, modify or rescind a fund balance commitment is through a formal action and approval by the Board of Education and committed fund balances do not lapse at year end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE K: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS - CONTINUED

For assigned fund balance, the Board of Education is authorized to assign amounts to a specific purpose. The authorization is delegated by the Board of Education to the District's Superintendent.

For the classification of fund balances, the District considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the District considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

If/when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources if they are needed.

NOTE L: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, crime, data processing, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTE M: CONTRACT COMMITMENTS

The District has entered into various contracts related to the construction and improvements to various school building projects that were not completed at June 30, 2011. The total contractual commitments outstanding at June 30, 2011 were \$760,522. The District's sinking fund millage is expected to provide resources that will be sufficient to cover these commitments.

NOTE N: SINKING FUND

The Sinking Fund records capital project activities funded with the Sinking Fund millage. For the projects recorded in the Sinking Fund, the District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code and the Michigan Department of Treasury Letter 01-95 for current year expenditures.

NOTE O: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Dearborn Heights School District No. 7, a nonplaintiff District, was awarded \$848,305 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within the State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year, all these funds had been expended.

Dearborn Heights School District No. 7

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE O: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT - CONTINUED

- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE P: SUBSEQUENT EVENT

On August 22, 2011 the District issued short-term State School Aid Anticipation Notes in the amounts of \$2,800,000 for the purpose of funding operating expenditures during periods of low cash flows. The balance of \$2,816,707, which includes interest, is due August 20, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

Dearborn Heights School District No. 7

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2011

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 1,737,467	\$ 1,529,269	\$ 1,572,251	\$ 42,982
State sources	20,280,513	21,097,390	21,063,853	(33,537)
Federal sources	1,811,998	2,507,480	2,664,137	156,657
TOTAL REVENUES	23,829,978	25,134,139	25,300,241	166,102
EXPENDITURES				
Current				
Instruction				
Basic programs	12,380,087	12,816,079	13,466,030	(649,951)
Added needs	4,048,720	4,376,789	3,963,499	413,290
Total instruction	16,428,807	17,192,868	17,429,529	(236,661)
Supporting services				
Pupil	1,158,813	1,141,779	1,131,378	10,401
Instructional staff	325,156	278,754	339,101	(60,347)
General administration	681,853	632,304	667,472	(35,168)
School administration	1,566,141	1,655,352	1,735,656	(80,304)
Business	410,095	423,500	441,256	(17,756)
Central	361,312	460,843	446,808	14,035
Pupil transportation	366,000	366,000	385,737	(19,737)
Athletic activities	366,540	465,256	368,453	96,803
Operations and maintenance	2,403,215	2,350,247	2,439,223	(88,976)
Total supporting services	7,639,125	7,774,035	7,955,084	(181,049)
Community services	241,508	251,170	285,594	(34,424)
Capital outlay	16,000	12,000	10,569	1,431
TOTAL EXPENDITURES	24,298,440	25,183,073	25,680,776	(472,284)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(468,462)	(48,934)	(380,535)	(306,182)

Dearborn Heights School District No. 7

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2011

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 214,462	\$ 54,000	\$ 48,581	\$ (5,419)
Payments to public schools (ISDs, LEAs)	(27,000)	(47,000)	(25,419)	(21,581)
Interdistrict	308,000	208,000	106,723	(101,277)
	<u>495,462</u>	<u>215,000</u>	<u>129,885</u>	<u>(128,277)</u>
TOTAL OTHER FINANCING SOURCES (USES)				
NET CHANGE IN FUND BALANCE	27,000	166,066	(250,650)	(434,459)
Fund balance, beginning of year	<u>522,211</u>	<u>522,211</u>	<u>522,211</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 549,211</u>	<u>\$ 688,277</u>	<u>\$ 271,561</u>	<u>\$ (434,459)</u>

Dearborn Heights School District No. 7

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the required supplementary information to the financial statements, the District's budgeted expenditures in the General Fund have been adopted and reported at the functional classification level.

During the year ended June 30, 2011, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Instruction			
Basic Programs	\$ 12,816,079	\$ 13,466,030	\$ 649,951
Supporting Services			
Instructional Staff	278,754	339,101	60,347
General administration	632,304	667,472	35,168
School administration	1,655,352	1,735,656	80,304
Business	423,500	441,256	17,756
Pupil transportation	366,000	385,737	19,737
Operations and maintenance	2,350,247	2,439,223	88,976
Community Services	251,170	285,594	34,424

OTHER SUPPLEMENTARY INFORMATION

Dearborn Heights School District No. 7

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2011

	Special	Debt Service Funds		Total Nonmajor Governmental Funds
	Revenue Fund			
	Cafeteria	Durant	\$7,200,000 Issue	
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 30,436	\$ 30,436
Due from other funds	397,856	-	291,854	689,710
TOTAL ASSETS	\$ 397,856	\$ -0-	\$ 322,290	\$ 720,146
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 247,822	\$ -	\$ -	\$ 247,822
FUND BALANCES				
Restricted for:				
Debt service	-	-	322,290	322,290
Assigned to:				
Food service	150,034	-	-	150,034
TOTAL FUND BALANCES	150,034	-0-	322,290	472,324
TOTAL LIABILITIES AND FUND BALANCES	\$ 397,856	\$ -0-	\$ 322,290	\$ 720,146

Dearborn Heights School District No. 7

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2011

	Special	Debt Service Funds		Total Nonmajor Governmental Funds
	Revenue Fund	Durant	\$7,200,000 Issue	
	Cafeteria			
REVENUES				
Local sources	\$ 425,815	\$ -	\$ -	\$ 425,815
State sources	65,488	29,820	-	95,308
Federal sources	957,060	-	-	957,060
TOTAL REVENUES	1,448,363	29,820	-0-	1,478,183
EXPENDITURES				
Current				
Food service	1,290,978	-	-	1,290,978
Other	-	-	12,168	12,168
Debt service				
Principal retirement	-	25,936	-	25,936
Interest, fiscal, and other charges	-	3,884	-	3,884
Capital outlay	2,167	-	-	2,167
TOTAL EXPENDITURES	1,293,145	29,820	12,168	1,335,133
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	155,218	-0-	(12,168)	143,050
OTHER FINANCING USES				
Transfers to other funds	(48,581)	-	-	(48,581)
NET CHANGE IN FUND BALANCES	106,637	-0-	(12,168)	94,469
Fund balances, beginning of year	43,397	-	334,458	377,855
Fund balances, end of year	\$ 150,034	\$ -0-	\$ 322,290	\$ 472,324

Dearborn Heights School District No. 7

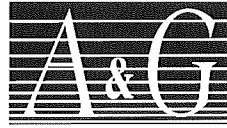
SCHEDULE OF BONDED DEBT OUTSTANDING

June 30, 2011

<u>Year Ending June 30</u>	<u>Durant Principal</u>
2012	\$ 27,170
2013	<u>28,463</u>
Total	<u>\$ 55,633</u>
Principal payments due	May 15
Interest payments due	May 15
Interest rate	4.76%
Original issue	<u>\$ 424,653</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dearborn Heights School District No. 7 as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dearborn Heights School District No. 7's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of control deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two (2) instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described below.

2011-1 BUDGETS

Condition: As noted in the financial statements, there were eight (8) expenditure functions in the General Fund where actual expenditures exceeded the amounts appropriated.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the District adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Cause: When the District approved their final budget the actual expenditures exceeded the projections in eight (8) functions.

Effect: The District had various instances of budgetary noncompliance relative to State law in the areas where the overages occurred.

Recommendation: We recommend the District continue to monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The Business Office experienced a decrease in FTE's, but an increase in workloads due to increased State reporting. The District has restructured a part time position to assist in the department, allowing the Business Manager to segregate more of the day-to-day accounting tasks, and concentrate on big picture items such as the budget.

2011-2 FUND DEFICITS

Condition: As indicated in Note J of the notes to the financial statements, the Capital Projects Sinking Fund ended the year with a fund deficit.

Criteria: Michigan Public Act 275 of 1980 provides that the District shall not end its fiscal year with a deficit condition which is a situation where, at the end of the fiscal year, total expenditures, including an accrued deficit, exceeded total revenues for that fiscal year, including any surplus carried forward.

Cause: The District contracted to have building improvements completed with the Sinking Fund millage prior to receiving the cash from the millage.

Effect: We recommend the District utilize budgetary controls to limit expenditures and/or transfer funds as needed to alleviate deficits.

Recommendation: We recommend the District review fund activity near year end and make the appropriate adjustments when possible. The District should also closely monitor the operations of all fund activities that are in danger of ending the year in deficit.

Corrective Action Response: This is a timing issue. Large projects need to be planned and started prior to June 30th to insure that buildings are operational for the start of school. It should be noted that no projects are budgeted to exceed the expected tax levy. The District has decreased yearly spending in order to correct this deficit and build a slight fund balance so that it may continue to get projects completed prior to the start of school.

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

This report is intended solely for the information and use of the administration, the Board of Education of Dearborn Heights School District No. 7, others within the District, the pass-through grantors, and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 26, 2011