

School District of the City of Garden City

**Financial Report
with Supplemental Information
June 30, 2005**

School District of the City of Garden City

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Independent Auditor's Report

To the Board of Education
School District of the City of Garden City

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Garden City as of and for the year ended June 30, 2005, 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 Garden City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Garden City as of June 30, 2005 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Board of Education
School District of the City of Garden City

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2005 on our consideration of the School District of the City of Garden City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

December 5, 2005

School District of the City of Garden City

Management's Discussion and Analysis

This section of the School District of the City of Garden City's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2005. 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 Garden City 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, Special Education Fund, and the Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statements, the statement of fiduciary net assets and the statement of changes in fiduciary net assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets (deficit) and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets (deficit) - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets (deficit) and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, and athletics. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

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

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service, Child Care, and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

School District of the City of Garden City

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 and scholarship trust funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. 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, 2005 and 2004.

TABLE I

	Governmental Activities	
	2005	2004
	(in millions)	
Assets		
Current and other assets	\$ 23.5	\$ 32.8
Capital assets	<u>39.2</u>	<u>31.0</u>
Total assets	62.7	63.8
Liabilities		
Current liabilities	23.3	22.9
Long-term liabilities	<u>42.9</u>	<u>44.5</u>
Total liabilities	<u>66.2</u>	<u>67.4</u>
Net Assets (Deficit)		
Invested in property and equipment - Net of related debt	(0.1)	-
Restricted	0.4	0.3
Unrestricted	<u>(3.8)</u>	<u>(3.9)</u>
Total net assets (deficit)	<u>\$ (3.5)</u>	<u>\$ (3.6)</u>

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

The above analysis focuses on the net assets (deficit) (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets (deficit) was (\$3.5 million) at June 30, 2005. Capital assets, net of related debt totaling approximately (\$273,000), compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (deficit), (\$3.7 million), was unrestricted.

The (\$3.7 million) in unrestricted net assets (deficit) of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2005 and 2004.

TABLE 2

	Governmental Activities	
	2005	2004
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.5	\$ 0.9
Operating grants/Contributions	20.3	17.6
General revenue:		
Property taxes	5.5	6.0
State foundation allowance	34.9	33.6
Other	0.3	0.4
Total revenue	62.5	58.5

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities	
	2005	2004
	(in millions)	
Functions/Program Expenses		
Instruction	\$ 39.6	\$ 37.0
Support services	18.7	19.0
Community services	-	0.1
Child care	0.3	0.3
Food service	1.3	-
Athletics	0.4	0.4
Interest on long-term debt	2.0	2.0
Total functions/program expenses	62.3	58.8
Increase (Decrease) in Net Assets	\$ 0.2	\$ (0.3)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$62.3 million. Certain activities were partially funded from those who benefited from the programs (\$1.5 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$20.3 million). We paid for the remaining “public benefit” portion of our governmental activities with \$5.5 million in taxes, \$34.9 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced no change in net assets. More detailed information is presented in the reconciliation of the statement of revenue, expenditures, and changes in fund balances of governmental funds to the statement of activities.

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.

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

As the School District completed this year, the governmental funds reported a combined fund balance of \$3.7 million, which is a decrease of \$9.3 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$0.14 million to \$0.19 million from \$0.33 million at June 30, 2004. The change is mainly due to increases in salaries, benefits, and utilities costs.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$85,500. Millage rates were decreased .2 mills from the previous year to recognize increased taxable value. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The combined Capital Projects Funds fund balance decreased by \$9.2 million due to continued construction related to the 2001 bond issue. The construction project is estimated to be approximately 90 percent complete at June 30, 2005.

General Fund Budgetary Highlights

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

There were revisions made to the 2004-2005 General Fund original budget. Budgeted revenues were increased \$1.4 million due in part to student increases in both the Special Education Center Program and the Alternative Education Program.

Budgeted expenditures were increased \$1.3 million to account for the net effect of increased salaries, benefits, and other operating costs such as utilities.

There was a variance between the final budget and actual amounts for transportation expenditures. See Note 2 to the financial statements for further information. There were no other significant variances between the final budget and actual amounts.

Special Education Special Revenue Fund Budgetary Highlights

The Special Education Center Program revenue and corresponding expenditure budget was increased by \$1.1 million to recognize an increase in staff due to additional classrooms added to the program. The program is operated by the school district for Wayne County RESA to provide instructional and noninstructional services for autistic students from Wayne County.

There were no significant variances between the final budget and actual amounts.

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2005, the School District had \$39.2 million invested in a broad range of capital assets, including buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$8.0 million.

	2005	2004
Construction in progress	\$ 1,897,340	\$ 5,559,453
Buildings and building improvements	52,903,458	40,430,415
Buses and other vehicles	1,833,358	1,718,949
Furniture and equipment	<u>2,956,948</u>	<u>1,988,907</u>
Total capital assets	59,591,104	49,697,724
Less accumulated depreciation	<u>(20,436,816)</u>	<u>(18,728,599)</u>
Net capital assets	<u>\$ 39,154,288</u>	<u>\$ 30,969,125</u>

This year's capital asset additions included buses, technology, and building renovations. New debt of \$113,000 was issued for these additions.

The major capital projects planned for the 2005-2006 fiscal year consist of Phase II renovations to the middle school and renovations to the Board of Education office. We anticipate capital additions will be significantly less than the 2004-2005 fiscal year (approximately \$9,700,000). This represents the end of the building renovations under the 2001 bond construction project. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$42.7 million in bonds outstanding versus \$44.0 million in the previous year - a change of 2.9 percent. Those bonds consisted of the following:

	2005	2004
2004 General Obligation Bonds	\$ 5,935,000	\$ 6,785,000
2001 General Obligation Bonds	34,870,000	35,375,000
Durant Non-Plaintiff Bonds	<u>1,865,200</u>	<u>1,865,200</u>
Total bonds outstanding	<u>\$ 42,670,200</u>	<u>\$ 44,025,200</u>

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

The School District's general obligation bond rating stands at AA. 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 general obligation debt of \$42,670,200 is significantly below this \$95.2 million statutorily imposed limit.

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

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2006 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 2006 fiscal year is 25 percent and 75 percent of the February 2005 and September 2005 student counts, respectively. The 2006 budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. Approximately 71 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 2005-2006 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2006 budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

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

School District of the City of Garden City

Statement of Net Assets (Deficit) June 30, 2005

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 9,519,281
Receivables - Net (Note 4)	8,999,802
Prepaid costs	954,903
Restricted assets (Note 1)	4,107,847
Capital assets - Net (Note 5)	<u>39,154,288</u>
Total assets	62,736,121
Liabilities	
Accounts payable	1,259,992
Accrued payroll and other liabilities	7,634,163
State aid anticipation note (Note 10)	12,000,000
Deferred revenue (Note 4)	164,259
Long-term liabilities (Note 7):	
Due within one year	2,278,928
Due in more than one year	<u>42,850,656</u>
Total liabilities	<u>66,187,998</u>
Net Assets (Deficit)	
Investment in capital assets - Net of related debt	(97,665)
Restricted - Debt service	401,148
Unrestricted (deficit)	<u>(3,755,360)</u>
Total net assets (deficit)	<u>\$ (3,451,877)</u>

School District of the City of Garden City

Statement of Activities Year Ended June 30, 2005

	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 39,611,822	\$ 151,719	\$ 15,907,860	\$ (23,552,243)
Support services	18,675,581	-	3,976,965	(14,698,616)
Community services	42,720	241,191	-	198,471
Child care	281,128	335,951	-	54,823
Food service	1,271,660	661,324	395,858	(214,478)
Athletics	379,759	101,019	-	(278,740)
Interest on long-term debt	1,982,839	-	-	(1,982,839)
Total primary government - Governmental activities	<u>\$ 62,245,509</u>	<u>\$ 1,491,204</u>	<u>\$ 20,280,683</u>	(40,473,622)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				2,267,022
Property taxes, levied for debt services				3,197,369
State aid not restricted to specific purposes				34,946,341
Interest and investment earnings				<u>253,971</u>
Total general revenues				<u>40,664,703</u>
Change in Net Assets				191,081
Net Assets (Deficit) - Beginning of year				<u>(3,642,958)</u>
Net Assets (Deficit) - End of year				<u>\$ (3,451,877)</u>

School District of the City of Garden City

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Special Education Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 9,180,674	\$ -	\$ 4,107,847	\$ 338,607	\$ 13,627,128
Receivables - Net	352,986	-	-	265,013	617,999
Inventory	-	-	-	10,555	10,555
Due from other governmental units	8,108,209	-	-	93,926	8,202,135
Due from other funds (Note 6)	213,155	38,264	341	149,220	400,980
Due from Agency Fund	179,668	-	-	-	179,668
Prepaid costs	944,348	-	-	-	944,348
Total assets	\$ 18,979,040	\$ 38,264	\$ 4,108,188	\$ 857,321	\$ 23,982,813
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 136,836	\$ 33,599	\$ 994,892	\$ 94,665	\$ 1,259,992
Accrued payroll and other liabilities	5,991,030	3,066	-	3,957	5,998,053
State aid anticipation note (Note 10)	12,000,000	-	-	-	12,000,000
Due to other funds (Note 6)	173,530	-	-	227,450	400,980
Deferred revenue	481,171	1,599	-	130,101	612,871
Total liabilities	18,782,567	38,264	994,892	456,173	20,271,896
Fund Balances					
Reserved:					
Encumbrances (Note 5)	-	-	663,560	-	663,560
Prepays	944,348	-	-	-	944,348
Capital projects	-	-	2,449,736	-	2,449,736
Debt service	-	-	-	401,148	401,148
Unreserved - Undesignated	(747,875)	-	-	-	(747,875)
Total fund balances	196,473	-	3,113,296	401,148	3,710,917
Total liabilities and fund balances	\$ 18,979,040	\$ 38,264	\$ 4,108,188	\$ 857,321	\$ 23,982,813

School District of the City of Garden City

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) Year Ended June 30, 2005

Fund Balance - Total Governmental Funds \$ 3,710,917

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

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

Cost of capital assets	\$ 59,591,104	
Accumulated depreciation	<u>(20,436,816)</u>	39,154,288

Other long-term assets not available to pay current period expenditures therefore deferred in the governmental funds	448,612
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Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds payable including premium	(42,670,200)
Notes payable	(472,359)
Compensated absences	(1,987,025)
Self-insurance accrual	(1,396,007)

Accrued interest payable is not included as a liability in governmental funds	<u>(240,103)</u>
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Net Assets (Deficit) - Governmental Activities **\$ (3,451,877)**

School District of the City of Garden City

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Special Education Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Local sources	\$ 2,764,243	\$ 5,252	\$ 133,389	\$ 4,525,729	\$ 7,428,613
State sources	35,176,505	4,317,660	-	529,621	40,023,786
Federal sources	-	-	-	2,356,421	2,356,421
Interdistrict sources	1,799,401	11,047,416	-	-	12,846,817
Total revenue	39,740,149	15,370,328	133,389	7,411,771	62,655,637
Expenditures					
Current:					
Instruction	24,717,492	11,759,567	-	1,744,274	38,221,333
Support services	15,217,650	2,477,022	-	745,410	18,440,082
Community services	1,171	-	-	3,053	4,224
Food service	-	-	-	1,271,660	1,271,660
Athletics	-	-	-	379,759	379,759
Child care	-	-	-	281,128	281,128
Debt service:					
Principal	-	-	-	1,355,000	1,355,000
Interest	-	-	-	1,979,859	1,979,859
Other	-	-	20,954	7,032	27,986
Capital outlay	520,449	43,401	9,319,382	33,209	9,916,441
Other transactions	153,732	-	-	-	153,732
	40,610,494	14,279,990	9,340,336	7,800,384	72,031,204
Excess (Deficiency) of Revenue Over Expenditures	(870,345)	1,090,338	(9,206,947)	(388,613)	(9,375,567)
Other Financing Sources (Uses)					
Transfers in	1,171,165	-	-	559,622	1,730,787
Transfers out	(554,984)	(1,090,338)	-	(85,465)	(1,730,787)
Long-term debt issued	113,296	-	-	-	113,296
Total other financing sources (uses)	729,477	(1,090,338)	-	474,157	113,296
Net Change in Fund Balances	(140,868)	-	(9,206,947)	85,544	(9,262,271)
Fund Balances - Beginning of year	337,341	-	12,320,243	315,604	12,973,188
Fund Balances - End of year	<u>\$ 196,473</u>	<u>\$ -</u>	<u>\$ 3,113,296</u>	<u>\$ 401,148</u>	<u>\$ 3,710,917</u>

School District of the City of Garden City

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (9,262,271)

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

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

Depreciation expense	\$ (1,731,278)	
Capitalized capital outlay	<u>9,916,441</u>	8,185,163

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection (219,047)

Debt issuance is not reported as financing sources on the statement of activities (113,296)

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (2,980)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 1,355,000

Bus principal payments 115,236

Compensated absences are recorded when earned in the statement of activities. In the current year, more was paid out than was earned 62,248

Accrued self-insurance liability is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 71,028

Change in Net Assets of Governmental Activities **\$ 191,081**

School District of the City of Garden City

Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2005

	Private Purpose Trust	Student Activities Agency Fund
Assets		
Cash and cash equivalents	\$ 135,457	\$ 591,675
Due from General Fund	70	-
Total assets	135,527	<u>\$ 591,675</u>
Liabilities		
Due to General Fund	-	\$ 179,738
Other liabilities	-	411,937
Total liabilities	-	591,675
Net Assets - Designated for scholarships	\$ 135,527	-
Total liabilities and net assets		<u>\$ 591,675</u>

School District of the City of Garden City

Fiduciary Fund Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2005

	Private Purpose Trust
Additions - Local sources	\$ 8,611
Deductions - Scholarships granted	<u>11,535</u>
Change in Net Assets	(2,924)
Net Assets - Beginning of year	<u>138,451</u>
Net Assets - End of year	<u><u>\$ 135,527</u></u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of the School District of the City of Garden City (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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

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

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

School District of the City of Garden City

**Notes to Financial Statements
June 30, 2005**

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

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

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

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

School District of the City of Garden City

**Notes to Financial Statements
June 30, 2005**

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.

Special Education Fund - The Special Education Fund is a Special Revenue Fund, the purpose of which is to segregate, for administrative purposes, the transactions relating to the operation of the School District's Special Education Center Program.

Capital Projects Fund - The Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

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

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

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 Private Purpose Trust Fund accounts for funds entrusted to the School District for scholarship awards.

School District of the City of Garden City

**Notes to Financial Statements
June 30, 2005**

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and money market funds with a maturity of three months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for approximately 50 percent of these taxes that are due August 15 and December 1 for the remainder of the property taxes that are due on February 14. The final collection date is February 28, after which they are added to the county tax rolls.

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

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. The amounts have been classified as restricted assets and total \$4,107,847 at year end.

Capital Assets - Capital assets, which include construction in progress, land, buildings, equipment, and vehicles, are reported in the applicable governmental activity 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. 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.

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

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

Buildings and building additions	25-50 years
Buses and other vehicles	5-8 years
Furniture and other equipment	5-20 years

Compensated Absences - The liability for compensated absences reported in the district-wide financial statements consists of earned but unused accumulated vacation and sick leave benefits and early retirement incentive obligations. 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 and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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).

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. The School District currently does not have significant premiums or discounts on debt issuances. Issuance costs are reported as debt service expenditures.

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

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

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting Change - Effective July 1, 2005, the School District will adopt the provisions of Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement will require governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital assets. In addition, the Statement requires all governments to account for insurance recoveries in the same manner. The impact of this accounting change has not yet been determined.

GASB No. 47 - Effective July 1, 2005, the School District will adopt the provisions of Governmental Accounting Standards Board Statement No. 47, *Accounting for Termination Benefits*. This Statement clarifies how governments are to account for and report termination obligations such as early retirement incentives and involuntary severance. The change will primarily impact financial statements prepared on the accrual basis of accounting, generally the district-wide financial statements. The accounting treatment for financial statements prepared on the modified accrual basis of accounting essentially is unchanged. Management believes that the impact of this accounting change will not be material to the School District's basic financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General, Special Revenue, Debt Service, and Capital Projects Funds, except for operating transfers in, transfers out, and proceeds from debt issuance, which are classified within revenue and expenditures, rather than within other financing sources (uses). All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and activity. 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 activity 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. Budgeted revenues were increased due to student increases in the Special Education Center Program and the Alternative Education Program. Budgeted expenditures were increased to account for the net effect of increased salaries, benefits, and other operating costs such as utilities.

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

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

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.

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

	<u>Budget</u>	<u>Actual</u>
General Fund - Transportation	\$ 1,786,573	\$ 1,878,506

Capital Projects Fund Compliance - The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Note 3 - Deposits

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.

School District of the City of Garden City

**Notes to Financial Statements
June 30, 2005**

Note 3 - Deposits (Continued)

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. At year end, the School District's deposit balance of \$15,615,259 had \$15,415,259 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The School District believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have a policy for custodial credit risk of investments and does not have investments with custodial credit risk.

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 does not have a policy for interest rate risk and does not have investments with interest rate risk.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District does not have an investment policy further limiting its investment choices. The School District does not have any investments held at year end subject to credit risk.

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer. The School District does not have investments in any one issuer of more than 5 percent of the School District's total investments.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law prohibits investment in foreign currency.

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Taxes	\$ 278,400	\$ 189,219	\$ 467,619
Accounts	74,586	75,794	150,380
Due from Agency Fund	179,668	-	179,668
Intergovernmental	8,108,209	93,926	8,202,135
	<u>8,640,863</u>	<u>358,939</u>	<u>8,999,802</u>
Net receivables	<u>\$ 8,640,863</u>	<u>\$ 358,939</u>	<u>\$ 8,999,802</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. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Delinquent property taxes	\$ 154,502	\$ -
Special education state aid	294,110	-
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	130,101
Other	-	34,158
	<u>448,612</u>	<u>164,259</u>
Total	<u>\$ 448,612</u>	<u>\$ 164,259</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

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

	Balance July 1, 2004	Reclassifi- cations	Additions	Disposals	Balance June 30, 2005
Capital assets not being depreciated - Construction in progress	\$ 5,559,453	\$ (5,401,624)	\$ 1,739,511	\$ -	\$ 1,897,340
Capital assets being depreciated:					
Buildings and building improvements	40,430,415	5,401,624	7,071,419	-	52,903,458
Buses and other vehicles	1,718,949	-	137,470	23,061	1,833,358
Furniture and equipment	1,988,907	-	968,041	-	2,956,948
Subtotal	44,138,271	5,401,624	8,176,930	23,061	\$ 57,693,764
Accumulated depreciation:					
Buildings and building improvements	16,829,203	-	1,295,564	-	18,124,767
Buses and other vehicles	893,683	-	154,956	23,061	1,025,578
Furniture and equipment	1,005,713	-	280,758	-	1,286,471
Subtotal	18,728,599	-	1,731,278	23,061	20,436,816
Net capital assets being depreciated	25,409,672	5,401,624	6,445,652	-	37,256,948
Net governmental capital assets	\$ 30,969,125	\$ -	\$ 8,185,163	\$ -	\$ 39,154,288

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:	
Instruction	\$ 1,505,091
Support services	226,187
Total governmental activities	<u>\$ 1,731,278</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Construction Commitments - The School District has active construction projects at year end. The School District's commitments with contractors for the 2001 bond renovation at June 30, 2005 are as follows:

	Spent to Date	Remaining Commitment
Garden City Middle School	\$ 532,697	\$ 246,222
Central Office	736,364	417,338
Total	<u>\$ 1,269,061</u>	<u>\$ 663,560</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From		
	General Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 213,155	\$ 213,155
Special Education Fund	38,264	-	38,264
Capital Projects Fund	341	-	341
Nonmajor governmental funds	<u>134,925</u>	<u>14,295</u>	<u>149,220</u>
Total	<u>\$ 173,530</u>	<u>\$ 227,450</u>	<u>\$ 400,980</u>

Interfund balances represent routine and temporary cash flow assistance from various funds until amounts are transferred from available assets.

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out			Total
	General Fund	Special Education Fund	Other	
			Nonmajor Governmental Funds	
Transfers in:				
General Fund	\$ -	\$ 1,085,700	\$ 85,465	\$ 1,171,165
Other nonmajor governmental funds	<u>554,984</u>	<u>4,638</u>	<u>-</u>	<u>559,622</u>
Total	<u>\$ 554,984</u>	<u>\$ 1,090,338</u>	<u>\$ 85,465</u>	<u>\$ 1,730,787</u>

Transfers from the General Fund subsidized operations in the Food Service and School Services Funds. Transfers from the Special Education Fund to the General Fund were for indirect costs covered by the General Fund.

Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences and termination benefits.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds	\$ 42,160,000	\$ -	\$ 1,355,000	\$ 40,805,000	\$ 1,480,000
Durant Non-Plaintiff Bond	<u>1,865,200</u>	<u>-</u>	<u>-</u>	<u>1,865,200</u>	<u>141,316</u>
Total bonds payable	44,025,200	-	1,355,000	42,670,200	1,621,316
Notes	474,299	113,296	115,236	472,359	115,730
Other obligations	<u>2,049,273</u>	<u>484,320</u>	<u>546,568</u>	<u>1,987,025</u>	<u>541,882</u>
Total governmental activities	<u>\$ 46,548,772</u>	<u>\$ 597,616</u>	<u>\$ 2,016,804</u>	<u>\$ 45,129,584</u>	<u>\$ 2,278,928</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

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

	Governmental Activities		
	Principal	Interest	Total
2006	\$ 1,737,046	\$ 2,010,870	\$ 3,747,916
2007	1,780,390	1,959,785	3,740,175
2008	2,353,075	2,141,506	4,494,581
2009	1,881,271	1,846,114	3,727,385
2010	1,919,373	1,781,174	3,700,547
2011-2015	7,021,404	7,818,003	14,839,407
2016-2020	7,300,000	6,011,970	13,311,970
2021-2025	8,525,000	4,006,720	12,531,720
2026-2030	8,850,000	1,815,907	10,665,907
2031	1,775,000	90,963	1,865,963
Total	<u>\$ 43,142,559</u>	<u>\$ 29,483,012</u>	<u>\$ 72,625,571</u>

Governmental Activities

General obligation bonds consist of the following:

\$36,585,000 of 2001 serial bonds due in annual installments of \$605,000 to \$1,775,000 through May 1, 2031; interest at 3.45% to 5.50%	\$ 34,870,000
\$6,785,000 of 2004 refunding bonds due in annual installments of \$875,000 to \$1,120,000 through May 1, 2011; interest at 2.00% to 4.00%	5,935,000
\$2,919,543 School Improvement Bond, Series 1998 Durant Non-Plaintiff Bond due in annual installments of \$141,316 to \$682,375 through May 15, 2013; interest at 4.761%	<u>1,865,200</u>
Total bonded debt	<u>\$ 42,670,200</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Durant Non-Plaintiff Bond - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual 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.

Notes consist of the following:

Date	Original Amount	Due Date	Interest Rate	Remaining to Maturity	
				Interest	Principal
08/16/00	\$ 44,642	Annually through August 23, 2005	5.70	\$ 799	\$ 9,437
08/16/00	69,152	Annually through August 23, 2006	5.70	417	14,619
12/10/02	152,481	Annually through November 1, 2008	3.90	9,911	101,655
12/31/02	23,968	Monthly through December 31, 2007	3.90	649	12,616
08/18/03	264,883	Annually through August 18, 2009	4.90	32,448	220,736
10/29/04	<u>113,296</u>	Annually through November 1, 2010	4.09	<u>16,523</u>	<u>113,296</u>
Total	<u>\$ 668,422</u>			<u>\$ 60,747</u>	<u>\$ 472,359</u>

Other governmental activities long-term obligations are for employee-compensated absences of \$1,987,025.

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Advance and Current Refundings - Subsequent to June 30, 2005, the School District issued \$7,880,000 in general obligation bonds with an average interest rate of 4.13 percent. The proceeds of these bonds were used to advance refund \$7,800,000 of outstanding 2001 serial bonds with an average interest rate of 5.5 percent. The net proceeds of \$7,684,000 (after bond premiums and payment of bond issuance and redemption costs) and an additional \$116,000 in funds on hand in the debt retirement funds were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds will be considered to be defeased and the liability for the bonds will be removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by approximately \$363,000, which represents an economic gain of approximately \$256,000.

Defeased Debt - 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 account assets and the liability for the defeased bonds are not included in the basic financial statements. At June 30, 2005, \$12,700,000 of bonds outstanding are considered defeased.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District participates in the Michigan Association for Improved School Legislation (MAISL) risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation); the School District is uninsured for health and dental claims.

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

School District of the City of Garden City

Notes to Financial Statements June 30, 2005

Note 8 - Risk Management (Continued)

For risk retention situations, the School District estimates the liability for health and dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the district-wide statements. The self-insurance accrual at June 30, 2005 is \$815,935. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2005</u>	<u>2004</u>
Estimated liability - Beginning of year	\$ 1,023,233	\$ 1,019,105
Estimated claims incurred - Including changes in estimates	6,114,566	6,387,652
Claim payments	<u>6,321,864</u>	<u>6,383,524</u>
Estimated liability - End of year	<u>\$ 815,935</u>	<u>\$ 1,023,233</u>

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

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

Funding Policy - Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

School District of the City of Garden City

Notes to Financial Statements
June 30, 2005

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

The pension benefit rate totals 12.99 percent and 14.87 percent of the covered payroll to the plan for the periods from July 1, 2004 through September 30, 2004 and October 1, 2004 through June 30, 2005, respectively. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2005, 2004, and 2003 were approximately \$5,400,000, \$4,700,000, and \$4,600,000, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

Retiree Health Care Benefits - The School District has an obligation (financed on a pay-as-you-go basis) to pay health care premiums for early retirees in an amount not to exceed \$1,500 per year, per individual, until the retiree reaches the age of 65. Currently, approximately 95 participants are eligible to receive benefits.

Note 10 - State Aid Anticipation Notes

On August 20, 2004, the School District of the City of Garden City borrowed \$12,000,000 on a state aid anticipation note. The note bears interest at 1.57 percent and is due August 19, 2005. At June 30, 2005, accrued interest on this note is \$157,000.

On August 19, 2005, the School District borrowed \$11,000,000 at 2.92 percent annual interest on a state aid anticipation note. The note, plus interest, is due August 18, 2006.

Required Supplemental Information

School District of the City of Garden City

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 2,943,517	\$ 2,701,410	\$ 2,764,243	\$ 62,833
State sources	34,417,057	35,464,680	35,176,505	(288,175)
Incoming transfers and other transactions	<u>2,683,432</u>	<u>3,315,464</u>	<u>3,083,862</u>	<u>(231,602)</u>
Total revenue	40,044,006	41,481,554	41,024,610	(456,944)
Expenditures				
Current:				
Instruction	24,069,450	25,032,007	24,785,409	(246,598)
Support services:				
Pupil	3,544,568	3,132,344	3,147,709	15,365
Instructional staff	1,425,850	1,419,226	1,410,051	(9,175)
General administration	520,442	555,324	526,135	(29,189)
School administration	2,330,102	2,298,793	2,276,662	(22,131)
Business services	1,255,699	1,227,259	938,227	(289,032)
Operation and maintenance	4,178,937	4,681,828	4,599,678	(82,150)
Transportation	1,674,037	1,786,573	1,878,506	91,933
Central	668,349	643,274	631,369	(11,905)
Other	215,022	227,396	261,845	34,449
Community services	-	-	1,171	1,171
Outgoing transfers and other transactions	<u>459,600</u>	<u>716,218</u>	<u>708,716</u>	<u>(7,502)</u>
Total expenditures	<u>40,342,056</u>	<u>41,720,242</u>	<u>41,165,478</u>	<u>(554,764)</u>
Net Change in Fund Balance	(298,050)	(238,688)	(140,868)	97,820
Fund Balance - July 1, 2004	<u>337,341</u>	<u>337,341</u>	<u>337,341</u>	-
Fund Balances - June 30, 2005	<u>\$ 39,291</u>	<u>\$ 98,653</u>	<u>\$ 196,473</u>	<u>\$ 97,820</u>

School District of the City of Garden City

Required Supplemental Information Budgetary Comparison Schedule Special Education Special Revenue Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 11,000	\$ 10,000	\$ 5,252	\$ (4,748)
State sources	4,100,498	4,561,350	4,317,660	(243,690)
Interdistrict sources	<u>10,999,247</u>	<u>11,641,837</u>	<u>11,047,416</u>	<u>(594,421)</u>
Total revenue	15,110,745	16,213,187	15,370,328	(842,859)
Expenditures - Current				
Instruction	11,579,731	11,935,108	11,802,968	(132,140)
Support services	<u>2,545,455</u>	<u>2,766,296</u>	<u>2,477,022</u>	<u>(289,274)</u>
Total expenditures	14,125,186	14,701,404	14,279,990	(421,414)
Other Financing Uses - Transfers out	<u>985,559</u>	<u>1,511,783</u>	<u>1,090,338</u>	<u>(421,445)</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - July 1, 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2005	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Other Supplemental Information

School District of the City of Garden City

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	Special Revenue Funds			Debt Service Funds		Total
	Funded	Food Service	School	1994/2004	2001	
	Projects		Services	Refunding	Renovation	
				Bond	Bond	
Assets						
Cash and cash equivalents	\$ -	\$ 83,663	\$ -	\$ 116,471	\$ 138,473	\$ 338,607
Receivables - Net	-	75,794	-	60,243	128,976	265,013
Inventory	-	10,555	-	-	-	10,555
Due from other governmental units	93,798	-	-	2	126	93,926
Due from other funds	36,303	94,665	3,957	-	14,295	149,220
Total assets	\$ 130,101	\$ 264,677	\$ 3,957	\$ 176,716	\$ 281,870	\$ 857,321
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ 94,665	\$ -	\$ -	\$ -	\$ 94,665
Accrued payroll and other liabilities	-	-	3,957	-	-	3,957
Due to other funds	-	170,012	-	21,635	35,803	227,450
Deferred revenue	130,101	-	-	-	-	130,101
Total liabilities	130,101	264,677	3,957	21,635	35,803	456,173
Fund Balances - Reserved for debt service	-	-	-	155,081	246,067	401,148
Total liabilities and fund balances	\$ 130,101	\$ 264,677	\$ 3,957	\$ 176,716	\$ 281,870	\$ 857,321

School District of the City of Garden City

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2005

	Special Revenue Funds			Debt Service Funds		Total
	Funded Projects	Food Service	School Services	1994/2004	2001	
				Refunding Bond	Renovation Bond	
Revenue						
Local sources	\$ -	\$ 661,324	\$ 436,970	\$ 1,116,863	\$ 2,310,572	\$ 4,525,729
State sources	522,941	6,680	-	-	-	529,621
Federal sources	1,967,243	389,178	-	-	-	2,356,421
Total revenue	2,490,184	1,057,182	436,970	1,116,863	2,310,572	7,411,771
Expenditures						
Current:						
Instruction	1,744,274	-	-	-	-	1,744,274
Support services	710,932	-	34,478	-	-	745,410
Community services	3,053	-	-	-	-	3,053
Food services	-	1,271,660	-	-	-	1,271,660
Athletics	-	-	379,759	-	-	379,759
Child care	-	-	281,128	-	-	281,128
Debt service:						
Principal	-	-	-	850,000	505,000	1,355,000
Interest	-	-	-	200,175	1,779,684	1,979,859
Other	-	-	-	2,915	4,117	7,032
Capital outlay	33,209	-	-	-	-	33,209
Total expenditures	2,491,468	1,271,660	695,365	1,053,090	2,288,801	7,800,384
Excess of Revenue Over (Under) Expenditures	(1,284)	(214,478)	(258,395)	63,773	21,771	(388,613)
Other Financing Sources (Uses)						
Transfers in	1,284	214,478	343,860	-	-	559,622
Transfers out	-	-	(85,465)	-	-	(85,465)
Total other financing sources (uses)	1,284	214,478	258,395	-	-	474,157
Net Change in Fund Balances	-	-	-	63,773	21,771	85,544
Fund Balances - Beginning of year	-	-	-	91,308	224,296	315,604
Fund Balances - End of year	\$ -	\$ -	\$ -	\$ 155,081	\$ 246,067	\$ 401,148

School District of the City of Garden City

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2005

June 30	2001 Debt	Durant	2004 Debt
	Principal	Principal	Principal
2006	\$ 605,000	\$ 141,316	\$ 875,000
2007	625,000	148,011	915,000
2008	625,000	682,375	955,000
2009	625,000	162,482	1,005,000
2010	620,000	170,211	1,065,000
2011	620,000	178,318	1,120,000
2012	1,100,000	186,797	-
2013	1,150,000	195,690	-
2014	1,200,000	-	-
2015	1,250,000	-	-
2016	1,325,000	-	-
2017	1,400,000	-	-
2018	1,475,000	-	-
2019	1,525,000	-	-
2020	1,575,000	-	-
2021	1,625,000	-	-
2022	1,675,000	-	-
2023	1,725,000	-	-
2024	1,750,000	-	-
2025	1,750,000	-	-
2026	1,750,000	-	-
2027	1,775,000	-	-
2028	1,775,000	-	-
2029	1,775,000	-	-
2030	1,775,000	-	-
2031	1,775,000	-	-
Total	<u>\$ 34,870,000</u>	<u>\$ 1,865,200</u>	<u>\$ 5,935,000</u>
Principal payments due	May 1	May 15	May 1
Interest payments due	May 1 and November 1	May 15	May 1 and November 1
Interest rate	3.45% to 5.50%	4.761%	2.00% to 4.00%
Original issue	<u>\$ 36,585,000</u>	<u>\$ 2,919,543</u>	<u>\$ 6,785,000</u>