

School District of the City of Garden City

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

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 (the "School District") as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of 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, 2011 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated November 11, 2011 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Morse, PLLC

November 11, 2011

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 (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2011. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District of the City of Garden City financially as a whole. The government-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 government-wide financial statements by providing information about the School District's most significant funds - the General Fund and Special Education 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

Government-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 - Government-wide Financial Statements

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

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

The statement of net assets (deficit) and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, 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. State law and bond covenants require that certain funds be established. However, the School District establishes other funds to help it control and manage money for particular purposes (the debt service fund and food service fund 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, 2011 and 2010.

TABLE I

	Governmental Activities	
	June 30	
	2011	2010
	(in millions)	
Assets		
Current and other assets	\$ 21.8	\$ 17.8
Capital assets	29.4	33.2
Total assets	51.2	51.0
Liabilities		
Current liabilities	21.1	20.9
Long-term liabilities	33.3	35.1
Total liabilities	54.4	56.0
Net Assets (Deficit)		
Invested in capital assets - Net of related debt	(3.4)	(1.6)
Restricted	0.5	0.1
Unrestricted	(0.3)	(3.5)
Total net deficit	<u>\$ (3.2)</u>	<u>\$ (5.0)</u>

The above analysis focuses on the net assets (deficit) (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net deficit was \$3.2 million at June 30, 2011. Capital assets, net of related debt totaling approximately (\$3.4) million, compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net deficit, \$0.3 million, was unrestricted.

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

The \$0.3 million in unrestricted net 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 deficit 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 deficit for fiscal years 2011 and 2010.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2011	2010
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.5	\$ 1.5
Operating grants and contributions	23.2	26.9
General revenue:		
Property taxes	6.4	5.9
State foundation allowance	33.2	32.1
Federal sources - Unrestricted	1.6	1.5
Other	-	(0.2)
Total revenue	<u>65.9</u>	<u>67.7</u>
Functions/Program Expenses		
Instruction	39.3	45.1
Support services	19.2	20.5
Community services	0.4	0.3
Food services	1.4	1.4
Athletics	-	0.4
Other	0.2	0.1
Interest on long-term debt	1.6	1.7
Total functions/program expenses	<u>62.1</u>	<u>69.5</u>
Special item - Loss on impaired assets	<u>(2.0)</u>	<u>-</u>
Increase (Decrease) in Net Deficit	<u><u>\$ 1.8</u></u>	<u><u>\$ (1.8)</u></u>

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$62.1 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 (\$23.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$6.4 million in taxes, \$33.2 million in state foundation allowance, \$1.6 million in unrestricted federal funds, and with our other revenue, i.e., interest and general entitlements.

The School District experienced a \$1.8 million increase in net assets. More detailed information is presented in the reconciliation of the statement of revenue, expenditures, and changes in fund balances (deficit) 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.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3,600,349, which is an increase of \$3.9 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance increased by approximately \$3.5 million. See General Fund Budgetary Highlights below for further detail regarding the increase in the General Fund fund balance. The School District has notified the Michigan Department of Education that it is no longer in deficit which precludes the need for continued filing of the deficit elimination plan (DEP).

Combined, the debt service funds showed a fund balance increase of approximately \$0.3 million. The increase in fund balance is due to the one-time recognition of two years of delinquent property taxes and to a slight increase in the debt retirement millage rates in 2010. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. The millage rates were increased for fiscal year end 2012 to account for the declining property tax values. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. The debt service funds' fund balances are reserved since they can only be used to pay debt service obligations.

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2011. 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.

During the year, the budget was amended in a legally permissible manner. Significant amendments between the original and final budgets adopted during the year include a \$1.9 million increase to federal source revenue resulting primarily from the receipt of funding from the American Recovery and Reinvestment Act (ARRA) and the Education Jobs Fund, and a \$0.4 million increase to state source revenue resulting from an increase in the State's discretionary payment.

On the expenditure side of the budget, significant amendments between the original and final budgets include a \$1.9 million decrease in elementary instruction due to school reconfiguration and associated staffing reductions, and a \$0.6 million reduction in teacher consultant services. There were no additional significant amendments adopted during the year.

Variances between the final budget and actual amounts for local revenue related to the recognition of two years of delinquent property tax revenue and higher than typical child care revenue.

Variances between the final budget and actual amounts for transfers in related to an increase in Wayne RESA's indirect cost reimbursement for the School District's center program.

On the expenditure side of the budget, expenditures were significantly below budget primarily due to a larger than expected reduction in self-insured healthcare costs for employees and their insured dependents following a one-time pension increase from the State coupled with an early retirement incentive provided by the School District, reconfiguration of elementary schools, and the one-time privatization of all bus drivers, bus aides, mechanics, and certain secretaries, teacher aides, and maintenance positions. Other programming and/or service changes that made the 2010-2011 year unusual included the following:

1. Consolidation of child care programs into one site
2. Elimination of high school bussing
3. Start-up of a new virtual high school (G.I.V.E.) program

Expenditures were also significantly below budget in purchased service and supply accounts.

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

Special Education Special Revenue Fund Budgetary Highlights

The program is operated by the School District for Wayne County RESA (RESA) to provide instructional and non-instructional services for autistic students from Wayne County. During the year, the budget was amended in a legally permissible manner. Significant amendments adopted during the year between the original and final budgets included a \$1.3 million decrease in inter-district revenue to account for a projected decrease in Act 18 funding from RESA, and a \$1.0 million decrease in instructional costs following a significant number of staff retirements and other changes in 2010.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011, the School District had \$29.4 million invested in a broad range of capital assets, including buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$3.8 million.

	<u>2011</u>	<u>2010</u>
Buildings and building improvements	\$ 54,769,165	\$ 58,023,712
Buses and other vehicles	1,781,912	1,781,912
Furniture and equipment	<u>4,077,203</u>	<u>4,077,203</u>
Total capital assets	60,628,280	63,882,827
Less accumulated depreciation	<u>(31,241,815)</u>	<u>(30,708,448)</u>
Net capital assets	<u>\$ 29,386,465</u>	<u>\$ 33,174,379</u>

Debt

At the end of this year, the School District had \$32.7 million in bonds outstanding versus \$34.7 million in the previous year - a change of 5.8 percent. Those bonds consisted of the following:

	<u>2011</u>	<u>2010</u>
2006 General Obligation Bonds	\$ 23,725,000	\$ 23,750,000
2005 General Obligation Bonds	7,805,000	7,820,000
2004 General Obligation Bonds	-	1,120,000
2001 General Obligation Bonds	-	620,000
Durant Non-Plaintiff Bonds	<u>1,212,872</u>	<u>1,391,190</u>
Total	<u>\$ 32,742,872</u>	<u>\$ 34,701,190</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 BBB+. 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 \$32,742,872 is significantly below the statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, term notes, and early retirement incentive. 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 2012 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2012 fiscal year is 10 percent and 90 percent of the February 2011 and October 2011 student counts, respectively. The 2012 budget was adopted in June 2011, based on an estimate of students that will be enrolled in September 2011. Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2011-2012 school year, we anticipate that the fall student count will be slightly to moderately higher than the estimates used in creating the 2012 budget. Once the final student count and related per-pupil funding are validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

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 revenue to fund its appropriation to school districts.

School District of the City of Garden City

Statement of Net Assets (Deficit) June 30, 2011

	Governmental Activities
Assets	
Cash and cash equivalents (Note 3)	\$ 10,530,614
Receivables - Net (Note 4)	9,640,565
Inventories	40,855
Prepaid costs and other assets	972,618
Restricted assets	666,082
Capital assets - Net (Note 5)	<u>29,386,465</u>
Total assets	51,237,199
Liabilities	
Accounts payable	607,446
Accrued payroll-related liabilities	7,835,733
State aid anticipation note (Note 7)	8,251,426
Accrued interest	292,403
Due to other governmental units	573,603
Other current liabilities	72,345
Deferred revenue (Note 4)	1,524,000
Noncurrent liabilities (Note 8):	
Due within one year	1,907,632
Due in more than one year	<u>33,346,926</u>
Total liabilities	<u>54,411,514</u>
Net Assets (Deficit)	
Invested in capital assets - Net of related debt	(3,379,241)
Restricted:	
Debt service	449,362
Capital projects	5,414
Food service	86,977
Unrestricted	<u>(336,827)</u>
Total net assets (deficit)	<u>\$ (3,174,315)</u>

School District of the City of Garden City

Statement of Activities Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 39,255,237	\$ 39,965	\$ 15,586,493	\$ (23,628,779)
Support services	19,251,033	-	6,775,823	(12,475,210)
Food services	1,376,265	535,072	896,267	55,074
Community services	383,324	265,127	-	(118,197)
Other	178,717	674,951	(16,485)	479,749
Interest	1,634,697	-	-	(1,634,697)
Total primary government	<u>\$ 62,079,273</u>	<u>\$ 1,515,115</u>	<u>\$ 23,242,098</u>	(37,322,060)
General revenue:				
Taxes:				
Property taxes - Levied for general purposes				2,645,811
Property taxes - Levied for debt service				3,704,087
State aid not restricted to specific purposes				33,201,420
Federal sources - Unrestricted				1,585,831
Interest earnings				23,678
Total general revenue				<u>41,160,827</u>
Special Item - Loss on impaired assets				<u>(1,994,277)</u>
Change in Net Assets				1,844,490
Net Deficit - Beginning of year				<u>(5,018,805)</u>
Net Deficit - End of year				<u>\$ (3,174,315)</u>

School District of the City of Garden City

Governmental Funds Balance Sheet June 30, 2011

	General Fund	Special Education Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 10,381,872	\$ -	\$ 148,742	\$ 10,530,614
Receivables (Note 4)	8,246,967	1,097,314	296,284	9,640,565
Due from other funds (Note 6)	607,900	2,885,713	134,350	3,627,963
Inventories	18,103	-	22,752	40,855
Prepaid costs and other assets	972,618	-	-	972,618
Restricted assets	-	-	666,082	666,082
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 20,227,460</u>	<u>\$ 3,983,027</u>	<u>\$ 1,268,210</u>	<u>\$ 25,478,697</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 622,269	\$ 8,235	\$ 103,282	\$ 733,786
Accrued payroll-related liabilities	4,474,433	2,051,300	-	6,525,733
State aid anticipation note (Note 7)	8,251,426	-	-	8,251,426
Due to other governmental units	573,603	-	-	573,603
Other accrued liabilities	72,345	-	-	72,345
Due to other funds (Note 6)	2,901,200	-	600,423	3,501,623
Deferred revenue (Note 4)	296,340	1,923,492	-	2,219,832
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	17,191,616	3,983,027	703,705	21,878,348
Fund Balances				
Nonspendable:				
Inventory	18,103	-	22,752	40,855
Prepaid assets	972,618	-	-	972,618
Restricted:				
Capital projects	-	-	5,414	5,414
Debt service	-	-	449,362	449,362
Food service	-	-	86,977	86,977
Assigned -				
Budgeted use of fund balance in subsequent year	3,000,000	-	-	3,000,000
Unassigned	(954,877)	-	-	(954,877)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	3,035,844	-	564,505	3,600,349
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 20,227,460</u>	<u>\$ 3,983,027</u>	<u>\$ 1,268,210</u>	<u>\$ 25,478,697</u>

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) June 30, 2011

Fund Deficit Reported in Governmental Funds	\$	3,600,349
Amounts reported for governmental activities in the statement of net assets (deficit) are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of capital assets	\$ 60,628,280	
Accumulated depreciation	<u>(31,241,815)</u>	29,386,465
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds and notes payable	(32,765,707)	
Compensated absences	(1,517,760)	
Employee retirement incentive	(806,000)	
Other postemployment obligation	<u>(165,091)</u>	(35,254,558)
Accrued interest payable is not included as a liability in governmental funds		(292,403)
Self-insurance accrual is not included as a liability in the governmental funds		(1,310,000)
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds		<u>695,832</u>
Net Deficit of Governmental Activities	\$	<u>(3,174,315)</u>

School District of the City of Garden City

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

	General Fund	Special Education Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 4,250,835	\$ -	\$ 4,241,158	\$ 8,491,993
State sources	35,704,961	4,351,567	264,511	40,321,039
Federal sources	4,146,097	509,726	836,776	5,492,599
Interdistrict sources and other	1,279,478	11,159,994	-	12,439,472
Total revenue	45,381,371	16,021,287	5,342,445	66,745,103
Expenditures				
Current:				
Instruction	26,614,016	11,960,106	-	38,574,122
Support services	15,575,915	3,130,144	7,578	18,713,637
Food services	-	-	1,366,515	1,366,515
Community services	383,324	-	-	383,324
Other	41,000	-	-	41,000
Debt service:				
Principal	42,396	-	1,958,318	2,000,714
Interest	2,962	-	1,598,825	1,601,787
Other	-	-	675	675
Capital outlay	160,941	-	13,059	174,000
Total expenditures	42,820,554	15,090,250	4,944,970	62,855,774
Excess of Revenue Over Expenditures	2,560,817	931,037	397,475	3,889,329
Other Financing Sources (Uses)				
Transfers in (Note 6)	931,037	-	-	931,037
Transfers out (Note 6)	-	(931,037)	-	(931,037)
Net Change in Fund Balances (Deficit)	3,491,854	-	397,475	3,889,329
Fund Balances (Deficit) - Beginning of year	(456,010)	-	167,030	(288,980)
Fund Balances - End of year	\$ 3,035,844	\$ -	\$ 564,505	\$ 3,600,349

School District of the City of Garden City

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

Net Change in Fund Balances - Total Governmental Funds	\$ 3,889,329
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	\$ (1,896,897)
Capitalized capital outlay	<u>103,260</u>
	(1,793,637)
The net effect of other transactions involving capital assets (i.e., impairment, sales, and donations) that decreased net assets	(1,994,277)
Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(827,063)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,958,318
Bus note principal payments	42,396
Interest	(32,235)
Compensated absences, as well as self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than was earned (or more was earned than paid out)	<u>601,659</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,844,490</u>

School District of the City of Garden City

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2011

	Student Activities Agency Fund	Private Purpose Trust Funds
Assets		
Cash and investments	\$ 530,429	\$ 113,975
Due from other funds	-	5,224
Total assets	<u>\$ 530,429</u>	119,199
Liabilities		
Accounts payable	\$ 1,020	-
Due to student activities	397,845	-
Due to other funds	131,564	-
Total liabilities	<u>\$ 530,429</u>	-
Net Assets - Restricted for scholarships		<u>\$ 119,199</u>

School District of the City of Garden City

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2011

	Private Purpose Trust
Additions - Local sources	\$ 14,841
Deductions - Scholarships granted	<u>9,870</u>
Change in Net Assets	4,971
Net Assets - Beginning of year	<u>114,228</u>
Net Assets - End of year	<u><u>\$ 119,199</u></u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies

The accounting policies of the School District of the City of 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.

Government-wide and Fund Financial Statements

The government-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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-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, 2011

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-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 government-wide financial statements.

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

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

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

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

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

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

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.

Additionally, the School District reports the following fund types:

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

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

Capital Projects 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.

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.

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."

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for approximately 50 percent of those 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 costs in both government-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds and related interest of the capital projects funds are required amounts to be set aside for construction. The unspent property tax levy and related interest of the debt service funds are required amount to be set aside of bond payments. These amounts have been classified as restricted assets and total \$666,082 at year end.

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

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

Impairment - The School District reviews the recoverability of the long-lived assets, including buildings and equipment, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. For the year ended June 30, 2011, one elementary school was closed and partially re-purposed; therefore, it was deemed to be partially impaired and written off.

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences - The liability for compensated absences reported in the government-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.

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

Long-term Obligations - In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets (deficit).

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

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

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

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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 Fund, 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. During the year, the budget was amended in a legally permissible manner.

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

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

The General Fund budget is presented consistent with the original and amended budget adopted. The original and adopted budget differs from the presentation on the statement of revenue, expenditures and changes in fund balance due to presentation of capital outlay on a functional basis.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restrictions, commitments, or assignments 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.

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 two banks for the deposit of its funds.

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

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 \$11,158,336 had \$10,778,237 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.

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 3 - Deposits (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and investing operating funds primarily in short-term securities, liquid asset funds, money market mutual funds, or similar instrument pools and limiting the average maturity in accordance with the School District's cash requirements.

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

Note 4 - Receivables

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

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:				
Taxes	\$ 323,797	\$ -	\$ 228,319	\$ 552,116
Accounts	61,291	-	5,115	66,406
Intergovernmental	<u>7,861,879</u>	<u>1,097,314</u>	<u>62,850</u>	<u>9,022,043</u>
Net receivables	<u>\$ 8,246,967</u>	<u>\$ 1,097,314</u>	<u>\$ 296,284</u>	<u>\$ 9,640,565</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 4 - Receivables (Continued)

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 1,722	\$ -
Interdistrict special education payments	686,697	1,236,795
Grant and categorical aid payments received prior to meeting all eligibility requirements	7,413	242,349
Other	-	44,856
Total	<u>\$ 695,832</u>	<u>\$ 1,524,000</u>

Note 5 - Capital Assets

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

	<u>Balance July 1, 2010</u>	<u>Additions/ Reclassifications</u>	<u>Disposals/ Reclassifications</u>	<u>Balance June 30, 2011</u>
Governmental Activities				
Capital assets being depreciated:				
Buildings and building improvements	58,023,712	103,260	3,357,807	54,769,165
Furniture and equipment	4,077,203	-	-	4,077,203
Buses and other vehicles	1,781,912	-	-	1,781,912
Subtotal	63,882,827	103,260	3,357,807	60,628,280
Accumulated depreciation:				
Buildings and building improvements	26,046,328	1,616,852	1,363,530	26,299,650
Furniture and equipment	2,961,628	196,441	-	3,158,069
Buses and other vehicles	1,700,492	83,604	-	1,784,096
Subtotal	30,708,448	1,896,897	1,363,530	31,241,815
Net capital assets being depreciated	<u>33,174,379</u>	<u>(1,793,637)</u>	<u>1,994,277</u>	<u>29,386,465</u>
Net capital assets	<u>\$ 33,174,379</u>	<u>\$ (1,793,637)</u>	<u>\$ 1,994,277</u>	<u>\$ 29,386,465</u>

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

Governmental activities:	
Instruction	\$ 1,327,828
Support services	569,069
Total governmental activities	<u>\$ 1,896,897</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets (Continued)

Asset Impairment - Special items in the governmental activities include an impairment loss of \$1,994,277 due to the closing of an elementary school building at the beginning of the 2011 school year.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Nonmajor Governmental Funds	Fiduciary Funds	
General Fund	\$ -	\$ 476,336	\$ 131,564	\$ 607,900
Special Education Fund	2,885,713	-	-	2,885,713
Nonmajor governmental funds	10,263	124,087	-	134,350
Fiduciary Funds	5,224	-	-	5,224
Total	\$ 2,901,200	\$ 600,423	\$ 131,564	\$ 3,633,187

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

Transfers In	Special Education Fund	Total
General Fund	\$ 931,037	\$ 931,037

Transfers from the Special Education Fund to the General Fund were for excess costs related to operations for the Special Education Fund.

Note 7 - State Aid Anticipation Note

On August 20, 2010, the School District of the City of Garden City borrowed \$10,000,000 on state aid anticipation notes. The notes bear interest at 0.80 percent and 0.40 percent and mature on August 19, 2011 and August 22, 2011, respectively. The School District paid the state aid anticipation notes subsequent to year end.

Note 8 - 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. Note agreements are also general obligations of the School District. Other long-term obligations include compensated absences and termination benefits.

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 8 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 33,310,000	\$ -	\$ 1,780,000	\$ 31,530,000	\$ 1,145,000
Durant Non-Plaintiff Bond	1,391,190	-	178,318	1,212,872	186,797
Total bonds payable	34,701,190	-	1,958,318	32,742,872	1,331,797
Notes	65,231	-	42,396	22,835	22,835
Early retirement incentive	1,239,000	-	433,000	806,000	403,000
Employee compensated absences	1,494,912	406,045	383,197	1,517,760	150,000
Other postemployment benefits	131,598	33,493	-	165,091	-
Total governmental activities	<u>\$ 37,631,931</u>	<u>\$ 439,538</u>	<u>\$ 2,816,911</u>	<u>\$ 35,254,558</u>	<u>\$ 1,907,632</u>

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2012	\$ 1,354,632	\$ 1,499,675	\$ 2,854,307
2013	2,216,075	1,442,650	3,658,725
2014	1,235,000	1,383,400	2,618,400
2015	1,280,000	1,321,900	2,601,900
2016	1,345,000	1,258,200	2,603,200
2017-2021	7,720,000	5,216,400	12,936,400
2022-2026	8,800,000	3,199,328	11,999,328
2027-2031	8,815,000	1,184,852	9,999,852
Total	<u>\$ 32,765,707</u>	<u>\$ 16,506,405</u>	<u>\$ 49,272,112</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 8 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

\$2,919,543 School Improvement Bond, Series 1998 Durant Non-Plaintiff Bond due in annual installments of \$186,797 to \$1,026,075 from May 15, 2009 through May 15, 2013; interest at 4.761 percent	\$ 1,212,872
\$7,880,000 of 2005 refunding bonds due in annual installments of \$15,000 to \$1,455,000 through May 1, 2018; interest at 3.50 percent to 5.00 percent	7,805,000
\$23,860,000 of 2006 refunding bonds due in annual installments of \$25,000 to \$1,785,000 through May 1, 2031; interest at 4.00 percent to 5.00 percent	<u>23,725,000</u>
Total bonded debt	<u>\$ 32,742,872</u>

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

Notes consist of the following:

Date	Original Amount	Due Date	Interest Rate	Interest	Principal
11/01/05	<u>\$ 122,377</u>	Annually through November 1, 2011	4.75%	<u>\$ 364</u>	<u>\$ 22,835</u>

Early Retirement Incentive - The School District offered a voluntary early retirement incentive (ERI) to one group of employees. The amount includes ERI payments of \$413,000 each year for three years beginning in 2011. The School District elected to issue an additional \$20,000 payment in 2011 for a deceased ERI participant which reduces each of the remaining future payments by \$10,000. The remaining future payment obligations for the years ending June 30 are as follows:

Years Ending June 30	Amount
2012	\$ 403,000
2013	<u>403,000</u>
Total	<u>\$ 806,000</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 8 - Long-term Debt (Continued)

Other governmental activities long-term obligations are for employee compensated absences of \$1,517,760.

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 accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, \$31,530,000 of bonds outstanding are considered defeased.

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District 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.

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 government-wide statements. The self-insurance accrual at June 30, 2011 is \$400,000. Changes in the estimated liability for the past two fiscal years were as follows:

	2011	2010
Estimated liability - Beginning of year	\$ 500,000	\$ 450,000
Estimated claims incurred - Including changes in estimates	4,576,712	6,055,094
Claim payments	<u>(4,676,712)</u>	<u>(6,005,094)</u>
Estimated liability - End of year	<u>\$ 400,000</u>	<u>\$ 500,000</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

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

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

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate for basic plan members was 10.13 percent of covered payroll for the period from July 1, 2010 through September 30, 2010 and 12.16 percent for the period from October 1, 2010 through June 30, 2011. The employer contribution rate for pension plus plan members was 10.66 percent for the period from October 1, 2010 through June 30, 2011. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages, or up to 6.4 percent of gross wages for members entering the MIP Plus plan on or after July 1, 2008. The School District's required and actual contributions to the plan for the years ended June 30, 2011, 2010, and 2009 were \$3,743,000, \$3,260,000, and \$3,510,000, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.81 percent of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25 percent for the period from October 1, 2010 through October 31, 2010, and 8.50 percent for the period from November 1, 2010 through June 30, 2011. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended July 30, 2011, 2010, and 2009 were \$2,562,000, \$2,385,000, and \$2,360,000, respectively.

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 11 - Other Postemployment Benefits

Plan Description - The School District has an obligation to pay healthcare premiums for eligible early retirees in amounts not to exceed \$1,500 per year, per individual, until the retiree reaches the age of 65. Currently, the plan has approximately 700 members (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits).

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

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

Funding Progress - For the year ended June 30, 2011, the School District has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2011. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation’s computed contribution and actual funding are summarized as follows:

	2010	2011
Annual required contribution (recommended)	\$ 173,680	\$ 165,905
Interest on the prior year's net OPEB obligation	2,281	5,240
Less adjustment to the annual required contribution	<u>(3,228)</u>	<u>(7,559)</u>
Annual OPEB cost	172,733	163,586
Amounts contributed - Payments of current premiums	<u>(98,154)</u>	<u>(130,093)</u>
Change in net OPEB obligation	74,579	33,493
OPEB obligation - Beginning of year	<u>57,019</u>	<u>131,598</u>
OPEB obligation - End of year	<u>\$ 131,598</u>	<u>\$ 165,091</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 11 - Other Postemployment Benefits (Continued)

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current year were as follows:

	Fiscal Year Ended <u>June 30, 2010</u>	Fiscal Year Ended <u>June 30, 2011</u>
Annual OPEB costs	\$ 172,733	\$ 163,586
Percentage contributed	57 %	79 %
Net OPEB obligation	\$ 131,598	\$ 165,091

The funding progress of the plan as of the most recent valuation date is as follows:

	<u>2011</u>
Market value of assets	\$ -
Actuarial accrued liability (AAL)	1,847,512
Unfunded AAL (UAAL)	1,847,512
Funded ratio	- %

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

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

In the June 30, 2011 actuarial valuation, the projected unit credit (level dollar) actuarial cost method was used. The actuarial assumptions included a 4.0 percent discount rate and life expectancies based on IRS 1.430(h) Non-annuitant and IRS 1.430(h) Annuitant Tables. The UAAL is being amortized as a level dollar amortization method on a closed basis. The remaining amortization period at June 30, 2011 was 28 years.

School District of the City of Garden City

Notes to Financial Statements June 30, 2011

Note 12 - Subsequent Events

State Aid Anticipation Notes - On August 22, 2011, the School District of the City of Garden City borrowed \$7,250,000 on state aid anticipation notes. The notes bear interest at 0.60 percent and 0.311 percent, and mature on August 20, 2012.

Required Supplemental Information

School District of the City of Garden City

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 3,856,700	\$ 3,686,200	\$ 4,250,835	\$ 564,635
State sources	35,230,800	35,631,100	35,704,961	73,861
Federal sources	2,671,600	4,632,400	4,146,097	(486,303)
Interdistrict sources and other	1,940,900	1,250,300	1,279,478	29,178
Total revenue	43,700,000	45,200,000	45,381,371	181,371
Expenditures				
Current:				
Instruction	29,667,900	28,049,500	26,621,624	(1,427,876)
Support services:				
Pupil	3,633,700	2,903,200	2,772,105	(131,095)
Instructional staff	2,511,800	2,737,200	2,434,513	(302,687)
General administration	540,700	537,900	485,701	(52,199)
School administration	2,240,900	2,604,600	2,491,995	(112,605)
Business	881,200	1,020,100	942,615	(77,485)
Operations and maintenance	3,972,300	3,772,400	3,596,296	(176,104)
Pupil transportation services	1,064,500	1,318,400	1,248,641	(69,759)
Central	1,209,200	1,224,700	1,189,313	(35,387)
Athletics and other	20,000	384,000	430,352	46,352
Total support services	16,074,300	16,502,500	15,591,531	(910,969)
Community services	125,300	429,200	383,324	(45,876)
Other	74,500	-	178,717	178,717
Debt service	103,000	45,400	45,358	(42)
Total expenditures	46,045,000	45,026,600	42,820,554	(2,206,046)
Excess of Expenditures (Over) Under Revenue	(2,345,000)	173,400	2,560,817	2,387,417
Other Financing Sources (Uses)				
Transfers in	-	500,000	931,037	431,037
Transfers out	(330,000)	(348,400)	-	348,400
Net Change in Fund Balance	(2,675,000)	325,000	3,491,854	3,166,854
Fund Balance (Deficit) - Beginning of year	(456,010)	(456,010)	(456,010)	-
Fund Balance (Deficit) - End of year	<u>\$ (3,131,010)</u>	<u>\$ (131,010)</u>	<u>\$ 3,035,844</u>	<u>\$ 3,166,854</u>

School District of the City of Garden City

Required Supplemental Information Budgetary Comparison Schedule - Special Education Special Revenue Fund Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>(Under) Over Final Budget</u>
Revenue				
Local sources	\$ 27,000	\$ 33,400	\$ -	\$ (33,400)
State sources	4,753,200	4,871,900	4,351,567	(520,333)
Federal sources	493,600	484,700	509,726	25,026
Interdistrict sources	12,526,200	11,010,000	11,159,994	149,994
Total	<u>17,800,000</u>	<u>16,400,000</u>	<u>16,021,287</u>	<u>(378,713)</u>
Expenditures - Current				
Instruction	13,591,800	12,547,000	11,960,106	(586,894)
Support services	3,596,000	3,333,900	3,130,144	(203,756)
Total expenditures	<u>17,187,800</u>	<u>15,880,900</u>	<u>15,090,250</u>	<u>(790,650)</u>
Excess of Revenue Over Expenditures	612,200	519,100	931,037	411,937
Transfers Out	<u>(612,200)</u>	<u>(519,100)</u>	<u>(931,037)</u>	<u>(411,937)</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of year	<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, 2011

	Special Revenue Fund	Debt Service Funds				Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	2006 Refunding Bond	2005 Refunding Bond	2004 Refunding Bond	2001 Refunding Bond	Capital Projects Fund	
Assets							
Cash and cash equivalents	\$ 148,742	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 148,742
Receivables	61,547	70,495	33,716	74,203	56,323	-	296,284
Due from other funds	-	1,646	98,582	8,543	25,579	-	134,350
Inventories	22,752	-	-	-	-	-	22,752
Restricted assets	-	660,668	-	-	-	5,414	666,082
Total assets	\$ 233,041	\$ 732,809	\$ 132,298	\$ 82,746	\$ 81,902	\$ 5,414	\$ 1,268,210
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 103,282	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,282
Accrued payroll-related liabilities:							
Due to other funds	20,030	580,393	-	-	-	-	600,423
Total liabilities	123,312	580,393	-	-	-	-	703,705
Fund Balances							
Nonspendable - Inventory	22,752	-	-	-	-	-	22,752
Restricted:							
Capital projects	-	-	-	-	-	5,414	5,414
Debt service	-	152,416	132,298	82,746	81,902	-	449,362
Food service	86,977	-	-	-	-	-	86,977
Total fund balances	109,729	152,416	132,298	82,746	81,902	5,414	564,505
Total liabilities and fund balances	\$ 233,041	\$ 732,809	\$ 132,298	\$ 82,746	\$ 81,902	\$ 5,414	\$ 1,268,210

School District of the City of Garden City

	Special Revenue Fund	Debt Service Funds				Durant
		2006 Refunding Bond	2005 Refunding Bond	2004 Refunding Bond	2001 Refunding Bond	
	Food Service					
Revenue						
Local sources	\$ 535,072	\$ 1,156,724	\$ 538,568	\$ 1,147,568	\$ 863,200	\$ -
State sources	59,491	-	-	-	-	205,020
Federal sources	836,776	-	-	-	-	-
Total revenue	1,431,339	1,156,724	538,568	1,147,568	863,200	205,020
Expenditures						
Current:						
Instruction:						
Support services	-	1,605	839	2,631	2,503	-
Food services	1,366,515	-	-	-	-	-
Debt service:						
Principal	-	25,000	15,000	1,120,000	620,000	178,318
Interest	-	1,110,113	390,550	44,800	26,660	26,702
Other	-	200	200	-	275	-
Capital outlay	9,750	-	-	-	-	-
Total expenditures	1,376,265	1,136,918	406,589	1,167,431	649,438	205,020
Net Change in Fund Balances	55,074	19,806	131,979	(19,863)	213,762	-
Fund Balances (Deficit) - Beginning of year	54,655	132,610	319	102,609	(131,860)	-
Fund Balances - End of year	<u>\$ 109,729</u>	<u>\$ 152,416</u>	<u>\$ 132,298</u>	<u>\$ 82,746</u>	<u>\$ 81,902</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended June 30, 2011

Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 26	\$ 4,241,158
-	264,511
-	836,776
<u>26</u>	<u>5,342,445</u>
-	7,578
-	1,366,515
-	1,958,318
-	1,598,825
-	675
<u>3,309</u>	<u>13,059</u>
<u>3,309</u>	<u>4,944,970</u>
(3,283)	397,475
<u>8,697</u>	<u>167,030</u>
<u>\$ 5,414</u>	<u>\$ 564,505</u>

School District of the City of Garden City

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

June 30	<u>Durant</u> <u>Principal</u>	<u>2005 Debt</u> <u>Principal</u>	<u>2006 Debt</u> <u>Principal</u>
2012	\$ 186,797	\$ 15,000	\$ 1,130,000
2013	1,026,075	1,165,000	25,000
2014	-	1,210,000	25,000
2015	-	1,250,000	30,000
2016	-	1,320,000	25,000
2017	-	1,390,000	25,000
2018	-	1,455,000	30,000
2019	-	-	1,555,000
2020	-	-	1,605,000
2021	-	-	1,660,000
2022	-	-	1,710,000
2023	-	-	1,760,000
2024	-	-	1,785,000
2025	-	-	1,775,000
2026	-	-	1,770,000
2027	-	-	1,785,000
2028	-	-	1,775,000
2029	-	-	1,765,000
2030	-	-	1,750,000
2031	-	-	1,740,000
Total principal	<u>\$ 1,212,872</u>	<u>\$ 7,805,000</u>	<u>\$ 23,725,000</u>

School District of the City of Garden City

**Federal Awards
Supplemental Information
June 30, 2011**

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 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 (the "School District") as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 11, 2011. These basic financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these basic 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 basic 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.

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 schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules 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.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

November 11, 2011

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
School District of the City of Garden City

We have audited the 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, 2011, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 11, 2011. We have 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 the School District of the City of Garden City'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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 a combination of 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of the City of Garden City'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the School District of the City of Garden City in a separate letter dated November 11, 2011.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, 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.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

November 11, 2011

Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the School District of the City of Garden City with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The major federal programs of the School District of the City of Garden City are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District of the City of Garden City's management. Our responsibility is to express an opinion on the School District of the City of Garden City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of Garden City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District of the City of Garden City's compliance with those requirements.

As described in 2011-1, 2011-2, and 2011-3 in the accompanying schedule of findings and questioned costs, the School District of the City of Garden City did not comply with requirements regarding activities allowed or unallowed, allowable costs/cost principles, and matching, level of effort, and earmarking that are applicable to its Title I, Part A Cluster. Compliance with such requirements is necessary, in our opinion, for the School District of the City of Garden City to comply with the requirements applicable to that program.

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

In our opinion, except for the noncompliance described in the preceding paragraph, the School District of the City of Garden City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the School District of the City of Garden City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of Garden City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-3 to be material weaknesses.

The School District of the City of Garden City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School District of the City of Garden City's responses and, accordingly, we express no opinion on them.

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

This report is intended solely for the information and use of management, the Board of Education, others within the entity, 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.

Plante & Moran, PLLC

November 11, 2011

School District of the City of Garden City

Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
Clusters:								
Child Nutrition Cluster - U.S. Department of Agriculture -								
Passed through the Michigan Department of Education:								
Noncash Assistance (Commodities) -								
National School Lunch Program:	10.555	\$ 64,803	-	\$ -	\$ -	\$ 64,803	\$ 64,803	\$ -
Entitlement Commodities		2,021	-	-	-	2,021	2,021	-
Bonus Commodities								
National School Lunch Program Noncash Assistance Subtotal		66,824	-	-	-	66,824	66,824	-
Cash Assistance:								
National School Breakfast Program - 0910	10.553	130,968	130,968	9,306	-	9,306	-	-
National School Breakfast Program - 1011	10.553	142,779	-	-	-	132,887	142,779	9,892
National School Breakfast Program Subtotal		273,747	130,968	9,306	-	142,193	142,779	9,892
National School Lunch Program - 0910	10.555	636,050	636,050	40,354	-	40,354	-	-
National School Lunch Program - 1011	10.555	627,173	-	-	-	590,614	627,173	36,559
National School Lunch Program Subtotal		1,263,223	636,050	40,354	-	630,968	627,173	36,559
Cash Assistance Total		1,536,970	767,018	49,660	-	773,161	769,952	46,451
Total Child Nutrition Cluster		1,603,794	767,018	49,660	-	839,985	836,776	46,451
Special Education Cluster - U.S. Department of Education -								
Passed through Wayne County RESA - IDEA -								
Special Education - Grants to States (IDEA, Part B):	84.027	1,055,585	940,844	276,615	-	391,356	1,14,741	-
IDEA, Part B - Flowthrough Regular:		1,038,448	-	-	-	734,648	843,425	108,777
Project number 100450-0910								
Project number 110450-1011								
Subtotal IDEA, Part B - Flowthrough Regular		2,094,033	940,844	276,615	-	1,126,004	958,166	108,777

School District of the City of Garden City

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Accrued (Deferred) Revenue at June 30, 2011
Clusters (Continued):							
Special Education Cluster - U.S. Department of Education (Continued):							
IDEA, Part B - Flowthrough Regular Center Program:							
Project number 100450-0910	84.027	\$ 490,038	\$ 490,038	\$ 138,263	\$ -	\$ 138,263	\$ -
Project number 110450-1011		509,726	-	-	-	384,728	124,998
Subtotal IDEA, Part B - Flowthrough Regular Center Program		999,764	490,038	138,263	-	522,991	124,998
ARRA - IDEA, Part B, Recovery Act -							
Project number 100455-0910	84.391	1,104,220	309,754	15,077	-	488,667	320,876
ARRA - IDEA, Part B, Recovery Act Center Program -							
Project number 100455-0910	84.391	575,580	575,580	147,356	-	147,356	-
Total Special Education - Grants to States (IDEA, Part B)		4,773,597	2,316,216	577,311	-	2,285,018	554,651
Special Education - Preschool Grants (IDEA Preschool):							
IDEA Preschool:							
Project number 100460-0910	84.173	39,312	39,312	14,916	-	14,916	-
Project number 110460-1011		33,102	-	-	-	25,972	7,130
Subtotal IDEA Preschool		72,414	39,312	14,916	-	40,888	7,130
ARRA - IDEA Preschool, Recovery Act -							
Project number 100465-0910	84.392	55,629	55,629	18,088	-	18,088	-
Total Special Education - Preschool Grants (IDEA Preschool)		128,043	94,941	33,004	-	58,976	7,130
Total Special Education Cluster		4,901,640	2,411,157	610,315	-	2,343,994	561,781

School District of the City of Garden City

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
Clusters (Continued):								
Title I, Part A Cluster - U.S. Department of Education -								
Passed through the Michigan Department of Education:								
Title I, Part A:								
Project number 101530-0910	84.010	\$ 662,999	\$ 617,685	\$ 342,788	\$ (3,000)	\$ 388,102	\$ 48,314	\$ -
Project number 111530-1011		916,385	-	-	-	358,288	544,531	186,243
Subtotal Title I, Part A		1,579,384	617,685	342,788	(3,000)	746,390	592,845	186,243
ARRA - Title I Grants to Educational Agencies, Recovery Act:								
Project number 101535-0910	84.389	196,587	191,717	110,839	-	115,709	4,870	-
Project number 111535-1011		164,049	-	-	-	34,817	77,583	42,766
Subtotal ARRA - Title I Grants to Educational Agencies, Recovery Act		360,636	191,717	110,839	-	150,526	82,453	42,766
Total Title I, Part A Cluster		1,940,020	809,402	453,627	(3,000)	896,916	675,298	229,009
Title II, Part D Cluster - U.S. Department of Education -								
Passed through the Michigan Department of Education:								
Title II, Part D Cluster - Project number 104290-0910								
	84.318	1,508	1,472	1,472	-	1,472	-	-
ARRA - Title II Grants to Educational Agencies, Recovery Act:								
Project number 104295-0910	84.386	9,547	9,311	9,311	-	9,547	236	-
Project number 104295-1011		4,963	-	-	-	1,497	1,680	183
Subtotal ARRA - Title II Grants to Educational Agencies - Recovery Act		14,510	9,311	9,311	-	11,044	1,916	183
Total Title II, Part D Cluster		16,018	10,783	10,783	-	12,516	1,916	183
State Fiscal Stabilization Fund Cluster - U.S. Department of Education -								
Passed through the Michigan Department of Education -								
ARRA - State Fiscal Stabilization Fund (SFSF) - Education Grants, Recovery Act (Education Stabilization Fund) -								
Project number 112525-1011	84.394	604,931	-	-	-	604,931	604,931	-
U.S. Department of Education -								
Medicaid Cluster - U.S. Department of Health and Human Services -								
Passed through Wayne County RESA - Medical Assistance Program (Medicaid, Title XIX)								
	93.778	35,085	-	-	-	25,752	35,085	9,333

School District of the City of Garden City

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
Other federal awards: U.S. Department of Education: Passed through the Michigan Department of Education: Education Jobs Fund (EJF) - Education Grants - Project number 112545-1011	84.410A	\$ 980,900	\$ -	\$ -	\$ -	\$ 980,900	\$ 980,900	\$ -
Teacher and Principal Training and Recruiting (Title II, Part A): Project number 100520-0910 Project number 110520-1011	84.367	162,987 227,452	127,620	27,187	-	62,554 109,933	35,367 135,232	- 25,299
Total Teacher and Principal Training and Recruiting		390,439	127,620	27,187	-	172,487	170,599	25,299
Total noncluster programs passed through the Michigan Department of Education		1,371,339	127,620	27,187	-	1,153,387	1,151,499	25,299
Passed through Wayne County RESA: Career and Technical Education - Basic Grants to States (Perkins IV): Project number 1033520-901225 Project number 1033520-101225	84.048	60,293 58,828	60,293	30,672	-	30,672 47,517	- 57,435	- 9,918
Total Career and Technical Education		119,121	60,293	30,672	-	78,189	57,435	9,918
Safe and Drug-free Schools and Communities - Project number 112860-1011	84.186	295,677	-	-	-	3,165	3,165	-
English Language Acquisition Grant - Bilingual Program - Project number 110580-1011	84.365	7,238	-	-	-	3,619	7,244	3,625
Total noncluster programs passed through Wayne County RESA		422,036	60,293	30,672	-	84,973	67,844	13,543
Passed through the Monroe County ISD - Secondary CTE Tech Prep Education - Project number 113540-111425	84.243	4,400	-	-	-	4,400	4,400	-
Total U.S. Department of Education noncluster programs		1,797,775	187,913	57,859	-	1,242,760	1,223,743	38,842
U.S. Department of Defense - Air Force ROTC Program - Direct program: 2009-2010 2010-2011	12.Unknown	54,809 58,812	54,809	3,549	-	3,549 55,406	- 58,812	- 3,406
Total Air Force ROTC Program		113,621	54,809	3,549	-	58,955	58,812	3,406
Total federal awards		\$ 11,012,884	\$ 4,241,082	\$ 1,185,793	\$ (3,000)	\$ 6,025,809	\$ 5,732,021	\$ 889,005

School District of the City of Garden City

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 5,492,599
Plus deferred revenue reported for the year ended June 30, 2011	236,422
Adjustment to Title I, Part A	<u>3,000</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 5,732,021</u>

School District of the City of Garden City

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the School District of the City of Garden City under programs of the federal government for the year ended June 30, 2011. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of the School District of the City of Garden City, it is not intended to and does not present the financial position, changes in net assets, or cash flows, if applicable, of the School District of the City of Garden City. Pass-through entity identifying numbers are presented where available.

Note 2 - Grant Section Auditor's Report

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Note 3 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Note 4 - Adjustments and Transfers

During the year ended June 30, 2011, there was an adjustment of \$3,000 to the Title I Part A grant to adjust the amount received for the year ended June 30, 2011.

School District of the City of Garden City

Schedule of Findings and Questioned Costs Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified for all major programs except for the Title I, Part A Cluster which was Qualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.555, 10.553	Child Nutrition Cluster
84.027, 84.391, 84.173, 84.391	Special Education Cluster
84.010, 84.389	Title I Cluster - Part A
84.394	State Fiscal Stabilization Fund Cluster
84.410A	Education Jobs Fund

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

School District of the City of Garden City

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Finding
2011-1	<p>Program Name - Title I Part A Cluster, CFDA # 84.010 and 84.389</p> <p>Pass-through Entity - Michigan Department of Education</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Criteria - According to the Office of Management and Budget Circular No. A-87, <i>Cost Principles for State, Local, and Indian Tribal Governments</i>, funds must be used to supplement non-federal and other federal categorical funds normally provided by the School District or required by law. In school-wide programs, funds must be used in accordance with the school's Title I school-wide plan. In targeted assistance schools, the Title I funds must be used to provide supplementary services to eligible students.</p> <p>Condition - Title I funds were being used for the benefit of the entire student population in a targeted assistance school.</p> <p>Questioned Costs - \$14,119</p> <p>Context - As a result of our audit, we identified various invoices for which the goods or services purchased benefited the entire student population within a targeted assistance school.</p> <p>Cause and Effect - The expenditures charged to the grant were supplanting funds rather than providing supplementary services to eligible Title I students within the targeted assistance school.</p> <p>Recommendation - The School District should ensure that it has proper oversight and independent review of controls in place to ensure that supplement versus supplant issues are being taken into consideration when approving expenditures for the grant and that the goods and services purchased only benefit eligible students.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The School District is currently in the process of implementing new policies and procedures and is taking the appropriate measures to implement controls to ensure that expenditures are used for supplementary services.</p>

School District of the City of Garden City

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2011-2	<p data-bbox="410 520 1308 546">Program Name - Title I Part A Cluster, CFDA # 84.010 and 84.389</p> <p data-bbox="410 577 1166 602">Pass-through Entity - Michigan Department of Education</p> <p data-bbox="410 634 1256 659">Finding Type - Material noncompliance with laws and regulations</p> <p data-bbox="410 690 1425 873">Criteria - According to the Office of Management and Budget Circular No. A-87, <i>Cost Principles for State, Local, and Indian Tribal Governments</i>, funds can only be requested for allowable expenditures that occur during the grant period. Districts are also required to incur expenditures in accordance with the budget submitted to the Michigan Department of Education.</p> <p data-bbox="410 905 1425 1045">Condition - Goods and services purchased with Title I funds were not in accordance with the budget submitted to the Michigan Department of Education. This is consistent with findings the Michigan Department of Education identified during its monitoring visit described in Finding 2011-3.</p> <p data-bbox="410 1077 794 1102">Questioned Costs - \$20,458</p> <p data-bbox="410 1134 1425 1274">Context - The School District did not purchase the technology outlined in the budget submitted to the Michigan Department of Education. However, the technology purchased was deemed better technology and served a similar purpose as the technology originally budgeted for.</p> <p data-bbox="410 1306 1425 1371">Cause and Effect - As a result of purchasing technology not consistent with what was budgeted, the technology purchased is a questioned cost.</p> <p data-bbox="410 1402 1425 1467">Recommendation - We recommend the School District adhere to the budget submitted to the Michigan Department of Education.</p> <p data-bbox="410 1499 1425 1671">Views of Responsible Officials and Planned Corrective Actions - The School District is currently in the process of implementing new policies and procedures and is taking the appropriate measures to ensure expenditures are in accordance with the budget submitted to the Michigan Department of Education.</p>

School District of the City of Garden City

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2011-3	<p>Program Name - Title I Part A Cluster, CFDA # 84.010 and 84.389</p> <p>Pass-through Entity - Michigan Department of Education</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Criteria - The Michigan Department of Education performed a monitoring visit covering Title I expenditures.</p> <p>Condition - The Michigan Department of Education identified various material weaknesses and material noncompliance issues.</p> <p>Questioned Costs - \$230,287</p> <p>Context - The School District responded to the Michigan Department of Education's comments and is disputing the questioned costs identified. The resolution is still pending.</p> <p>Cause and Effect - The decisions made related to the School District's response to the Michigan Department of Education's findings will have a significant impact on the grant compliance with laws and regulations.</p> <p>Recommendation - We recommend the School District continue to work with the Michigan Department of Education to obtain resolution to the findings.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The School District has submitted a comprehensive corrective action plan that addresses the items identified as a result of the monitoring visit. The School District is also in the process of implementing new policies and procedures based on the findings the Michigan Department of Education identified.</p>

School District of the City of Garden City

Summary Schedule of Prior Audit Findings Year Ended June 30, 2011

Finding Number	Finding	CFDA Number	Questioned Costs	Comments
(1) Audit findings that have been fully corrected:				
2010-1	The School District adopted a budget deficit during the year and had a deficit in the General Fund at June 30, 2010.	N/A	N/A	The School District adopted a budget deficit during the year, but does not have a deficit in the General Fund as of June 30, 2011
2010-2	Bank reconciliations, including the School District's main operating account, were not reconciled in a timely manner for several months during the year.	N/A	N/A	Bank reconciliations for the School District's main operating account and payroll account are now being prepared in a timely manner by the School District's accountant.
2010-3	The School District represents that an annual counting and claiming procedures review was conducted in each building by February 1 as required by the Child Nutrition Cluster; however, the documentation of the completed reviews could not be located.	10.555 and 10.553	N/A	The School District has implemented procedures to ensure the documentation of the completed reviews is retained in the business office. Additionally, the February 1, 2010 review records were located subsequent to the completion of the June 30, 2010 audit. They had been misfiled in the business office.