

School District of the City of Garden City

**Financial Report
with Supplemental Information
June 30, 2006**

School District of the City of Garden City

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
District-wide Financial Statements:	
Statement of Net Assets (Deficit)	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit)	14
Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)	15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities	16
Fiduciary Fund Statements:	
Statement of Fiduciary Net Assets	17
Statement of Changes in Fiduciary Net Assets	18
Notes to Financial Statements	19-34
Required Supplemental Information	35
Budgetary Comparison Schedule - General Fund	36
Budgetary Comparison Schedule - Special Education Special Revenue Fund	37
Other Supplemental Information	38
Nonmajor Governmental Funds:	
Combining Balance Sheet	39
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	40
Schedule of Bonded Indebtedness	41
Federal Awards Supplemental Information	Issued Under Separate Cover

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Garden City as of and for the year ended June 30, 2006, 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, 2006 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2006 on our consideration of the School District of the City of Garden City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 9, 2006

School District of the City of Garden City

Management's Discussion and Analysis

This section of the School District of the City of Garden City's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District of the City of Garden City financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund 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

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

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

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

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

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

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

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

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

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

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity and scholarship trust funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets (deficit) provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets (deficit) as of June 30, 2006 and 2005.

TABLE I

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
	(in millions)	
Assets		
Current and other assets	\$ 18.7	\$ 23.5
Capital assets	<u>39.8</u>	<u>39.2</u>
Total assets	58.5	62.7
Liabilities		
Current liabilities	24.3	23.3
Long-term liabilities	<u>42.1</u>	<u>42.9</u>
Total liabilities	<u>66.4</u>	<u>66.2</u>
Net Assets (Deficit)		
Invested in property and equipment - Net of related debt	(1.7)	(0.1)
Restricted	0.4	0.4
Unrestricted	<u>(6.6)</u>	<u>(3.8)</u>
Total net assets (deficit)	<u>\$ (7.9)</u>	<u>\$ (3.5)</u>

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

The above analysis focuses on the net assets (deficit) (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets (deficit) was (\$7.9 million) at June 30, 2006. Capital assets, net of related debt totaling approximately (\$1.7 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 assets (deficit), (\$6.6 million), was unrestricted.

The (\$6.6 million) in unrestricted net assets (deficit) of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

TABLE 2

	Governmental Activities	
	2006	2005
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.5	\$ 1.5
Operating grants/Contributions	20.8	20.3
General revenue:		
Property taxes	5.7	5.5
State foundation allowance	36.5	34.9
Other	1.0	0.3
Total revenue	65.5	62.5

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities	
	2006	2005
	(in millions)	
Functions/Program Expenses		
Instruction	\$ 43.6	\$ 39.6
Support services	22.3	18.7
Community services	0.1	-
Child care	0.3	0.3
Food service	1.4	1.3
Athletics	0.4	0.4
Interest on long-term debt	1.8	2.0
Total functions/program expenses	<u>69.9</u>	<u>62.3</u>
Increase (Decrease) in Net Assets	<u>\$ (4.4)</u>	<u>\$ 0.2</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$69.9 million. Certain activities were partially funded from those who benefited from the programs (\$1.5 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$20.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$5.7 million in taxes, \$36.5 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced a \$4.4 million decrease 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.

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

As the School District completed this year, the governmental funds reported a combined fund balance of \$141,000, which is a decrease of \$3.6 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$1.5 million to a \$1.3 million deficit from \$.19 million at June 30, 2006. The change is mainly due to increases in salaries, benefits, and utilities costs, in addition to a flat student count with fewer than expected Schools of Choice students.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$6,000. Millage rates were decreased .3 mills from the previous year to recognize prior year debt refinancing and increased taxable value. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The combined Capital Projects Funds fund balance decreased by \$2.05 million due to continued construction related to the 2001 bond issue. The construction project is estimated to be approximately 97 percent complete at June 30, 2006.

General Fund Budgetary Highlights

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

There were revisions made to the 2005-2006 General Fund original budget. Budgeted revenues were decreased \$1.7 million due in part to student decreases, with fewer than expected Schools of Choice students entering the School District.

Budgeted expenditures were increased \$.3 million to account for the net effect of less than projected salaries and increased operating costs such as utilities.

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

Special Education Special Revenue Fund Budgetary Highlights

The Special Education Center Program revenue and corresponding expenditure budget was decreased by \$.3 million to recognize a decrease in actual versus projected expenditures. The program is operated by the School District for Wayne County RESA to provide instructional and noninstructional services for autistic students from Wayne County.

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

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the School District had \$39.8 million invested in a broad range of capital assets, including buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$.6 million.

	<u>2006</u>	<u>2005</u>
Construction in progress	\$ 742,194	\$ 1,897,340
Buildings and building improvements	55,918,719	52,903,458
Buses and other vehicles	1,830,931	1,833,358
Furniture and equipment	<u>3,642,744</u>	<u>2,956,948</u>
Total capital assets	62,134,588	59,591,104
Less accumulated depreciation	<u>(22,330,811)</u>	<u>(20,436,816)</u>
Net capital assets	<u>\$ 39,803,777</u>	<u>\$ 39,154,288</u>

This year's capital asset additions included maintenance and communications equipment, buses, technology, and building renovations. New debt of approximately \$250,000 was issued for these additions.

The major capital projects planned for the 2006-2007 fiscal year consist of completion of renovations to the high school. We anticipate capital additions will be less than the 2005-2006 fiscal year (approximately \$2,136,000). This represents the end of the building renovations under the 2001 bond construction project. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$41.1 million in bonds outstanding versus \$42.7 million in the previous year - a change of 3.7 percent. Those bonds consisted of the following:

	<u>2006</u>	<u>2005</u>
2005 General Obligation Bonds	\$ 7,880,000	\$ -
2004 General Obligation Bonds	5,060,000	5,935,000
2001 General Obligation Bonds	26,465,000	34,870,000
Durant Non-Plaintiff Bonds	<u>1,723,883</u>	<u>1,865,200</u>
Total bonds outstanding	<u>\$ 41,128,883</u>	<u>\$ 42,670,200</u>

School District of the City of Garden City

Management's Discussion and Analysis (Continued)

The School District's general obligation bond rating stands at AA. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding general obligation debt of \$41,128,883 is significantly below this \$99.6 million statutorily imposed limit.

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

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2007 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 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2007 budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 67 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 2006-2007 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2007 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

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

School District of the City of Garden City

Statement of Net Assets (Deficit) June 30, 2006

	Governmental Activities
Assets	
Cash and cash equivalents (Note 3)	\$ 8,630,134
Receivables - Net (Note 4)	8,601,030
Prepaid costs	65,969
Restricted assets (Note 1)	1,389,302
Capital assets - Net (Note 5)	<u>39,803,777</u>
Total assets	58,490,212
Liabilities	
Accounts payable	695,414
Accrued payroll and other liabilities	7,988,709
State aid anticipation note (Note 10)	11,000,000
Deferred revenue (Note 4)	296,277
Long-term liabilities (Note 7):	
Due within one year	4,329,057
Due in more than one year	<u>42,123,771</u>
Total liabilities	<u>66,433,228</u>
Net Assets (Deficit)	
Investment in capital assets - Net of related debt	(1,685,670)
Restricted - Debt service	394,732
Unrestricted (deficit)	<u>(6,652,078)</u>
Total net assets (deficit)	<u>\$ (7,943,016)</u>

School District of the City of Garden City

Statement of Activities Year Ended June 30, 2006

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 43,608,733	\$ 177,153	\$ 16,180,367	\$ (27,251,213)
Support services	22,442,747	-	4,045,091	(18,397,656)
Community services	86,733	261,261	-	174,528
Child care	320,650	355,026	-	34,376
Food service	1,400,082	648,755	569,745	(181,582)
Athletics	369,941	84,457	-	(285,484)
Interest on long-term debt	1,834,512	-	-	(1,834,512)
Total primary government - Governmental activities	\$ 70,063,398	\$ 1,526,652	\$ 20,795,203	(47,741,543)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				3,340,823
Property taxes, levied for debt services				2,399,066
State aid not restricted to specific purposes				36,516,462
Interest and investment earnings				310,577
Other				683,476
Total general revenues				43,250,404
Change in Net Assets				(4,491,139)
Net Assets (Deficit) - Beginning of year				(3,451,877)
Net Assets (Deficit) - End of year				\$ (7,943,016)

School District of the City of Garden City

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Special Education Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 8,400,034	\$ -	\$ 1,619,402	\$ 10,019,436
Receivables - Net	394,065	-	257,559	651,624
Inventory	-	-	12,456	12,456
Due from other governmental units	7,405,541	-	319,702	7,725,243
Due from other funds (Note 6)	189,010	4,331	20,486	213,827
Due from Agency Fund	224,163	-	-	224,163
Prepaid costs	33,345	-	20,168	53,513
Total assets	\$ 16,646,158	\$ 4,331	\$ 2,249,773	\$ 18,900,262
Liabilities and Fund Balances (Deficit)				
Liabilities				
Accounts payable	\$ 393,006	\$ -	\$ 302,408	\$ 695,414
Accrued payroll and other liabilities	6,056,164	2,732	20,168	6,079,064
State aid anticipation note (Note 10)	11,000,000	-	-	11,000,000
Due to other funds (Note 6)	-	-	213,827	213,827
Deferred revenue (Note 4)	505,931	1,599	263,428	770,958
Total liabilities	17,955,101	4,331	799,831	18,759,263
Fund Balances				
Reserved:				
Encumbrances (Note 5)	124,734	273,458	696,692	1,094,884
Prepays	33,345	-	-	33,345
Capital projects	-	-	358,518	358,518
Debt service	-	-	394,732	394,732
Unreserved - Undesignated	(1,467,022)	(273,458)	-	(1,740,480)
Total fund balances (deficit)	(1,308,943)	-	1,449,942	140,999
Total liabilities and fund balances (deficit)	\$ 16,646,158	\$ 4,331	\$ 2,249,773	\$ 18,900,262

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, 2006

Fund Balance - Total Governmental Funds \$ 140,999

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

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

Cost of capital assets	\$ 62,134,588	
Accumulated depreciation	<u>(22,330,811)</u>	39,803,777

Other long-term assets not available to pay current period expenditures therefore deferred in the governmental funds	474,681
--	---------

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

Bonds payable including premium	(41,128,883)
Notes payable	(595,293)
Compensated absences	(3,603,652)
Terminated employee severance	(1,125,000)
Self-insurance accrual	(1,687,092)

Accrued interest payable is not included as a liability in governmental funds	<u>(222,553)</u>
---	------------------

Net Assets (Deficit) - Governmental Activities **\$ (7,943,016)**

School District of the City of Garden City

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2006

	General Fund	Special Education Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 3,002,539	\$ 8,776	\$ 4,539,735	\$ 7,551,050
State sources	36,297,734	4,566,882	855,803	41,720,419
Federal sources	-	-	2,455,429	2,455,429
Interdistrict sources	1,407,567	11,728,250	-	13,135,817
Total revenue	40,707,840	16,303,908	7,850,967	64,862,715
Expenditures				
Current:				
Instruction	26,267,401	12,379,733	1,808,275	40,455,409
Support services	16,143,397	2,806,936	709,952	19,660,285
Community services	-	-	6,031	6,031
Food service	-	-	1,400,082	1,400,082
Athletics	-	-	369,941	369,941
Child care	-	-	320,650	320,650
Debt service:				
Principal	-	-	1,621,317	1,621,317
Interest	-	-	1,852,062	1,852,062
Other	-	-	884,275	884,275
Capital outlay	422,370	43,576	2,202,342	2,668,288
Other transactions	207,395	-	-	207,395
Total expenditures	43,040,563	15,230,245	11,174,927	69,445,735
Excess (Deficiency) of Revenue Over Expenditures	(2,332,723)	1,073,663	(3,323,960)	(4,583,020)
Other Financing Sources (Uses)				
Transfers in	1,106,439	-	538,103	1,644,542
Transfers out	(528,759)	(1,073,663)	(42,120)	(1,644,542)
Payment to refunded bond escrow agent	-	-	(7,800,000)	(7,800,000)
Long-term debt issued	249,627	-	7,880,000	8,129,627
Premium on debt issued	-	-	683,476	683,476
Total other financing sources (uses)	827,307	(1,073,663)	1,259,459	1,013,103
Net Change in Fund Balances	(1,505,416)	-	(2,064,501)	(3,569,917)
Fund Balances - Beginning of year	196,473	-	3,514,443	3,710,916
Fund Balances (Deficit) - End of year	\$ (1,308,943)	\$ -	\$ 1,449,942	\$ 140,999

School District of the City of Garden City

Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2006

	Private Purpose Trust	Student Activities Agency Fund
Assets		
Cash and cash equivalents	\$ 135,625	\$ 486,053
Investments	-	165,313
Total assets	135,625	<u>\$ 651,366</u>
Liabilities		
Due to General Fund	1,000	\$ 223,163
Other liabilities	-	428,203
Total liabilities	1,000	651,366
Net Assets - Designated for scholarships	<u>\$ 134,625</u>	-
Total liabilities and net assets		<u>\$ 651,366</u>

School District of the City of Garden City

Fiduciary Fund Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2006

	Private Purpose Trust
Additions - Local sources	\$ 14,593
Deductions - Scholarships granted	<u>15,495</u>
Change in Net Assets	(902)
Net Assets - Beginning of year	<u>135,527</u>
Net Assets - End of year	<u><u>\$ 134,625</u></u>

School District of the City of Garden City

**Notes to Financial Statements
June 30, 2006**

Note I - Summary of Significant Accounting Policies

The accounting policies of the School District of the City of Garden City (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

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

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

School District of the City of Garden City

**Notes to Financial Statements
June 30, 2006**

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

School District of the City of Garden City

**Notes to Financial Statements
June 30, 2006**

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 Funded Projects, Food Service, and School Services Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

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

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.

School District of the City of Garden City

Notes to Financial Statements
June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

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

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

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

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

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. The amounts have been classified as restricted assets and total \$1,389,302 at year end.

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

School District of the City of Garden City

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

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

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

Compensated Absences - The liability for compensated absences reported in the district-wide financial statements consists of earned but unused accumulated vacation and sick leave benefits and early retirement incentive obligations. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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

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

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. The School District currently does not have significant premiums or discounts on debt issuances. Issuance costs are reported as debt service expenditures.

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

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

School District of the City of Garden City

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting Change - Effective July 1, 2005, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital assets. In addition, the Statement requires all governments to account for insurance recoveries in the same manner. There is no impact of this accounting change to the financial statements.

GASB No. 47 - Effective July 1, 2005, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 47, *Accounting for Termination Benefits*. This Statement clarifies how governments are to account for and report termination obligations such as early retirement incentives and involuntary severance. The change primarily impacts financial statements prepared on the accrual basis of accounting, generally the district-wide financial statements. The accounting treatment for financial statements prepared on the modified accrual basis of accounting essentially is unchanged. This impacts the district-wide financial statements by requiring accrual of early retirement incentives and the custodial employees' termination agreement, as disclosed in Note 7.

Note 2 - Stewardship, Compliance, and Accountability

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

The budget document presents information by fund and activity. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. Budgeted revenues were decreased due to student decreases in the General Fund due to less than expected Schools of Choice students. Budgeted expenditures were decreased to account for the net effect of less than projected salaries and increased operating costs such as utilities.

School District of the City of Garden City

Notes to Financial Statements June 30, 2006

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

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Fund Deficit - As of June 30, 2006, the School District has an accumulated fund balance deficit in the General Fund approximating \$1,300,000. A deficit elimination plan is required to be filed with the State of Michigan.

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

Note 3 - Deposits

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

The School District has designated three banks for the deposit of its funds.

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 \$11,020,247 had \$10,820,247 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.

School District of the City of Garden City

Notes to Financial Statements
June 30, 2006

Note 3 - Deposits (Continued)

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

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District does not have a policy for interest rate risk and does not have investments with interest rate risk.

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

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

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

Note 4 - Receivables

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

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Taxes	\$ 274,698	\$ 174,602	\$ 449,300
Accounts	119,367	82,957	202,324
Due from Agency Fund	224,163	-	224,163
Intergovernmental	7,405,541	319,702	7,725,243
Net receivables	<u>\$ 8,023,769</u>	<u>\$ 577,261</u>	<u>\$ 8,601,030</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2006

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:

	Unavailable	Unearned
Delinquent property taxes	\$ 203,641	\$ -
Special education state aid	271,040	-
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	243,495
Other	-	52,782
Total	<u>\$ 474,681</u>	<u>\$ 296,277</u>

Note 5 - Capital Assets

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

	Balance July 1, 2005	Reclassifications	Additions	Disposals	Balance June 30, 2006
Capital assets not being depreciated - Construction in progress	\$ 1,897,340	\$ (1,561,441)	\$ 406,295	\$ -	\$ 742,194
Capital assets being depreciated:					
Buildings and building improvements	52,903,458	1,561,441	1,453,820	-	55,918,719
Buses and other vehicles	1,833,358	-	122,377	124,804	1,830,931
Furniture and equipment	2,956,948	-	685,796	-	3,642,744
Subtotal	57,693,764	1,561,441	2,261,993	124,804	\$ 61,392,394
Accumulated depreciation:					
Buildings and building improvements	18,124,767	-	1,465,535	-	19,590,302
Buses and other vehicles	1,025,578	-	378,802	124,804	1,279,576
Furniture and equipment	1,286,471	-	174,462	-	1,460,933
Subtotal	20,436,816	-	2,018,799	124,804	22,330,811
Net capital assets being depreciated	37,256,948	1,561,441	243,194	-	39,061,583
Net governmental capital assets	<u>\$ 39,154,288</u>	<u>\$ -</u>	<u>\$ 649,489</u>	<u>\$ -</u>	<u>\$ 39,803,777</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

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

Governmental activities:

Instruction	\$ 1,730,600
Support services	<u>288,199</u>
Total governmental activities	<u>\$ 2,018,799</u>

Construction Commitments - The School District has active construction projects at year end. The School District's commitments with contractors for the 2001 bond renovation at June 30, 2006 are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Garden City High School	\$ 243,420	\$ 696,692

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Fund Due To</u>	<u>Due From Nonmajor Governmental Funds</u>
General Fund	\$ 189,010
Special Education Fund	4,331
Nonmajor governmental funds	<u>20,486</u>
Total	<u>\$ 213,827</u>

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

School District of the City of Garden City

Notes to Financial Statements June 30, 2006

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

Interfund Transfers

	Transfers Out			Total
	General Fund	Special Education Fund	Other	
			Nonmajor Governmental Funds	
Transfers in:				
General Fund	\$ -	\$ 1,073,663	\$ 32,776	\$ 1,106,439
Other nonmajor governmental funds	<u>528,759</u>	<u>-</u>	<u>9,344</u>	<u>538,103</u>
Total	<u>\$ 528,759</u>	<u>\$ 1,073,663</u>	<u>\$ 42,120</u>	<u>\$ 1,644,542</u>

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

Note 7 - Long-term Debt

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

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds	\$ 40,805,000	\$ 7,880,000	\$ 9,280,000	\$ 39,405,000	\$ 1,555,000
Durant Non-Plaintiff Bond	<u>1,865,200</u>	<u>-</u>	<u>141,317</u>	<u>1,723,883</u>	<u>148,010</u>
Total bonds payable	42,670,200	7,880,000	9,421,317	41,128,883	1,703,010
Notes	472,359	249,627	126,693	595,293	144,130
Custodial employees' termination settlement	-	1,125,000	-	1,125,000	1,125,000
Other obligations	<u>1,987,025</u>	<u>1,979,770</u>	<u>363,143</u>	<u>3,603,652</u>	<u>1,356,917</u>
Total governmental activities	<u>\$ 45,129,584</u>	<u>\$ 11,234,397</u>	<u>\$ 9,911,153</u>	<u>\$ 46,452,828</u>	<u>\$ 4,329,057</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

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

	Governmental Activities		
	Principal	Interest	Total
2007	\$ 1,847,140	\$ 1,934,031	\$ 3,781,171
2008	2,422,160	2,112,965	4,535,125
2009	1,952,798	1,814,682	3,767,480
2010	1,966,044	1,746,700	3,712,744
2011	1,975,713	1,675,768	3,651,481
2012-2016	6,465,321	7,296,857	13,762,178
2017-2021	7,570,000	5,601,719	13,171,719
2022-2026	8,650,000	3,580,469	12,230,469
2027-2031	8,875,000	1,364,531	10,239,531
Total	<u>\$ 41,724,176</u>	<u>\$ 27,127,722</u>	<u>\$ 68,851,898</u>

Governmental Activities

General obligation bonds consist of the following:

\$36,585,000 of 2001 serial bonds due in annual installments of \$625,000 to \$1,775,000 through May 1, 2031; interest at 3.45 percent to 5.50 percent	\$ 26,465,000
\$6,785,000 of 2004 refunding bonds due in annual installments of \$915,000 to \$1,120,000 through May 1, 2011; interest at 2.00 percent to 4.00 percent	5,060,000
\$2,919,543 School Improvement Bond, Series 1998 Durant Non-Plaintiff Bond due in annual installments of \$148,010 to \$682,375 through May 15, 2013; interest at 4.761 percent	1,723,883
\$7,880,000 of 2005 refunding bonds due in annual installments of \$15,000 to \$1,455,000 through May 1, 2018; interest at 3.00 percent to 5.00 percent	<u>7,880,000</u>
Total bonded debt	<u>\$ 41,128,883</u>

School District of the City of Garden City

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

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

Notes consist of the following:

Date	Original Amount	Due Date	Interest Rate	Remaining to Maturity	
				Interest	Principal
12/10/02	\$ 152,481	Annually through November 1, 2008	3.90	\$ 5,946	\$ 76,242
12/31/02	23,968	Monthly through December 31, 2007	3.90	243	7,737
08/18/03	264,883	Annually through August 18, 2009	4.90	21,632	176,589
10/29/04	113,296	Annually through November 1, 2010	4.09	12,083	96,061
9/6/05	52,258	Annually through November 1, 2009	3.50	3,675	41,295
11/1/05	122,377	Annually through November 1, 2011	4.75	21,131	122,377
12/9/05	<u>74,992</u>	Annually through December 9, 2008	4.75	<u>7,234</u>	<u>74,992</u>
Total	<u>\$ 804,255</u>			<u>\$ 71,944</u>	<u>\$ 595,293</u>

Other governmental activities' long-term obligations are for employee-compensated absences of \$1,923,191 and for early retirement incentives of \$1,680,461.

School District of the City of Garden City

**Notes to Financial Statements
June 30, 2006**

Note 7 - Long-term Debt (Continued)

Advance and Current Refundings - In July 2005, the School District issued \$7,880,000 in general obligation bonds with an average interest rate of 4.13 percent. The proceeds of these bonds were used to advance refund \$7,800,000 of outstanding 2001 serial bonds with an average interest rate of 5.5 percent. The net proceeds of \$7,684,000 (after bond premiums and payment of bond issuance and redemption costs) and an additional \$116,000 in funds on hand in the debt retirement funds were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by approximately \$318,000, which represents an economic gain of approximately \$256,000.

Subsequent to June 30, 2006, the School District issued \$23,860,000 in general obligation bonds with an average interest rate of 4.6 percent. The proceeds of these bonds were used to advance refund \$23,350,000 of outstanding 2001 serial bonds with an average interest rate of 5.5 percent. The net proceeds of \$22,910,000 (after bond premiums and payment of bond issuance and redemption costs) and an additional \$440,000 in funds on hand in the debt retirement funds were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds will be considered to be defeased and the liability for the bonds will be removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by approximately \$1,165,000, which represents an economic gain of approximately \$710,000.

Defeased Debt - In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the basic financial statements. At June 30, 2006, \$18,940,000 of bonds outstanding are considered defeased.

Note 8 - Risk Management

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

School District of the City of Garden City

Notes to Financial Statements June 30, 2006

Note 8 - Risk Management (Continued)

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 district-wide statements. The self-insurance accrual at June 30, 2006 is \$1,687,092. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2006</u>	<u>2005</u>
Estimated liability - Beginning of year	\$ 815,935	\$ 1,023,233
Estimated claims incurred - Including changes in estimates	7,327,071	6,114,566
Claim payments	<u>6,455,914</u>	<u>6,321,864</u>
Estimated liability - End of year	<u>\$ 1,687,092</u>	<u>\$ 815,935</u>

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

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

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

School District of the City of Garden City

Notes to Financial Statements
June 30, 2006

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

The pension benefit rate totals 14.87 percent and 16.34 percent of the covered payroll to the plan for the periods from July 1, 2005 through September 30, 2005 and October 1, 2005 through June 30, 2006, respectively. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2006, 2005, and 2004 were approximately \$6,200,000, \$5,400,000, and \$4,700,000, respectively.

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

Retiree Health Care Benefits - The School District has an obligation (financed on a pay-as-you-go basis) to pay health care premiums for early retirees in an amount not to exceed \$1,500 per year, per individual, until the retiree reaches the age of 65. Currently, approximately 120 participants are eligible to receive benefits.

Note 10 - State Aid Anticipation Notes

On August 19, 2005, the School District of the City of Garden City borrowed \$11,000,000 on a state aid anticipation note. The note bears interest at 2.92 percent and is due August 18, 2006. At June 30, 2006, accrued interest on this note is \$267,667.

On August 18, 2006, the School District borrowed \$7,500,000 at 3.68 percent annual interest on a state aid anticipation note. The note, plus interest, is due August 20, 2007.

Note 11 - Subsequent Event

On August 18, 2006, the School District entered into a line-of-credit agreement with the bank. Any outstanding balance bears interest at the bank's prime rate less 3.85 percent. Borrowings at October 9, 2006 totaled \$750,000. The line of credit expires August 17, 2007.

Required Supplemental Information

School District of the City of Garden City

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 3,326,547	\$ 2,974,936	\$ 3,002,539	\$ 27,603
State sources	37,311,046	36,152,482	36,297,734	145,252
Incoming transfers and other transactions	<u>3,129,634</u>	<u>2,909,016</u>	<u>2,763,633</u>	<u>(145,383)</u>
Total revenue	43,767,227	42,036,434	42,063,906	27,472
Expenditures				
Current:				
Instruction	26,604,996	26,360,007	26,295,972	(64,035)
Support services:				
Pupil	3,254,493	2,911,638	2,925,458	13,820
Instructional staff	1,466,023	1,509,052	1,497,817	(11,235)
General administration	556,238	583,972	571,339	(12,633)
School administration	2,348,623	2,380,319	2,417,183	36,864
Business services	1,411,115	1,082,882	1,108,225	25,343
Operation and maintenance	4,663,866	5,041,594	5,226,963	185,369
Transportation	1,842,555	1,783,128	1,841,348	58,220
Central	700,959	781,702	798,452	16,750
Other	233,757	273,294	150,411	(122,883)
Outgoing transfers and other transactions	<u>785,509</u>	<u>822,535</u>	<u>736,154</u>	<u>(86,381)</u>
Total expenditures	<u>43,868,134</u>	<u>43,530,123</u>	<u>43,569,322</u>	<u>39,199</u>
Net Change in Fund Balance	(100,907)	(1,493,689)	(1,505,416)	(11,727)
Fund Balance - July 1, 2005	<u>196,473</u>	<u>196,473</u>	<u>196,473</u>	-
Fund Balances (Deficit) - June 30, 2006	<u>\$ 95,566</u>	<u>\$ (1,297,216)</u>	<u>\$ (1,308,943)</u>	<u>\$ (11,727)</u>

School District of the City of Garden City

Required Supplemental Information Budgetary Comparison Schedule Special Education Special Revenue Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 10,000	\$ 10,000	\$ 8,776	\$ (1,224)
State sources	5,001,270	4,637,130	4,566,882	(70,248)
Interdistrict sources	<u>11,877,142</u>	<u>11,931,457</u>	<u>11,728,250</u>	<u>(203,207)</u>
Total revenue	16,888,412	16,578,587	16,303,908	(274,679)
Expenditures - Current				
Instruction	12,527,950	12,524,363	12,423,309	(101,054)
Support services	<u>2,848,679</u>	<u>2,808,359</u>	<u>2,806,936</u>	<u>(1,423)</u>
Total expenditures	15,376,629	15,332,722	15,230,245	(102,477)
Other Financing Uses - Transfers out	<u>1,511,783</u>	<u>1,245,865</u>	<u>1,073,663</u>	<u>(172,202)</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - July 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2006	<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, 2006

	Special Revenue Funds			Debt Service Funds					Total
	Funded Projects	Food Service	School Services	2005 Refunding Bond	2004 Refunding Bond	2001 Renovation Bond	1998 Durant Bond	Capital Projects Fund	
Assets									
Cash and cash equivalents	\$ -	\$ 11,540	\$ -	\$ 34,267	\$ 75,580	\$ 108,713	\$ -	\$ 1,389,302	\$ 1,619,402
Receivables - Net	-	82,957	-	17,181	48,648	108,773	-	-	257,559
Inventory	-	12,456	-	-	-	-	-	-	12,456
Due from other governmental units	315,366	-	-	38	1,641	2,657	-	-	319,702
Due from other funds	-	-	19,933	-	-	553	-	-	20,486
Prepaid costs	-	-	-	-	-	20,168	-	-	20,168
Total assets	\$ 315,366	\$ 106,953	\$ 19,933	\$ 51,486	\$ 125,869	\$ 240,864	\$ -	\$ 1,389,302	\$ 2,249,773
Liabilities and Fund Balances									
Liabilities									
Accounts payable	\$ -	\$ 911	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 301,497	\$ 302,408
Accrued payroll and other liabilities	-	-	-	-	20,168	-	-	-	20,168
Due to other funds	71,871	106,042	-	-	3,319	-	-	32,595	213,827
Deferred revenue	243,495	-	19,933	-	-	-	-	-	263,428
Total liabilities	315,366	106,953	19,933	-	23,487	-	-	334,092	799,831
Fund Balances - Reserved									
Encumbrances	-	-	-	-	-	-	-	696,692	696,692
Capital projects	-	-	-	-	-	-	-	358,518	358,518
Debt service	-	-	-	51,486	102,382	240,864	-	-	394,732
Total fund balances	-	-	-	51,486	102,382	240,864	-	1,055,210	1,449,942
Total liabilities and fund balances	\$ 315,366	\$ 106,953	\$ 19,933	\$ 51,486	\$ 125,869	\$ 240,864	\$ -	\$ 1,389,302	\$ 2,249,773

School District of the City of Garden City

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2006

	Special Revenue Funds			Debt Service Funds					Capital Projects Fund	Total
	Funded Projects	Food Service	School Services	2005 Refunding Bond	2004 Refunding Bond	2001 Renovation Bond	1998 Durant Bond			
Revenue										
Local sources	\$ -	\$ 648,755	\$ 439,483	\$ 333,178	\$ 990,469	\$ 2,050,247	\$ -	\$ 77,603	\$ 4,539,735	
State sources	551,657	99,126	-	-	-	-	205,020	-	855,803	
Federal sources	1,984,810	470,619	-	-	-	-	-	-	2,455,429	
Total revenue	2,536,467	1,218,500	439,483	333,178	990,469	2,050,247	205,020	77,603	7,850,967	
Expenditures										
Current:										
Instruction	1,808,275	-	-	-	-	-	-	-	1,808,275	
Support services	667,107	-	42,845	-	-	-	-	-	709,952	
Community services	6,031	-	-	-	-	-	-	-	6,031	
Food services	-	1,400,082	-	-	-	-	-	-	1,400,082	
Athletics	-	-	369,941	-	-	-	-	-	369,941	
Child care	-	-	320,650	-	-	-	-	-	320,650	
Debt service:										
Principal	-	-	-	-	875,000	605,000	141,317	-	1,621,317	
Interest	-	-	-	291,036	164,062	1,333,261	63,703	-	1,852,062	
Other	-	-	-	-	4,106	871,321	-	8,848	884,275	
Capital outlay	55,614	19,888	-	-	-	-	-	2,126,840	2,202,342	
Total expenditures	2,537,027	1,419,970	733,436	291,036	1,043,168	2,809,582	205,020	2,135,688	11,174,927	
Excess of Revenue Over (Under) Expenditures	(560)	(201,470)	(293,953)	42,142	(52,699)	(759,335)	-	(2,058,085)	(3,323,960)	
Other Financing Sources (Uses)										
Transfers in	560	201,470	326,729	9,344	-	-	-	-	538,103	
Transfers out	-	-	(32,776)	-	-	(9,344)	-	-	(42,120)	
Payment to refunded bond escrow agent	-	-	-	-	-	(7,800,000)	-	-	(7,800,000)	
Long-term debt issued	-	-	-	-	-	7,880,000	-	-	7,880,000	
Premium on debt issued	-	-	-	-	-	683,476	-	-	683,476	
Total other financing sources (uses)	560	201,470	293,953	9,344	-	754,132	-	-	1,259,459	
Net Change in Fund Balances	-	-	-	51,486	(52,699)	(5,203)	-	(2,058,085)	(2,064,501)	
Fund Balances - Beginning of year	-	-	-	-	155,081	246,067	-	3,113,295	3,514,443	
Fund Balances - End of year	\$ -	\$ -	\$ -	\$ 51,486	\$ 102,382	\$ 240,864	\$ -	\$ 1,055,210	\$ 1,449,942	

School District of the City of Garden City

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2006

June 30	2001 Debt	Durant	2004 Debt	2005 Debt
	Principal	Principal	Principal	Principal
2007	\$ 625,000	\$ 148,010	\$ 915,000	\$ 15,000
2008	625,000	682,375	955,000	15,000
2009	625,000	162,482	1,005,000	15,000
2010	620,000	170,211	1,065,000	15,000
2011	620,000	178,318	1,120,000	15,000
2012	1,100,000	186,797	-	15,000
2013	-	195,690	-	1,165,000
2014	-	-	-	1,210,000
2015	-	-	-	1,250,000
2016	-	-	-	1,320,000
2017	-	-	-	1,390,000
2018	-	-	-	1,455,000
2019	1,525,000	-	-	-
2020	1,575,000	-	-	-
2021	1,625,000	-	-	-
2022	1,675,000	-	-	-
2023	1,725,000	-	-	-
2024	1,750,000	-	-	-
2025	1,750,000	-	-	-
2026	1,750,000	-	-	-
2027	1,775,000	-	-	-
2028	1,775,000	-	-	-
2029	1,775,000	-	-	-
2030	1,775,000	-	-	-
2031	1,775,000	-	-	-
Total	\$ 26,465,000	\$ 1,723,883	\$ 5,060,000	\$ 7,880,000
Principal payments due	May 1	May 15	May 1	May 1
Interest payments due	May 1 and November 1	May 15	May 1 and November 1	May 1 and November 1
Interest rate	3.45% to 5.50%	4.761%	2.00% to 4.00%	3.00% to 5.00%
Original issue	\$ 36,585,000	\$ 2,919,543	\$ 6,785,000	\$ 7,880,000