

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2005

1. Summary of Significant Accounting Policies

The financial statements of the School District of the City of Bay City (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The more significant of the District's accounting policies are described below:

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- Fund financial statements that focus on the major funds.

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting standards generally accepted in the United States of America, currently GASB Statement #14, *The Financial Reporting Entity* and GASB Statement #39, *Determining Whether Certain Organizations are Component Units*.

Based upon the application of these criteria, the financial statements of the School District of the City of Bay City contain all the funds controlled by the District's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the District nor is the District a component unit of another entity.

Basic Financial Statements – Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (continued)

In the government-wide Statement of Net Assets, the columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts: invested in capital assets, net or related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

In creating the government-wide financial statements the District has eliminated interfund transactions.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the District:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (continued)

Governmental Funds (continued)

- a. General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. Expenditures are classified in accordance with the Accounting Manual issued by the Michigan Department of Education (Bulletin 1022).
- b. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- c. Debt service funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.
- d. Capital projects funds are used to account for receipt and disbursement of monies used for the acquisition of capital assets, including equipment. Principal resources of revenues are from bond proceeds, tax levies, interest and transfers from other funds. Unexpended revenues no longer needed for projects for which the bonds were originally approved generally must be transferred to the debt service fund.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support District programs. The fiduciary fund net assets and results of operations are not included in the government-wide statements.

Trust and Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, organizations, or other funds. Agency Funds are custodial in nature and do not involve measurement of results of operations. The District has a sole agency fund, the Student Activity Fund, which accounts for the transactions of student clubs, organizations, and other groups.

The District has a sole Expendable Trust Fund which is used to account for scholarship funds received by the District which they administer in a trustee capacity.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest, grants, and charges for services. Other revenue is recorded when received.

State Foundation Revenue

The State of Michigan uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005 the foundation allowance was based on the pupil membership counts taken in February and September of 2004.

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October, 2004 to August, 2005. Thus, the unpaid portion at June 30th is reported as due from State of Michigan. The local revenue is recognized as outlined in Note 1 – Property Taxes.

State Categorical Revenue

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

Federal Revenue

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of six months or less from date of acquisition.

Deposits and Investments

The District reports its investments in accordance with GASB Statement #31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. These statements also address common deposit and investment risks related to credit risk, concentration of credit risk, and foreign currency risk. As an element of interest rate risk, the Statements require certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified are also disclosed. The District had no investments at June 30, 2005.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more that 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Short-term Interfund Receivables/Payables

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

Accounts Receivable

Management of the District considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations in the period of uncollectibility.

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and are due upon receipt of the billing

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (continued)

Property Taxes (continued)

by the taxpayer and become a lien on the first day of the levy year. The actual due date is September 30, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied.

For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:

Fund

General Fund - Non-Homestead properties	18.0 mils
Debt Service - All properties	1.1 mils

The delinquent real property taxes of the District are purchased by Bay County. The County sells tax notes, the proceeds of which are used to pay the District for these property taxes.

Property taxes receivable represent unremitted real property taxes from various governmental units and uncollected personal property taxes. Amounts deemed to be collectible within 60 days have been recorded as revenue for the current year in the fund statements. Property taxes not deemed collectible within this period are recorded as deferred revenue in the governmental funds statements and revenue in the district-wide statements. The receivable in the governmental-wide statement of net assets is shown net of an allowance for uncollectible amounts.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in governmental funds include supplies and transportation parts. Inventories in the food service fund include food products used for hot lunch. The inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Buildings, land improvements, machinery and equipment (other than technology assets) and vehicles and buses purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Technology capital assets (personal computers, monitor and printers) with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Buildings use a 20% salvage value in their calculation, while all other capital assets have no salvage value.

SCHOOL DISTRICT OF THE CITY OF BAY CITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land Improvements	15 years
Buildings	50 years
Machinery and equipment	4-15 years
Vehicles and Buses	8 years

Unemployment Insurance

The District reimburses the Michigan Employment Security Agency (MESA) for the actual amount of unemployment benefits disbursed by the MESA on behalf of the District. Billings received for amount paid by the MESA through June 30 are accrued.

Deferred Revenues

The unexpected balance of various federal and/or state categorical grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance are also deferred.

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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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

Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Other Accrued Benefits

The District accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The District also accrues for unpaid early retirement incentives and estimated liability for workers compensation claims.

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (continued)

Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources. A portion of the unreserved fund balance has been identified by the District as unexpended funds from school building classroom supply accounts that will be carried over into the 2005-2006 school year. Another portion of the designation is to purchase band uniforms.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses in the governmental funds statements. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Budgets and Budgetary Policies

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District maintains a formalized encumbrance accounting system.

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

- a. Prior to June 1, the Superintendent submits to the Board of Education a proposed operating budget by function for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them and is prepared on the basis of accounting used by the particular fund.
- b. A public hearing is held in June to obtain taxpayer comment.
- c. Prior to July 1, the budget is adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 OF 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balances - budget and actual (GAAP basis) - general, special revenue and debt service funds.

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Policies (continued)

- d. Any revisions that alter the total expenditures of any function must be approved by the Board of Education. During the year the District made minor budget amendments which were not material to the original appropriation. All unencumbered appropriations lapse at year-end while encumbered appropriations are carried forward to the next fiscal year.

A comparison of actual results of operations to the budgeted amounts for the General Fund is presented as Required Supplemental Information.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America, requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Cash and Cash Equivalents

The District's policy on deposits is to pre-qualify financial institutions in order to minimize custodial credit risk.

At June 30, 2005, the District's deposits were reported in the financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	<u>\$5,817,076</u>	<u>\$893,161</u>	<u>\$6,710,237</u>

At June 30, 2005 the book value of the District's demand deposits, consisting of deposits and other cash equivalents, was \$6,710,237 with a corresponding bank balance of \$2,298,162 of which \$500,307 was covered by Federal depository insurance and \$6,209,930 was uninsured and uncollateralized; therefore, subjecting the District to custodian credit risk. Custodian credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it.

The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are in the opinion of the District subject to minimal risk.

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Capital Assets

Governmental capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated – land	\$ 853,070	\$ -	\$ -	\$ 853,070
Other capital assets:				
Land improvements	4,152,534	-	-	4,152,534
Buildings	35,693,002	-	-	35,693,002
Machinery and equipment	7,618,984	133,725	17,196	7,735,513
Vehicles and buses	4,600,645	10,170	53,564	4,557,251
Total – other capital assets	<u>52,065,165</u>	<u>143,895</u>	<u>70,760</u>	<u>\$ 52,138,300</u>
Accumulated depreciation:				
Land improvements	2,078,723	190,773	-	2,269,496
Buildings	13,742,761	503,928	-	14,246,689
Machinery and equipment	6,164,683	478,022	17,196	6,625,509
Vehicles and buses	3,024,562	217,454	53,564	3,188,452
Total – accumulated depreciation	<u>25,010,729</u>	<u>1,390,177</u>	<u>70,760</u>	<u>26,330,146</u>
Capital assets, net	<u>\$27,907,506</u>	<u>\$ (1,246,282)</u>	<u>\$ -</u>	<u>\$ 26,661,224</u>

Depreciation expense was allocated to activities as follows:

Governmental activities:

Instruction	\$953,956
Support services	385,889
Community services	11,297
Food services	31,342
Athletics	210
Forest Day Care	7,483
Total governmental activities depreciation expense	<u>\$1,390,177</u>

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are 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 (net of allowance of \$71,000)	\$ 258,920	\$ -
Grant and categorical aid payments received prior to meeting all eligibility requirements	-	26,769
Total	\$ 258,920	\$ 26,769

5. State Aid Anticipation Note Payable

At June 30, 2005, the District has outstanding an \$7,700,000 note (state aid note) dated August 20, 2004. The note has an interest rate of 1.57% and matures on August 20, 2005. The District has pledged its anticipated state aid receipts from the 2004-05 school year as security for the note.

6. Long-Term Debt

The 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 District. Other long-term obligations include amounts due to employees under contracts negotiated with the employee groups, for payment of unused sick leave, termination bonuses under formulas and conditions specified in their contracts, and amounts due for estimated worker's compensation claim liability.

During the 1992-93 year, the District received approval of a \$15,000,000 general obligation bond issue payable in installments for 15 years through 2008 with interest from 3.20% to 6.50% for building renovations, classroom furniture, buses, and computer technology. A portion of these bonds were refinanced and created the 1997 Bonded Debt. As a result of the refinancing, the final bond payments will be made in 2007.

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (continued)

During the 1996-97 year, the District borrowed \$580,000 payable in installments for 10 years through 2007 with interest from 3.85% to 4.65% for the rehabilitation of the Central High School Football Stadium.

During the 1997-98 year, the District received approval of a \$8,400,000 general obligation bond issue payable in installments for 10 years through 2007 with interest from 3.80% to 4.65% for refinancing the 1992 Debt.

During the 1998-99 year, the District received approval of a limited obligation bond issue (Durant) payable in installments for 15 years through 2013 with interest of 4.76% for technology improvements.

During the 1999-00 year, the District received approval of a \$6,000,000 non-voted bond issue, payable in installments for 8 years through 2008 with interest from 5.10% to 5.30% for the purpose of erecting, furnishing and re-equipping school facilities, in part for educational technology and developing and improving sites.

During the 2000-01 year, the District received approval of a \$4,000,000 non-voted bond issue, payable in installments for 8 years through 2009 with interest from 3.875% to 4.00% for the purpose of erecting, furnishing and re-equipping school facilities and developing and improving sites.

During the 2002-03 year, the District entered into a loan agreement for the purchase of a bus fleet, payable in annual installments of \$233,705, including interest at 3.41% through 2008.

During the 2003-04 year, the District entered into a capital lease obligation for various Dell computers. The lease provides for annual installments for 4 years through 2007 with interest at 3.13%.

During 2003-04 year, the State completed an audit of TIFA funds. As a result of the audit, the State deemed that the District should have received more revenue through taxes and less through State aid. The District negotiated with the State to repay the amount over a 5 year period through 2008.

During the 2004-2005 year, the District received approval of a \$5,930,000 voted bond issue, payable in installments for 20 years through 2024 with interest from 3.25% to 4.30% for the purpose of improving school facilities and developing and improving sites.

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (continued)

Long-term debt at June 30, 2005 is comprised of the following:

	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
1992 General Obligation Bonds	3.80%-4.65%	2007	\$ 3,035,000
1997 Football Stadium Bonds	3.85%-4.65%	2007	145,000
Durant Limited Obligation Bonds	4.76%	2013	944,755
2000 Non-Voted Bonds	5.10%-5.30%	2008	2,250,000
2001 Non-Voted Bonds	3.875%-4.00%	2009	2,025,000
Capital lease obligations	3.13%	2008	792,468
Bus loan	3.41%	2008	860,254
School Improvement Bonds	3.25%-4.30%	2024	5,930,000
State TIFA recapture			33,046
Accumulated sick leave and severance			9,438,460
Accumulated vacation			272,141
Estimated liability for workers compensation			180,000
			<u>\$25,906,124</u>

The following is a summary of governmental long-term transactions for the District for the year ended June 30, 2005:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Bonds	\$ 11,239,755	\$ 5,980,000	\$ 2,890,000	\$ 14,329,755	\$ 3,233,655
Capital lease obligations	1,161,272	-	368,804	792,468	380,358
Bus loan	1,057,885	-	197,631	860,254	204,370
State TIFA Recapture	49,568	-	16,522	33,046	12,392
Accumulated sick leave and severance	10,029,152	30,920	621,612	9,438,460	1,083,168
Accumulated vacation	271,015	1,126	-	272,141	-
Estimated liability for workers compensation	282,475	-	102,475	180,000	-
Total	<u>\$ 24,091,122</u>	<u>\$ 6,012,046</u>	<u>\$ 4,197,044</u>	<u>\$ 25,906,124</u>	<u>\$ 4,913,943</u>

SCHOOL DISTRICT OF THE CITY OF BAY CITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (continued)

Annual debt service requirements to service the borrowings outstanding to maturity, including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,818,384	\$ 531,384	\$ 4,349,768
2007	3,588,583	257,824	3,846,407
2008	1,731,941	106,307	1,838,248
2009	998,298	55,430	1,053,728
2010	306,214	24,780	330,994
2011-2024	5,539,057	237,669	5,776,726
Total	<u>\$ 15,982,477</u>	<u>\$ 1,213,394</u>	<u>\$ 17,195,871</u>

7. Interfund Receivables and Payables

The amount of interfund receivables and payables at June 30, 2005 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other governmental funds	General fund	\$251,183
Other governmental funds	Special revenue funds	183,394
General fund	Fiduciary fund	31,811
Total		<u>\$466,388</u>

For the year ended June 30, 2005, there were \$3,176,732 of interfund transfers. The General fund had operating transfers out while the other governmental funds had operating transfers in.

Transfers to external organizations:

Transfer out of general fund to:	
Bay Arenac Intermediate School District	\$215,479

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Employee Retirement System - Defined Benefit Plan

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000 and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributes at the rate of 3.9% of gross wages beginning at enrollment. Market rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The 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 amount on a cash disbursement basis. The rate effective July 1, 2003 through the year ended June 30, 2004 was 12.99% of payroll. The rates for the year ended June 30, 2005 were 12.99% of payroll through September 30, 2004 and 14.87% effective October 1, 2004. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the years ended June 30, 2005, 2004 and 2003 were \$6,764,026, \$6,009,689, and \$6,030,157, respectively, equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits which are the responsibility of the State of Michigan.

Other Postemployment Benefits

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage. These benefits are not included in the pension benefit obligation referred to above.

9. Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Risk Management (continued)

District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring property and casualty. The pool is considered a public entity risk pool.

The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums plus investment income earned on the annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool retains a policy of funding the aggregate assessment point at 100%. Therefore, a special assessment for each District would not be required. The pool maintains insurance for each claim in excess of \$500,000 for property claims and \$600,000 for liability claims for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District is self-insured for workers compensation for claims up to \$350,000 per occurrence. Claims above \$350,000 per occurrence are covered by an insurance policy, which provides up to \$1,000,000 per occurrence and \$5,000,000 in aggregate. Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement.

The costs associated with the worker's compensation self-insurance plan is reported as operating expenditures of the General Fund. The estimated liability of the workers' compensation self-insurance plan, \$180,000, includes incurred but not reported claims. These estimated liabilities reported in the District-Wide Statements at June 30, 2005 are based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated. Since actual claims liabilities depend on complex factors, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically by a third party administrator to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

Changes in the estimated workers' compensation claims liability amounts in fiscal 2004 and 2005 were:

	Beginning of Fiscal year liability	Current year claims and changes in estimate	Claim payments	Balance at fiscal year end
2004	\$564,275	\$ (47,895)	\$233,905	\$282,475
2005	\$282,475	\$ 80,118	\$182,593	\$180,000

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. GASB Statement No. 34 requires disclosure of any excess of expenditures over appropriations for the individual funds presented in the Budgetary Comparison Schedule. In the following instances the District expended funds in excess of the amounts appropriated:

	Budget	Actual	Variance
<u>General Fund</u>			
Instruction - Special Education	\$3,390,391	\$3,540,314	\$149,923
Supporting Services - Pupil – Guidance Services	984,784	1,014,924	30,140
Supporting Services - General Administration - Board of Education	119,700	121,821	2,121
Supporting Services - Business - Operation & Maintenance of Plant	5,869,306	6,255,802	386,496
Supporting Services - Business - Pupil Transportation Services	221,712	255,760	34,048
Supporting Services - Central - Other Central Services	216,764	219,613	2,849
Supporting Services - Employee Benefits	8,854,484	9,453,409	598,925
Community Services - Employee Benefits	44,653	63,201	18,548
Other Financing Uses - Transfer to YMCA - Four Year Old Program	201,985	215,479	13,494
<u>Food Service</u>			
Employee Benefits	683,929	715,768	31,839
Contracted Services	128,700	128,810	110
Food Cost	1,158,373	1,210,876	52,503
Other	77,271	79,414	2,143
Community Education			
Employee Benefits	-	403	403
Supplies and Materials	-	20,781	20,781

SCHOOL DISTRICT OF THE CITY OF BAY CITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Litigation

The District is the defendant in various lawsuits; however, for cases in which there is a potential adverse claim, the settlements are not expected to exceed insurance limits or the amounts involved are immaterial to the financial position of the District. In all other cases, the District's counsel has deemed the probability of loss remote. No liability or reservation of fund balance has been established for any potential adverse claim.