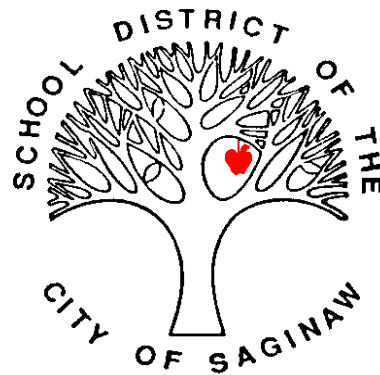


**School District of the City of Saginaw
Saginaw, Michigan**



**INDEPENDENT AUDITORS' REPORT
and
MANAGEMENT DISCUSSION AND ANALYSIS
and
BASIC FINANCIAL STATEMENTS
and
SUPPLEMENTAL INFORMATION**

For the Fiscal Year Ended June 30, 2010

COMPREHENSIVE ANNUAL FINANCIAL REPORT

of the

School District of the City of Saginaw

Saginaw, Michigan

For the Fiscal Year Ended June 30, 2010

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Prepared by

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Director of Financial Services

Karen Baumgartner
Manager of Fiscal Services

Mary LaPan
Accounting Specialist

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

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Independent Auditors' Report

To the Board of Education
School District of the City of Saginaw
Saginaw, Michigan

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 Saginaw as of and for the year ended June 30, 2010, 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 Saginaw'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 Saginaw as of June 30, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2010, on our consideration of the School District of the City of Saginaw's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the 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 supplementary information. However, we did not audit the information and express no opinion on it.

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

Yeo & Yeo, P.C.

Saginaw, Michigan
November 12, 2010



MANAGEMENT DISCUSSION and ANALYSIS

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Management Discussion and Analysis
Year Ended June 30, 2010

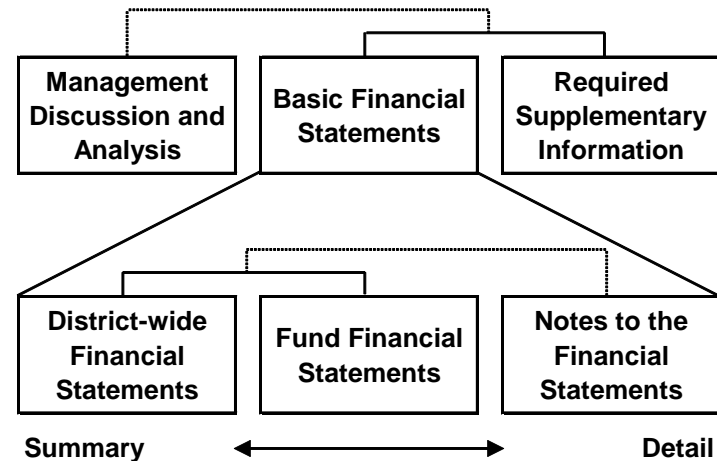
The discussion and analysis of the School District of the City of Saginaw’s financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to provide, in layman’s terms, a look at the district’s performance and past and current position. Readers should also review the notes to the financial statements, and financial statements to enhance their understanding of the district’s financial performance.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000.

Overview of the Financial Statements

This annual report consists of three parts: management discussion and analysis (this section), the basic financial statements, and required supplemental information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
School District of the City of Saginaw
Organization of Annual Financial Report



The basic financial statements include two kinds of statements that present different views of the district.

District-wide Financial Statements

The district-wide financial statements are full accrual basis statements and provide information about the district’s *overall* financial status. They are used to help determine whether or not the District is better off or worse off as the result of the year’s activities. The *Statement of Net Assets* reports all of the district’s assets and liabilities, both short-term and long-term, regardless if they are “currently available” or not. Capital assets and long-term obligations of the district are reported in

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Management Discussion and Analysis
Year Ended June 30, 2010

this statement. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

The two district-wide statements report the district's *net assets* and how they have changed. Net assets – the difference between the district's assets and liabilities – is one way to measure the district's financial health or position.

- Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the district's overall health, you need to consider additional non-financial factors such as changes in the district's property tax base, the quality of the education provided, and the condition of District's buildings.

In the district-wide statements, the district's activities are classified as governmental activities. This includes most of the District's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes and state aid finance most of these services.

Fund Financial Statements

The fund financial statements focus on individual parts of the district, reporting the district's operations in more detail than the district-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the district's major instructional and instructional support activities are reported in the *General Fund*. Additional activities are reported in their relevant funds including: *Special Revenue Funds* for *Food Service* and *Athletic* activities, *Debt Service Funds*, *Capital Project Funds*, and *Fiduciary Funds*.

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

Financial Analysis of the District as a Whole

The net assets of the district at June 30, 2010 amounted to \$32.6 million. Figure A-2 shows a condensed breakdown of the net assets.

The largest portions of the District's net assets reflect investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding, and the cash and investments relative to the 2004, 2006 and 2008 bond issues. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Management Discussion and Analysis
Year Ended June 30, 2010

debt used as a decrease to capital assets relates to the 2002A and 2002B Bond series that are financed through General Fund transfers, the 2004, 2006 and 2008 Bonds that are financed through an annual debt service levy, and the Durant bonds, which are paid directly by the State of Michigan. The remaining net assets represent resources that are subject to external restrictions on how they may be used.

Figure A-2			
Condensed Statement of Net Assets			
	Governmental Activities		
	June 30, 2010	June 30, 2009	Change
Current assets	\$ 58,564,301	\$ 60,729,775	\$ (2,165,474)
Non-current assets	85,458,665	79,590,848	5,867,817
Total assets	144,022,966	140,320,623	3,702,343
Current liabilities	46,456,636	38,389,369	8,067,267
Noncurrent liabilities	64,945,238	67,993,222	(3,047,984)
Total liabilities	111,401,874	106,382,591	5,019,283
Net assets			
Invested in capital assets, net of related debt	34,258,089	35,710,299	(1,452,210)
Restricted	388,873	747,818	(358,945)
Unrestricted	(2,025,870)	(2,520,085)	494,215
Total net assets	\$ 32,621,092	\$ 33,938,032	\$ (1,316,940)

The net assets of the District decreased by \$1,316,940 during the 2009-10 fiscal year. Figure A-3 shows the breakdown of this change. The Statement of Activities presented later in the district-wide financial statements, provides greater detail on the District's annual activity. The cost of the District's governmental activities for the year was \$99.9 million. However, the amount that the District's taxpayers ultimately financed for these activities was only \$11.2 million because \$.78 million of the cost was paid for by those who benefited from the programs, and \$86 million was paid for by other

governments and organizations who subsidized certain programs with grants and contributions. The remaining "public benefit" portion was paid for with state pupil foundation aid, investment earnings, other miscellaneous revenues, and use of net assets.

Figure A-3			
Statement of Net Assets from Operating Results			
	Governmental Activities		
	2009/10	2008/09	Difference
Revenues			
Program revenues			
Charges for services	\$ 779,221	\$ 461,764	\$ 317,457
Operating grants/contribs	30,436,936	31,963,486	(1,526,550)
General revenues			
Property taxes	11,217,921	11,352,219	(134,298)
State formula aid	55,533,167	61,020,701	(5,487,534)
Other	585,443	822,353	(236,910)
Total revenues	98,552,688	105,620,523	(7,067,835)
Expenses			
Instruction	56,372,937	59,533,239	(3,160,302)
Support services	34,069,140	40,123,256	(6,054,116)
Community services	1,667,596	655,016	1,012,580
Food services	3,837,247	4,407,443	(570,196)
Athletics	877,008	994,090	(117,082)
Interest on long-term debt	3,045,700	2,983,382	62,318
Total expenses	99,869,628	108,696,426	(8,826,798)
Increase (decrease) in net assets	\$ (1,316,940)	\$ (3,075,903)	\$ 1,758,963

A substantial portion (64.1%) of the District's revenues are received from State sources which include State restricted grants and other State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan.

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Management Discussion and Analysis
Year Ended June 30, 2010

90.8% of the District's resources are spent on instruction and pupil and instructional support services.

Financial Analysis of the District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well. The combined governmental funds equity decreased by \$10.2 million during the 2009-10 fiscal year. The primary reasons for the decreases in fund balance are:

Factors Increasing Fund Equity

- ◆ *Building Closing* – The School District has closed more than ten schools over the past six years.
- ◆ *Staff Tightening* – All staff positions were evaluated and adjustment to staffing levels continues to be made accordingly.
- ◆ *Employee Benefit Plans* – Benefit plans for some employees were restructured to provide premium decreases while the district continues to evaluate benefit programs on a continuous basis.

Factors Decreasing Fund Equity

- ◆ *State aid funding* - The State of Michigan continues to experience severe economic constraints. State funding for school districts has not kept pace with inflation.

- ◆ *Enrollment* – The district's pupil enrollment for state aid funding purposes decreased by 575 memberships, continuing a downward trend over the past ten years (See Figure A-4).
- ◆ *Building renovation* – In 2002-03 the district invested over \$6,000,000 to renovate the Eddy K-8 educational facility. Bonds were issued to cover the cost of the renovation. The bonds are being paid with General Fund monies. For 2008-09, Approximately, \$610,000 was transferred to cover the bond repayment.
- ◆ *State aid loan* – In order to meet cash flow needs the district had to borrow \$29.0 million during the 2009-10 fiscal year.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget monthly during the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year. Amounts are expressed to the nearest million.

Revenues – There was a \$4.0 million decrease in the total General Fund revenue budget from the beginning to the end of the year. There were significant changes in funding sources as follows:

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Management Discussion and Analysis
Year Ended June 30, 2010

- ◆ The *local source* revenue budget was not changed significantly.
- ◆ The *intermediate source* revenue budget experienced a \$.6 million decrease due primarily to special education.
- ◆ The *state source* revenue budget decreased by \$3.3 million. The decrease is primarily the result of a net increase in the Special Education Headlee categorical and decrease in the foundation allowance.
- ◆ The *federal source* revenue budget was not changed significantly.

Expenditures – There was a \$3.8 million decrease in the total General Fund expenditures and other financing uses budget from the beginning to the end of the year. The significant changes by functional category are as follows:

- ◆ The *instruction* budget increased slightly due to a change in the expected number of students
- ◆ The *supporting services* expenditure budget decreased by \$3.9 million as the result of decreased state funding.
- ◆ The *community services* expenditure budget increased slightly.

Capital Asset and Debt Administration

Capital Assets – By the end of 2010, the district had invested \$142.5 million (before depreciation) in a broad range of capital

assets, including land, buildings and improvements, buses and other vehicles, and furniture and equipment. This amount represents an increase of \$3.5 million, or 2.5% from last year. More detailed information about capital assets can be found in the Notes to the financial statements. The District's capital projects funds are used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring major equipment necessary for providing educational programs for all students within the District.

The District had \$10.5 million of construction in progress relates to school building renovations and new construction. This construction is scheduled to be completed in the 2010-11 fiscal year.

The District's capital assets at year end are outlined in statement of net assets and described in the notes to basic financial statements

Debt Administration – In 2002-03 the district authorized \$7,000,000 in operating bonds to provide funding for the Eddy renovation project. The renovation was completed over a seven-month period and students and staff were able to move in at the beginning of the second semester. At June 30, 2010 the district had \$2.9 million outstanding debt on these bonds. The 2002A and 2002B bond funds were established to account for this debt.

Additionally, the district has Durant bonds with a remaining balance of \$1.4 million. These are self-liquidating bonds issued by the State of Michigan to fund a special education lawsuit by Michigan school districts. Payment of principal and interest on the bonds is made directly by the State of Michigan. The District has pledged and assigned to

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Management Discussion and Analysis
Year Ended June 30, 2010

bondholders all rights to state aid payments as security for the bond.

On August 3, 2004 the taxpayers of the District approved a \$70,000,000 bond for improvement of the District's facilities. The bonds were issued in three series. The first series was issued in October of 2004 for \$22,130,000. These bonds mature annually through the year 2034. The second series was issued in June of 2006 for \$28,160,000. The bonds mature in June of 2036. In June of 2008, the third series were issued for \$19,540,000. The bonds mature in 2038. All three series are paid for through an annual debt service tax levy.

More detailed information about the district's long-term debt is presented in the notes to the financial statements.

The district currently holds a Moody's Financial Service "Aa3" rating and a Standard & Poor's "AA-" rating on its bonded debt.

Under State statute, the District is legally restricted from incurring long-term bonded debt in excess of 15% of the assessed value of taxable property within the school district. At June 30, 2010 the District's net bonded debt of \$63.8 million was well below the legal limit of approximately \$120 million.

District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Executive Director of Financial Services, School District of the City of Saginaw, 550 Millard Street, Saginaw, Michigan, 48607-1193, telephone number (989) 399-6521.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students, and investors and creditors with a general overview of the District's finances and to show the



BASIC FINANCIAL STATEMENTS

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Statement of Net Assets
June 30, 2010

Assets	<u>Governmental Activities</u>
Current Assets	
Cash and cash equivalents	\$ 23,898,707
Investments	16,690,701
Accounts receivable	43,765
Taxes receivable	71,626
Due from other governmental units	17,347,491
Inventory	219,632
Prepaid expenditures	<u>292,379</u>
Total Current Assets	<u>58,564,301</u>
Non-current Assets	
Bond issuance costs	266,543
Capital Assets	
Land	5,607,492
Construction in progress	10,496,632
Buildings and additions	119,320,639
Equipment and furniture	3,512,167
Buses and other vehicles	3,617,053
Less: accumulated depreciation	<u>(57,361,861)</u>
Total Non-current Assets	<u>85,458,665</u>
Total Assets	<u>144,022,966</u>

See Accompanying Notes to Basic Financial Statements

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Statement of Net Assets
June 30, 2010

	Governmental Activities
Liabilities	
Current Liabilities	
Accounts payable	\$ 4,080,161
Due to other governmental units	1,879,319
State aid anticipation note	29,246,500
Accrued payroll	4,746,802
Accrued liabilities	2,253,053
Unearned revenue	760,798
Bonds payable - current portion	1,936,503
Retirement incentives - current portion	1,067,500
Accrued interest on long-term debt	486,000
Total Current Liabilities	46,456,636
Non-Current Liabilities	
Compensated absences	1,434,236
Bond premium	221,012
Bonds payable - net of current portion	63,289,990
Total Non-Current Liabilities	64,945,238
Total Liabilities	111,401,874
Net Assets	
Invested in capital assets, net of related debt	34,258,089
Restricted for:	
Debt Service	388,873
Unrestricted:	
Other unrestricted (deficit)	(2,025,870)
Total Net Assets	\$ 32,621,092

See Accompanying Notes to Basic Financial Statements

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Statement of Activities
Year Ended June 30, 2010

Functions/Programs	Program Revenues			Governmental	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Activities Net (Expense) Revenue and Changes in Net Assets
Governmental Activities					
Instruction	\$ 56,372,937	\$ 331,339	\$ 15,451,269	\$ -	\$ (40,590,330)
Supporting services	34,069,140	-	10,111,965	-	(23,957,176)
Community services	1,667,596	-	1,551,054	-	(116,542)
Food services	3,837,247	317,511	3,322,649	-	(197,087)
Athletics	877,008	130,371	-	-	(746,637)
Interest on long term debt	3,045,700	-	-	-	(3,045,700)
Total Governmental activities	\$ 99,869,628	\$ 779,221	\$ 30,436,936	-	(68,653,471)
General Revenues					
Property taxes - levied for operations					7,680,983
Property taxes - levied for debt retirement					3,536,938
State Aid - Unrestricted					55,533,167
Investment earnings					329,852
Other					255,591
Total general revenues					67,336,531
Change in net assets					(1,316,940)
Net assets - July 1					33,938,032
Net assets - June 30					\$ 32,621,092

See Accompanying Notes to Basic Financial Statements

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Building Fund Series 3	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 19,974,884	\$ 3,309,177	\$ 614,646	\$ 23,898,707
Investments	3,483,962	13,206,739	-	16,690,701
Accounts receivable				
Taxes	16,666	-	54,960	71,626
Accounts	43,765	-	-	43,765
Due from other governmental units	16,870,057	-	477,434	17,347,491
Inventory	203,133	-	16,499	219,632
Prepaid expenditures	292,379	-	-	292,379
Total assets	<u>\$ 40,884,846</u>	<u>\$ 16,515,916</u>	<u>\$ 1,163,539</u>	<u>\$ 58,564,301</u>
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 1,774,067	\$ 2,002,444	\$ 103,690	\$ 3,880,201
Checks written from future deposits	-	-	199,960	199,960
State aid anticipation note	29,246,500	-	-	29,246,500
Due to other governmental units	1,879,319	-	-	1,879,319
Accrued payroll	4,746,802	-	-	4,746,802
Accrued payroll liabilities	2,194,053	-	-	2,194,053
Deferred revenue	777,464	-	54,960	832,424
Total liabilities	<u>40,618,205</u>	<u>2,002,444</u>	<u>358,610</u>	<u>42,979,259</u>
Fund Balance				
Reserved for inventory	203,133	-	16,499	219,632
Reserved for capital projects	-	14,513,472	-	14,513,472
Reserved for debt service	-	-	388,873	388,873
Designated for capital projects	-	-	165,069	165,069
Designated for debt service	-	-	48,123	48,123
Undesignated	63,508	-	186,365	249,873
Total fund balance	<u>266,641</u>	<u>14,513,472</u>	<u>804,929</u>	<u>15,585,042</u>
Total liabilities and fund balance	<u>\$ 40,884,846</u>	<u>\$ 16,515,916</u>	<u>\$ 1,163,539</u>	<u>\$ 58,564,301</u>

See Accompanying Notes to Basic Financial Statements

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets
June 30, 2010

Total Fund Balances - Governmental Funds		\$ 15,585,042
Total net assets reported for governmental activities in the statement of net assets is different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Property taxes		71,626
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	\$ 5,607,492	
Construction in progress	10,496,632	
Buildings and improvements	119,320,639	
Furniture and other equipment	3,512,167	
Buses and other vehicles	3,617,053	
Less: accumulated depreciation	<u>(57,361,861)</u>	85,192,122
Bond issuance costs are reported as expenditures as incurred in the governmental funds. However, in the statement of activities they are amortized over the life of the bonds		
		266,543
Unemployment costs not due and payable in the current period are not reported as fund liabilities.		
		(59,000)
Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Bond premium is not accrued in the governmental funds, but amortized over the life of the bonds. All liabilities, both current and long-term, are reported in the statement of net assets.		
are as follows:		
Bonds payable	(65,226,493)	
Bonds premium	(221,012)	
Compensated absences	(1,434,236)	
Retirement incentives	(1,067,500)	
Accrued interest	<u>(486,000)</u>	<u>(68,435,241)</u>
Total Net Assets - Governmental Activities		\$ 32,621,092

See Accompanying Notes to Basic Financial Statements

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010

	General Fund	Building Fund Series 3	Other Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 8,517,521	\$ 34,678	\$ 3,999,258	\$ 12,551,457
Intermediate sources	926,673	-	-	926,673
State sources	62,638,182	-	527,793	63,165,975
Federal sources	18,393,285	-	3,484,170	21,877,455
Total revenues	<u>90,475,661</u>	<u>34,678</u>	<u>8,011,221</u>	<u>98,521,560</u>
Expenditures				
Current:				
Instruction	54,196,999	-	-	54,196,999
Supporting services	33,958,715	-	-	33,958,715
Community services	1,612,229	-	-	1,612,229
Food services	-	-	3,801,574	3,801,574
Athletics	-	-	877,008	877,008
Capital outlay	-	9,204,730	151,543	9,356,273
Debt services				
Principal	-	-	1,843,023	1,843,023
Interest	-	-	3,054,700	3,054,700
Bank fees	-	-	1,225	1,225
Total expenditures	<u>89,767,943</u>	<u>9,204,730</u>	<u>9,729,073</u>	<u>108,701,746</u>
Excess (deficiency) of revenues over expenditures	<u>707,718</u>	<u>(9,170,052)</u>	<u>(1,717,852)</u>	<u>(10,180,186)</u>
Other financing sources (uses)				
Transfer from other funds	-	3,080,654	1,549,977	4,630,631
Transfer to other funds	(1,549,977)	-	(3,080,654)	(4,630,631)
Total other financing sources (uses)	<u>(1,549,977)</u>	<u>3,080,654</u>	<u>(1,530,677)</u>	<u>-</u>
Net change in fund balance	(842,259)	(6,089,398)	(3,248,529)	(10,180,186)
Fund balance - July 1	1,108,900	20,602,870	4,053,458	25,765,228
Fund balance - June 30	<u>\$ 266,641</u>	<u>\$ 14,513,472</u>	<u>\$ 804,929</u>	<u>\$ 15,585,042</u>

See Accompanying Notes to Basic Financial Statements

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds to the Statement of Activities
Year Ended June 30, 2010

Total net change in fund balances - total governmental funds	\$ (10,180,186)
Total change in net assets reported for governmental activities in the statement of activities differs because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of certain capital outlays are allocated over their estimated useful lives and reported as depreciation expense. The amount by which these capital outlays exceeded depreciation in the current period:	
Capitalized capital outlay	9,225,230
Depreciation	(3,346,539)
Revenues in the statement of activities that do not provide current financial resources:	
Property taxes	21,926
In the statement of activities, compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for those items are measured by the amount of financial resources used (amount paid during the year). In the current year, compensated absences paid exceeded the amount earned.	
	34,778
Interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.	
	9,000
Unemployment costs not due and payable in the current period are not reported as a fund expenditure. However, the cost is reported as an expenditure in the statement of activities.	
	10,000
Governmental funds report bond premiums and issuance costs as other financing sources and uses. However, in the statement of activities these costs are amortized over the life of the bonds.	
Payment of early retirement incentives	1,067,500
Amortization of bond premium	9,202
Amortization of bond issuance costs	(10,874)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
	1,843,023
Change in net assets of governmental activities	\$ (1,316,940)

See Accompanying Notes to Basic Financial Statements

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Statement of Fiduciary Net Assets
June 30, 2010

	Private Purpose Trust Funds	Agency Fund	Total
Assets			
Cash and cash equivalents	\$ 230,273	\$ 627,848	\$ 858,121
Investments	1,906,299	-	1,906,299
Loans receivable	33,800	-	33,800
	<u>2,170,372</u>	<u>\$ 627,848</u>	<u>2,798,220</u>
Liabilities			
Accounts payable	-	\$ 31,635	31,635
Due to student and other groups	-	596,213	596,213
	<u>-</u>	<u>\$ 627,848</u>	<u>627,848</u>
Net assets			
Restricted for scholarships and loans	<u>\$ 2,170,372</u>		<u>\$ 2,170,372</u>

See Accompanying Notes to Basic Financial Statements

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Funds
Year Ended June 30, 2010

	<u>Private Purpose Trust Funds</u>
Additions	
Local sources	<u>\$ 141,396</u>
Deductions	
Scholarships and awards	<u>74,251</u>
Change in net assets	67,145
Net assets - July 1	<u>2,103,227</u>
Net assets - June 30	<u><u>\$ 2,170,372</u></u>

See Accompanying Notes to Basic Financial Statements



NOTES TO FINANCIAL STATEMENTS

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District of the City of Saginaw (School District) conform to accounting principles generally accepted in the United States of America as applicable to Governmental units. The following is a summary of the School District's significant accounting policies:

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. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either Governmental or business type. All of the School District's activities are classified as Governmental activities.

The statement of net assets presents Governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The School District first

utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general District revenues (property taxes and certain intergovernmental revenues). 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 sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

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.

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

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

collected within 120 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 District.

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

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

General fund expenditures are classified in accordance with the latest edition of the Accounting Manual for Michigan School Districts, issued by the Michigan Department of Education, as follows;

Instruction includes the activities dealing directly with the teaching of pupils or the interaction between pupils and teachers. Teaching may be provided through some other approved medium, such as television, telephone, radio, and correspondence. Included here are the activities of aides, assistants of any type, and supplies and materials which assist directly in the instructional process.

Supporting services are those services which provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction and, to a

lesser degree, community services. Supporting services exist as adjuncts for the fulfillment of the objectives of instruction, rather than as entities within themselves.

Community services consist of those activities that are not directly relatable to providing education for pupils in a school system. These include services provided by the school system for the community as a whole or some segment of the community, such as community recreation programs, programs of custody and care of children, civic activities, and community welfare activities.

Other transactions consist of conduit-type (outgoing transfers) payments to other school districts or administrative units in the state or in another state not identified in the above classifications. Interfund transfers consist of transfers from one fund to another fund within the School District.

Capital Project Funds are used to account for the acquisition of fixed assets of major capital projects not being financed by propriety or nonexpendable trust funds.

Building Fund – Series 3

The district reports the following funds as non-major governmental funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. They are used to segregate the transaction of particular activities from regular revenue and expenditure accounts. The School District maintains full control of these Funds. The special revenue funds maintained by the School District, as mandated by the State of Michigan, are the Food Service and Athletics Funds.

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

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

The following debt service funds are open:

- 2002 A Bond Fund
- 2002 B Bond Fund
- 2004 Bond Fund
- 2006 Bond Fund
- 2008 Bond Fund
- Durant Bond Fund

Capital Project Funds are used to account for the acquisition of fixed assets of major capital projects not being financed by propriety or nonexpendable trust funds. The district maintains the following capital projects funds:

- Permanent Improvement Fund
- Building Fund - Series 2

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent. The fiduciary fund types used by the School District are the Private Purpose Trust Funds, and Agency Funds.

Private Purpose Trust Funds are used to account for funds entrusted to the School District and the funds may only be used for specific purposes. They are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. The School District maintains four private purpose trust funds.

The Scholarship Fund is used to account for funds entrusted to the School District for scholarship loans and awards when the principal and interest of the trust may be spent, and for the receipt of investment earnings transferred from the Scholarship

Endowment Fund for payment of scholarship loans and awards.

The Scholarship Endowment Fund is used to account for funds entrusted to the School District for scholarship loans and awards. The principal amount of gifts is maintained and invested. The earnings on the investments are transferred to the Scholarship Fund.

The Agency Fund is used to account for assets held by the School District as an agent, are custodial in nature (assets equal liabilities), and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. The School District maintains one agency which is used to account for the transactions of student clubs and organizations, and other groups.

Assets, Liabilities and Equity

Deposits - consist of cash and cash equivalents such as savings and checking accounts, money markets, and certificates of deposits.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2010, the rates are as follows per \$1,000 of assessed value.

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

General Fund	
Non principal residence exemption	18.0000
Commercial personal property	6.0000
Debt Service Fund	3.9000

are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Equipment and furniture	5-15 years
Buses and other vehicles	5-10 years

Compensated Absences – Sick days are earned by most employees at the rate of one day per month. Unlimited unused sick days may be accumulated by an employee. Retiring employees who meet certain age and years of service requirements are paid for accumulated sick days to a maximum number of days and at a rate determined by their job category. There is no contractual provision for payment of unused vacation.

The liability for compensated absences reported in the District-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are 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. The amount reported is salary related and includes no fringe benefits, since the amount of said benefits would be immaterial.

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. Bonds payable are reported net of the applicable bond premium or discount.

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 66% of the School District's tax roll lies within the City of Saginaw.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Saginaw and remitted to the School District by May 15.

Due From/To Other Governmental Units – Consists of amounts due to and from federal, state and local governmental units.

Investments – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. General Fund inventory consists of various instructional and custodial supplies, furniture, and gasoline. The Food Service Fund inventory consists of food and cafeteria nonfood supplies.

Prepaid Expenditures - 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.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

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

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. 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.

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.

Fund Balance - Reservations and designations of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance accounts are summarized below.

Reserved for inventory - This reserve was created to indicate that the portion of fund balance represented by inventories is not available for appropriation and expenditure.

Reserved for capital projects - This reserve was created to restrict the use of all resources received by the Capital Projects Funds. This money is earmarked for major capital purchases.

Reserved for debt service - This reserve was created to restrict the use of all resources received for the payment on the district's long-term debt.

Designated for capital projects - This reserve was designated

to restrict the use of resources for major capital purchases.

Designated for debt service - This reserve was designated to restrict the use of resources for payment on the district's long-term debt.

Net Asset Restrictions - Restrictions are placed on net assets when constraints placed on them are either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other Districts, or (2) imposed by law through constitutional provisions or enabling legislation. The specific net asset restrictions of the district are as follows:

Restricted for debt service - This restriction was created to restrict the use of all resources received for the payment on the district's long-term debt.

Restricted for scholarships and loans - This restriction was created to restrict the use of all the resources contributed to or earned by the Scholarship Fund and the Scholarship Endowment Fund. The restriction is mandated by donor agreements.

Other

Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual could differ from those estimates.

Economic Dependency - The school district received approximately 65% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source, the school district is considered to be economically dependent of the Michigan Department of Education.

Economic Dependency - Approximately 65% of the School District's

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

tax roll lies within the City of Saginaw.

Concentrations - Substantially all of the school district's employees work under collective bargaining agreements. Substantially all of the contracts agreements expired prior to yearend. Currently, the district is preparing to negotiate those contacts.

Comparative Data

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

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The new standard changes fund balance classifications to depict the relative strength of the spending constraints and clarifies the definitions of various governmental fund types. The new definition of special revenue funds will affect which activities the District will report in special revenue funds, as the Athletics Fund may no longer meet the definition for a special revenue fund. This statement is effective for the year ending June 30, 2011.

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 and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Function</u>	<u>Final Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund			
Basic programs	\$ 33,422,518	\$ 34,404,796	\$ (982,278)

During the year ended June 30, 2010, the District adopted a deficit

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

budget for the General Fund. The budget was adopted after discussion with the Michigan Department of Education and consensus that an accurate budget was the proper way to proceed.

Compliance - Bond Proceeds

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. The following is a summary of the revenue and expenditures in the Building Fund Series I, Building Fund Series II, and Building Fund Series III from the inception of the funds through the current fiscal year:

	Building Fund Series III
Revenues	\$ 25,368,169
Expenditures	10,854,697
	\$ 14,513,472

NOTE 3 - DEPOSITS AND INVESTMENTS

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 23,898,707	\$ 858,121	\$ 24,756,828
Investment	16,690,701	1,906,299	18,597,000
	\$ 40,589,408	\$ 2,764,420	\$ 43,353,828

The breakdown between deposits and investments for the School

District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 40,454,586
Investments in securities, mutual funds, and similar vehicles	2,898,063
Petty cash and cash on hand	1,179
Total	\$ 43,353,828

As of year end, the District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Equity Mutual Funds	\$ 12,018	-	-	-
Fixed Income Mutual Funds	25,456	-	-	-
US Treasury Notes	1,280,333	-	-	-
Government obligations	1,547,206	-	-	-
MI Liquid Asset Fund (MiLAF)	33,050	12 mos	AAA	S&P
	\$ 2,898,063			

Interest rate risk – The District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. District 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 District has no investment policy that would further limit its investment choices.

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of yearend, \$4,066,683 of the District's bank balance of \$25,978,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Certain investments were donated to the School District to be used to generate income to award scholarships to worthy students. Individual scholarship provisions specify how the investments and related income may be used.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units consists of the following:

	General Fund	Governmental Funds	Total
Federal grants	\$ 5,509,100	\$ 477,434	\$ 5,986,534
State Aid	11,203,451	-	11,203,451
Intermediate School District	151,306	-	151,306
Other	6,200	-	6,200
	<u>\$ 16,870,057</u>	<u>\$ 477,434</u>	<u>\$ 17,347,491</u>

All balances are deemed current and will be received in the following year.

NOTE 5 - CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 5,607,492	\$ -	\$ -	\$ 5,607,492
Construction in progress	24,468,113	9,225,290	23,196,771	10,496,632
Total capital assets not being depreciated	<u>30,075,605</u>	<u>9,225,290</u>	<u>23,196,771</u>	<u>16,104,124</u>
Capital assets being depreciated				
Buildings and additions	101,820,909	23,196,711	5,696,981	119,320,639
Equipment and furniture	3,512,167	-	-	3,512,167
Buses and other vehicles	3,617,053	-	-	3,617,053
Total capital assets being depreciated	<u>108,950,129</u>	<u>23,196,711</u>	<u>5,696,981</u>	<u>126,449,859</u>
Less accumulated depreciation for				
Buildings and additions	53,555,029	2,352,800	4,951,725	50,956,104
Equipment and furniture	2,845,001	159,081	-	3,004,082
Buses and other vehicles	3,312,273	89,402	-	3,401,675
Total accumulated depreciation	<u>59,712,303</u>	<u>2,601,283</u>	<u>4,951,725</u>	<u>57,361,861</u>
Net capital assets being depreciated	<u>49,237,826</u>	<u>20,595,428</u>	<u>745,256</u>	<u>69,087,998</u>
Net capital assets	<u>\$ 79,313,431</u>	<u>\$ 29,820,718</u>	<u>\$ 23,942,027</u>	<u>\$ 85,192,122</u>

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

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

Governmental activities

Depreciation expense	
Instruction	\$ 1,997,234
Support services	513,009
Community services	55,367
Food services	<u>35,673</u>
Total governmental activities	<u>\$ 2,601,283</u>
Impairment loss	
Instruction	<u>\$ 745,256</u>
Total	<u>\$ 3,346,539</u>

Asset Impairment

Governmental activities include an impairment loss of \$745,256 for buildings held by the School District that are no longer being used for the building's originally intended use.

Idle Assets

Buildings and additions includes buildings with a carrying value of \$982,000 that were idle at June 30, 2010.

Construction Contracts

As of year end, the School District had the following construction contracts in progress:

	Total Contract	Remaining Construction Commitment at Year End	Retainage	Contract Payable at Year End
Thompson				
Middle School	\$ -	\$ -	\$ 186,459	\$ -
Houghton				
Construction	2,109,591	1,928,927	18,066	162,598
Architect	<u>197,000</u>	<u>46,295</u>	-	-
Zilwaukee				
Construction	3,982,177	2,994,577	98,760	458,951
Architect	<u>244,000</u>	<u>32,940</u>	-	-
SASA				
Construction	7,222,291	35,354	718,694	309,736
Architect	584,414	21,916	-	-
Annax	<u>250,085</u>	<u>-</u>	<u>25,008</u>	<u>-</u>
SCC				
Construction	1,112,297	1,112,297	-	-
Architect	<u>171,586</u>	<u>39,465</u>	-	-
Total	<u>\$ 15,873,441</u>	<u>\$ 6,211,771</u>	<u>\$ 1,046,987</u>	<u>\$ 931,285</u>

Contracts payable at year end represent actual contractor billings and retainage and are recorded as a Capital Projects Fund liability. All projects are expected to be complete by September 30, 2011.

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

NOTE 6 - INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS

There were no interfund receivables or payables balances at year end.

Interfund transfers consist of the following:

	Transfers Out		
	General Fund	Building Fund	Total
		Series 2	
Transfers in			
Athletic Fund	\$ 746,637	\$ -	\$ 746,637
Debt Fund	703,340	-	703,340
Capital Projects	100,000	-	100,000
Building Fund - Series 3	-	3,080,654	3,080,654
	\$ 1,549,977	\$ 3,080,654	\$ 4,630,631

The transfers were made to cover the costs and debt payments of School District programs that were in excess of revenues generated from those activities.

The transfer between Building Fund - Series 2 and Building Fund Series III was made to close the activity in Building Fund - Series 2 and finance additional activities Building Fund - Series 3.

NOTE 7 - 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	Total
Delinquent property taxes	\$ 71,626	\$ -	\$ 71,626
Grant and categorical aid payments received prior to meeting all eligibility requirements	-	760,798	760,798
Total	\$ 71,626	\$ 760,798	\$ 832,424

NOTE 8 - STATE AID ANTICIPATION NOTE

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 19,665,000	\$ 29,246,500	\$ 19,665,000	\$ 29,246,500

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. Other long-term obligations include compensated absences, claims and judgments, termination benefits,

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

and certain risk liabilities.

For governmental activities, compensated absences and retirement incentives are primarily liquidated by the general fund.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
General					
obligation bonds	\$ 61,840,000	\$ -	\$ 995,000	\$ 60,845,000	\$ 1,050,000
Other bonds	3,510,000	-	565,000	2,945,000	590,000
Durant bonds	1,719,516	-	283,023	1,436,493	296,503
Bond issuance cost	(277,417)	-	(10,874)	(266,543)	-
Bond premium	230,214	-	9,203	221,011	-
Retirement incentives	2,135,000	-	1,067,500	1,067,500	1,067,500
Compensated absences	1,469,014	1,145,831	1,180,609	1,434,236	-
Total	<u>\$ 70,626,327</u>	<u>\$ 1,145,831</u>	<u>\$ 4,089,461</u>	<u>\$ 67,682,697</u>	<u>\$ 3,004,003</u>

For governmental activities, compensated absences and retirement incentives are primarily liquidated by the general fund.

General obligation bonds payable at year end, consists of the following:

\$22,130,000 Series 2004 serial bond due in annual installments of \$350,000 to \$1,200,000 through May 1, 2034, interest at 3.25% to 5.00%	\$ 17,125,000
\$28,160,000 Series 2006 serial bond due in annual installments of \$525,000 to \$1,500,000 through May 1, 2036, interest at 4.00% to 5.00%	24,500,000
\$19,540,000 Series 2008 serial bond due in annual installments of \$175,000 to \$2,200,000 through May 1, 2038, interest at 3.25% to 5.00%	<u>19,220,000</u>
Total general obligation bonded debt	<u>\$ 60,845,000</u>

Future principal and interest requirements for general obligation bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 1,050,000	\$ 2,820,999	\$ 3,870,999
2012	1,165,000	2,782,935	3,947,935
2013	1,290,000	2,740,438	4,030,438
2014	1,350,000	2,690,198	4,040,198
2015	1,415,000	2,637,698	4,052,698
2016-2020	8,060,000	12,274,226	20,334,226
2021-2025	10,065,000	10,286,542	20,351,542
2026-2030	12,635,000	7,711,556	20,346,556
2031-2035	15,890,000	4,431,748	20,321,748
2036-2038	<u>7,925,000</u>	<u>723,750</u>	<u>8,648,750</u>
Total	<u>\$ 60,845,000</u>	<u>\$ 49,100,090</u>	<u>\$ 109,945,090</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, these funds had reserved fund balance of

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

\$436,996 to pay this debt. Future debt and interest will be payable from future tax levies.

Other bonds consist of the following:

\$6,000,000 Series 2002A serial bond due in annual installments of \$490,000 to \$570,000 through June 1, 2015, interest at 3.70% to 4.40%	\$ 2,640,000
\$995,000 Series 2002B serial bond due in annual installments of \$100,000 to \$105,000 through June 1, 2014, interest at 4.25%	<u>305,000</u>
Total general obligation bonded debt	<u>\$ 2,945,000</u>

The other bonds will be paid by the General Fund.

Future principal and interest requirements for other bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2011	\$ 590,000	\$ 114,533	\$ 704,533
2012	610,000	96,403	706,403
2013	575,000	71,740	646,740
2014	600,000	47,553	647,553
2015	<u>570,000</u>	<u>23,940</u>	<u>593,940</u>
Total	<u>\$ 2,945,000</u>	<u>\$ 354,169</u>	<u>\$ 3,299,169</u>

Durant bonds consist of the following:

\$4,854,555 Durant Refunding serial bonds due in annual installments through 5/15/2013; interest 4.76% due annually	<u>\$ 1,436,493</u>
---	---------------------

These bond obligations issued by PA 142 are payable solely from and are secured solely by an assignment by each School District of certain categorical State School Aid payments. The State Legislature has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.

Future principal and interest requirements are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2011	\$ 296,503	\$ 44,399	\$ 340,902
2012	814,602	208,036	1,022,638
2013	<u>325,388</u>	<u>15,493</u>	<u>340,881</u>
Total	<u>\$ 1,436,493</u>	<u>\$ 267,928</u>	<u>\$ 1,704,421</u>

The total interest expenditures for the fiscal year end was \$3,045,701.

Compensated Absences

Accrued compensated absences at year end, consists of accrued sick time benefits. The entire vested and estimated unvested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Retirement Incentives

The purpose of the Teacher Severance Incentive Plan (SIP) is to provide an incentive to eligible employees to retire sooner than they would have otherwise. Participating in the Plan is totally voluntary on the part of an eligible employee. If an eligible employee elects not to resign under the Plan, the employee's election shall not have any impact on the employee's current or future employment with the

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

district. The employee must be actively employed by the District as a current member of the bargaining unit. The retirement incentives will be paid for by the General Fund.

The future payments are as follows:

2011	<u>\$1,067,500</u>
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NOTE 9 - RISK MANAGEMENT

The School District participates in a Municipal Risk Retention Pool Program through the Middle Cities Risk Management Trust. This program provides substantially all the insurance needs of the School District, including property, general liability, automobile and umbrella. The contributions made by the School District fund the program at rates predicated on expected losses, excess insurance premium contribution and administration costs, including appropriate state assessment. The possibility of additional claims exists but the amount of liability to the School District would be immaterial by the time the aggregate stop-loss coverage is triggered. There also is a possibility of a refund due the School District. Therefore, neither contingent liabilities nor assets have been recognized on the School District's financial statements. For each of the past three years, there have been no changes to the coverage and there have been no insurance settlements which exceed insurance coverage.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The school district has \$246,677 of unemployment compensation expense for the year ended June 30, 2010. Of this amount, \$59,000 has been accrued in the district-wide financial statements for known claims incurred from January to June, 2010, and is payable in fiscal year 2010-11.

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal District. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the period ended June 30, 2010.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Plan Description

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing multiple-employer public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report provides information for the plan as a whole and information helpful for understanding the scale of the information presented relative to the School. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or calling 800-381-5111 or on the web at <http://www.michigan.gov/orsschools>.

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

Funding Policy

The School is required by the School Finance Reform Act to contribute to MPSERS an actuarially determined percentage of payroll for all participating employees. The School's actual contributions match the required contributions. Additionally, employees participating in the Member Investment Plan contributed 3% to 6.4% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPSERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPSERS pension funding for the three-year period beginning July 1, 2007 through June 30, 2010.

	2010	2009	2008
Funding percentage range	9.73-10.13%	9.73-10.17%	10.17-11.19%
Total payroll	\$ 54,073,466	\$ 60,024,631	\$ 61,826,892
Total covered payroll	51,431,453	59,149,988	60,705,676
School contributions	5,396,532	6,002,463	6,491,824
Employee MIP contributions	1,509,906	1,623,938	1,617,487
Tax deferred payment program	311,401	372,401	406,794

Trend Information

Ten-year historical trend information is presented in the September 30, 2009, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2009, the latest date for which information is available, approximates \$ 41.8 billion and \$ 35.2 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPSERS was less than 1% for the year ended September 30, 2009.

Post Employment Benefits

In addition to the pension benefits described above, the School Finance Reform Act requires the School District to provide post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPSERS). Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health care, dental and vision coverage at the time of receiving the benefits. The School's actual contributions match the required contributions.

The following table discloses pertinent information relative to MPSERS post employment benefits funding for the three-year period beginning July 1, 2007 through June 30, 2010.

	2010	2009	2008
Funding percentage range	6.81%	6.55-6.81%	6.55%
School post employment benefits contributions	\$ 3,360,246	\$ 3,803,717	\$ 3,702,316

NOTE 11 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the fiscal year June 30, 2010.

The District is the defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the

School District of the City of Saginaw
Notes to Financial Statements
June 30, 2010

opinion of the District's attorneys, the resolution of these matters will not have a material adverse effect on the condition of the District.

NOTE 12 - SUBSEQUENT EVENT

Subsequent to June 30, 2010, the School District has paid the principal balance and accrued interest of \$29,246,500 on the short-term state aid anticipation note borrowed on August 20, 2009 and has subsequently borrowed \$29,000,000 in short-term state aid anticipation notes through the Michigan Municipal Bond Authority. Proceeds from the borrowing were distributed to the School District August 20, 2010.



**REQUIRED
SUPPLEMENTAL
INFORMATION**

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual	(Under)
	Original	Final		Final Budget
Revenue from local sources				
General property taxes	\$ 7,580,443	\$ 7,650,000	\$ 7,607,663	\$ (42,337)
Penalties and interest on delinquent taxes	50,000	20,000	51,394	31,394
Tuition and rent	10,000	10,000	331,339	321,339
Earnings on investments	190,000	100,000	280,736	180,736
Other local revenue				
Gifts and grants	63,098	88,687	146,656	57,969
Miscellaneous	101,501	104,500	99,733	(4,767)
	<u>7,995,042</u>	<u>7,973,187</u>	<u>8,517,521</u>	<u>544,334</u>
Revenue from intermediate sources				
Special education	<u>1,600,000</u>	<u>1,004,000</u>	<u>926,673</u>	<u>(77,327)</u>
Revenue from state sources				
Grants - unrestricted				
State school aid	57,328,070	49,234,969	49,849,908	614,939
Grants - restricted				
At Risk	4,948,743	4,948,743	5,534,947	586,204
Special education	102,011	203,662	99,460	(104,202)
Adult education	37,050	38,634	40,502	1,868
Vocational Education	175,542	156,595	156,595	-
Great Parents / Great Start	1,016,400	1,016,400	1,273,511	257,111
Other state sources				
Special Education Headlee OB	481,200	4,900,000	5,004,201	104,201
Renaissance Zones	506,282	601,522	650,687	49,165
Other state revenue	87,000	87,000	28,371	(58,629)
	<u>64,682,298</u>	<u>61,187,525</u>	<u>62,638,182</u>	<u>1,450,657</u>

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual	(Under)
	Original	Final		Final Budget
Revenue from federal sources				
Grants restricted				
Received through the State of Michigan				
Title I	\$ 10,190,612	\$ 7,019,875	\$ 7,685,549	\$ 665,674
REM	-	-	131,892	131,892
21st Century	1,500,000	1,499,999	1,499,999	-
Title II-A	1,528,870	1,325,118	561,075	(764,043)
Title II-D	189,384	221,744	59,887	(161,857)
Drug Free Schools	140,519	108,327	92,797	(15,530)
Title III-English Language Acquisition	-	-	4,295	4,295
Equipment Grant	-	60,622	60,622	-
Received through intermediate source				
Michigan Nutrition Network	-	-	28,554	28,554
Carl Perkins	522,913	531,935	530,614	(1,321)
Special education - IDEA	3,031,838	3,774,112	3,729,076	(45,036)
ARRA - State Fiscal Stabilization Fund	-	2,599,855	2,599,855	-
Technology Prep	-	-	24,093	24,093
Early On	-	-	28,552	28,552
WIA Youth	1,316,787	1,316,787	1,332,279	15,492
Medicaid	20,000	20,000	18,837	(1,163)
Math and Science Grants	-	-	5,309	5,309
Total federal sources	<u>18,440,923</u>	<u>18,478,374</u>	<u>18,393,285</u>	<u>(85,089)</u>
Total revenues	<u>\$ 92,718,263</u>	<u>\$ 88,643,086</u>	<u>\$ 90,475,661</u>	<u>\$ 1,832,575</u>

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2010

Expenditures	Budgeted Amounts		Actual	(Over) Under
	Original	Final		Final Budget
Instruction				
Basic programs				
Elementary	\$ 17,805,134	\$ 16,872,740	\$ 17,486,864	\$ (614,124)
Middle school	4,380,696	4,825,830	4,909,205	(83,375)
Senior high school	8,288,006	8,973,654	9,121,014	(147,360)
Other basic programs	1,979,093	2,080,026	2,288,211	(208,185)
Summer school	504,004	670,268	599,502	70,766
Added needs				
Special education	11,399,318	11,585,166	11,315,500	269,666
Compensatory education	7,147,070	6,457,166	6,491,676	(34,510)
Vocational education	1,794,848	1,953,205	1,985,027	(31,822)
Total instruction	<u>53,298,169</u>	<u>53,418,055</u>	<u>54,196,999</u>	<u>(778,944)</u>
Supporting services				
Pupil services				
Guidance services	988,202	789,266	772,637	16,629
Health services	303,320	279,020	435,242	(156,222)
Psychological services	1,334,229	710,773	836,983	(126,210)
Speech pathology audiology	1,110,224	814,764	845,976	(31,212)
Social work services	1,641,786	1,446,206	1,609,829	(163,623)
Other pupil services	2,165,140	2,577,742	2,087,444	490,298
Instructional staff				
Improvement of instruction	1,883,448	468,868	605,024	(136,156)
Library	588,495	593,845	540,341	53,504
Audio visual	210,200	207,200	202,043	5,157
Supervision direction	1,954,140	1,957,638	1,739,132	218,506
General administration				
Board of education	513,150	393,181	310,681	82,500
Executive administration	386,125	388,925	359,048	29,877
School administration				
Office of the principal	<u>5,334,736</u>	<u>5,539,173</u>	<u>5,393,360</u>	<u>145,813</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2010

Expenditures	Budgeted Amounts		Actual	(Over) Under
	Original	Final		Final
				Budget
Business services				
Fiscal services	1,169,593	1,103,893	1,046,520	57,373
Internal services	245,100	236,100	178,913	57,187
Other business services	2,404,500	1,824,500	1,737,849	86,651
Operation and maintenance of plant	8,915,696	9,482,954	9,340,451	142,503
Security	1,411,953	1,523,699	1,495,283	28,416
Pupil transportation services	4,142,680	2,416,459	2,162,586	253,873
Central services				
Planning, research, development and evaluation	321,436	361,546	200,570	160,976
Informational services	351,938	335,938	294,176	41,762
Staff services	721,185	730,309	650,285	80,024
Data processing services	907,625	818,800	710,555	108,245
Other central services	375,500	479,622	403,787	75,835
Total supporting services	39,380,401	35,480,421	33,958,715	1,521,706
Community services				
Direction	273,980	271,100	175,968	95,132
Other community services	1,340,612	1,374,498	1,436,261	(61,763)
Total community services	1,614,592	1,645,598	1,612,229	33,369
Other financing uses				
Operating transfers out				
Athletic fund	700,000	600,000	746,637	(146,637)
Food service fund	60,000	60,000	-	60,000
Capital project fund	200,000	200,000	100,000	100,000
Debt service fund	700,000	700,000	703,340	(3,340)
Total other financing uses	1,660,000	1,560,000	1,549,977	10,023
Total expenditures and other financing uses	95,953,162	92,104,074	91,317,920	786,154
Net change in fund balance	(3,234,899)	(3,460,988)	(842,259)	2,618,729
Fund balance - July 1	1,108,900	1,108,900	1,108,900	-
Fund balance - June 30	\$ (2,125,999)	\$ (2,352,088)	\$ 266,641	\$ 2,618,729



**OTHER
SUPPLEMENTAL
INFORMATION**

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2010

	Special Revenue Funds		Capital Project Fund		Debt Service Funds					Durant	Total Nonmajor Governmental Funds
	Food Service Fund	Athletics Fund	Permanent Improvement Fund	Building Fund Series 2	2002 A Bond Fund	2002 B Bond Fund	2004 Bond Fund	2006 Bond Fund	2008 Bond Fund		
Assets											
Cash and cash equivalents	\$ -	\$ 11,720	\$ 165,069	\$ -	\$ 137	\$ 48,123	\$ 257,733	\$ 106,869	\$ 24,995	\$ -	\$ 614,646
Taxes receivable	-	-	-	-	-	-	54,960	-	-	-	54,960
Due from other governments	477,434	-	-	-	-	-	-	-	-	-	477,434
Inventories	16,499	-	-	-	-	-	-	-	-	-	16,499
Total assets	\$ 493,933	\$ 11,720	\$ 165,069	\$ -	\$ 137	\$ 48,123	\$ 312,693	\$ 106,869	\$ 24,995	\$ -	\$ 1,163,539
Liabilities and Fund Balance											
Liabilities											
Accounts payable	\$ 91,109	\$ 11,720	\$ -	\$ -	\$ 137	\$ -	\$ 112	\$ 112	\$ 500	\$ -	\$ 103,690
Checks written from future deposits	199,960	-	-	-	-	-	-	-	-	-	199,960
Deferred revenue	-	-	-	-	-	-	54,960	-	-	-	54,960
Total liabilities	291,069	11,720	-	-	137	-	55,072	112	500	-	358,610
Fund Balance											
Reserved for inventory	16,499	-	-	-	-	-	-	-	-	-	16,499
Reserved for debt service	-	-	-	-	-	-	257,621	106,757	24,495	-	388,873
Designated for capital projects	-	-	165,069	-	-	-	-	-	-	-	165,069
Designated for debt service	-	-	-	-	-	48,123	-	-	-	-	48,123
Undesignated	186,365	-	-	-	-	-	-	-	-	-	186,365
Total fund balance	202,864	-	165,069	-	-	48,123	257,621	106,757	24,495	-	804,929
Total liabilities and fund balance	\$ 493,933	\$ 11,720	\$ 165,069	\$ -	\$ 137	\$ 48,123	\$ 312,693	\$ 106,869	\$ 24,995	\$ -	\$ 1,163,539

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2010

	Special Revenue Funds		Capital Project Fund		Debt Service Funds					Total	
	Food Service Fund	Athletics Fund	Permanent Improvement Fund	Building Fund Series 2	2002 A Bond Fund	2002 B Bond Fund	2004 Bond Fund	2006 Bond Fund	2008 Bond Fund	Durant Bond Fund	Nonmajor Governmental Funds
Revenues											
Local sources	\$ 317,511	\$ 130,371	\$ -	\$ 7,487	\$ -	\$ 1,675	\$ 688,601	\$ 1,752,188	\$ 1,101,425	\$ -	\$ 3,999,258
State sources	186,896	-	-	-	-	-	-	-	-	340,897	527,793
Federal sources	3,484,170	-	-	-	-	-	-	-	-	-	3,484,170
Total revenues	<u>3,988,577</u>	<u>130,371</u>	<u>-</u>	<u>7,487</u>	<u>-</u>	<u>1,675</u>	<u>688,601</u>	<u>1,752,188</u>	<u>1,101,425</u>	<u>340,897</u>	<u>8,011,221</u>
Expenditures											
Education											
Food services	3,801,574	-	-	-	-	-	-	-	-	-	3,801,574
Athletics	-	877,008	-	-	-	-	-	-	-	-	877,008
Capital projects	-	-	130,982	20,561	-	-	-	-	-	-	151,543
Debt retirement											
Principal	-	-	-	-	470,000	95,000	325,000	500,000	170,000	283,023	1,843,023
Interest	-	-	-	-	122,740	17,000	805,450	1,145,206	906,430	57,874	3,054,700
Bank fees	-	-	-	-	275	-	225	225	500	-	1,225
Total expenditures	<u>3,801,574</u>	<u>877,008</u>	<u>130,982</u>	<u>20,561</u>	<u>593,015</u>	<u>112,000</u>	<u>1,130,675</u>	<u>1,645,431</u>	<u>1,076,930</u>	<u>340,897</u>	<u>9,729,073</u>
Other financing sources (uses)											
Transfers in											
General Fund	-	746,637	100,000	-	593,015	110,325	-	-	-	-	1,549,977
Transfers out											
Capital Projects Fund	-	-	-	(3,080,654)	-	-	-	-	-	-	(3,080,654)
Total other financing sources (uses)	<u>-</u>	<u>746,637</u>	<u>100,000</u>	<u>(3,080,654)</u>	<u>593,015</u>	<u>110,325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,530,677)</u>
Net change in fund balance	187,003	-	(30,982)	(3,093,728)	-	-	(442,074)	106,757	24,495	-	(3,248,529)
Fund balance - July 1	15,861	-	196,051	3,093,728	-	48,123	699,695	-	-	-	4,053,458
Fund balance - June 30	<u>\$ 202,864</u>	<u>\$ -</u>	<u>\$ 165,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,123</u>	<u>\$ 257,621</u>	<u>\$ 106,757</u>	<u>\$ 24,495</u>	<u>\$ -</u>	<u>\$ 804,929</u>



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.

Food Service Fund - This fund is used to account for activities related to operation of cafeterias in the district's school buildings, providing nourishing breakfasts, lunches, and snacks to students in all grades.

Athletics Fund - This fund is used to account for activities related to operation of the district's athletic programs. A comprehensive program including football, basketball, baseball, softball, hockey, soccer, tennis, swimming, golf, track, cross country, wrestling, volleyball, cheerleading, and pompon is provided.

SCHOOL DISTRICT OF THE CITY OF SAGINAW

Special Revenue Funds

Combining Statement of Revenues, Expenditures and

Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2010

	Food Service Fund			Athletics Fund			Total		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance From Final Budget
Revenues									
Local sources	\$ 394,721	\$ 317,511	\$ (77,210)	\$ 147,000	\$ 130,371	\$ (16,629)	\$ 541,721	\$ 447,882	\$ (93,839)
State sources	230,000	186,896	(43,104)	-	-	-	230,000	186,896	(43,104)
Federal sources	<u>3,310,000</u>	<u>3,484,170</u>	<u>174,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,310,000</u>	<u>3,484,170</u>	<u>174,170</u>
Total revenues	<u>3,934,721</u>	<u>3,988,577</u>	<u>53,856</u>	<u>147,000</u>	<u>130,371</u>	<u>(16,629)</u>	<u>4,081,721</u>	<u>4,118,948</u>	<u>37,227</u>
Expenditures									
Salaries	1,162,690	1,073,439	89,251	308,800	363,353	(54,553)	1,471,490	1,436,792	34,698
Employee benefits	664,225	471,689	192,536	98,450	107,485	(9,035)	762,675	579,174	183,501
Contracted services	258,200	266,868	(8,668)	296,500	351,366	(54,866)	554,700	618,234	(63,534)
Food cost	1,824,160	1,974,236	(150,076)	-	-	-	1,824,160	1,974,236	(150,076)
Supplies and materials	<u>22,550</u>	<u>15,342</u>	<u>7,208</u>	<u>43,250</u>	<u>54,804</u>	<u>(11,554)</u>	<u>65,800</u>	<u>70,146</u>	<u>(4,346)</u>
Total expenditures	<u>3,931,825</u>	<u>3,801,574</u>	<u>130,251</u>	<u>747,000</u>	<u>877,008</u>	<u>(130,008)</u>	<u>4,678,825</u>	<u>4,678,582</u>	<u>243</u>
Excess (deficiency) of revenues over expenditures	2,896	187,003	184,107	(600,000)	(746,637)	(146,637)	(597,104)	(559,634)	37,470
Other financing sources									
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>600,000</u>	<u>746,637</u>	<u>146,637</u>	<u>600,000</u>	<u>746,637</u>	<u>146,637</u>
Net change in fund balance	2,896	187,003	184,107	-	-	-	2,896	187,003	184,107
Fund balance - July 1	<u>15,861</u>	<u>15,861</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,861</u>	<u>15,861</u>	<u>-</u>
Fund balance - June 30	<u>\$ 18,757</u>	<u>\$ 202,864</u>	<u>\$ 184,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,757</u>	<u>\$ 202,864</u>	<u>\$ 184,107</u>



CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Permanent Improvement Fund - This fund is used to account for major site and building improvements not covered by the Durant Fund.

Building Fund - Series 2 - This fund is used to account for the proceeds of the second series of bonds issued as part of the \$70,000,000 in bonds approved by the District's voters. The proceeds will be used to construct a new middle school and provide security enhancements at two high schools.

Building Fund - Series 3 - This fund is used to account for the proceeds of the third series of bonds issued as part of the \$70,000,000 in bonds approved by the District's voters. The proceeds will be used to construct a new middle school and provide security enhancements at two high schools.

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Capital Project Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2010

	Non-Major Fund			Non-Major Fund		
	Permanent Improvement Fund			Building Fund- Series 2		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Positive (Negative)
Revenues						
Local sources						
Earnings on investments	\$ -	\$ -	\$ -	\$ -	\$ 7,487	\$ 7,487
Expenditures						
Capital outlay						
Building renovations	200,000	130,982	69,018	500,000	20,561	479,439
Other Financing Sources (Uses)						
Transfer from General Fund	200,000	100,000	(100,000)	-	-	-
Transfer from Building Fund - Series 2	-	-	-	-	-	-
Transfer to Building Fund - Series 3	-	-	-	(2,593,728)	(3,080,654)	(486,926)
Bond proceeds	-	-	-	-	-	-
Total other financing sources (uses)	200,000	100,000	(100,000)	(2,593,728)	(3,080,654)	(486,926)
Net Change in Fund Balance	-	(30,982)	69,018	(3,093,728)	(3,093,728)	486,926
Fund balance - beginning of year	196,051	196,051	-	3,093,728	3,093,728	-
Fund balance - end of year	\$ 196,051	\$ 165,069	\$ 69,018	\$ -	\$ -	\$ 486,926

(Continued)

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Capital Project Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2010

	Major Fund			Total		
	Building Fund - Series 3					
	Budget	Actual	Variance From Final Budget	Budget	Actual	Variance From Final Budget
Revenues						
Local sources						
Earnings on investments	\$ -	\$ 34,678	\$ 34,678	\$ -	\$ 42,165	\$ 42,165
Expenditures						
Capital outlay						
Building renovations	10,050,000	9,204,730	845,270	10,750,000	9,356,273	1,393,727
Other Financing Sources (Uses)						
Transfer from General Fund	-	-	-	200,000	100,000	(100,000)
Transfer from Building Fund - Series 2	2,593,728	3,080,654	486,926	2,593,728	3,080,654	486,926
Transfer to Building Fund - Series 3	-	-	-	(2,593,728)	(3,080,654)	(486,926)
Bond proceeds	-	-	-	-	-	-
Total other financing sources (uses)	2,593,728	3,080,654	486,926	200,000	100,000	(100,000)
Net Change in Fund Balance	(7,456,272)	(6,089,398)	1,366,874	(10,550,000)	(9,214,108)	1,335,892
Fund balance - beginning of year	20,602,870	20,602,870	-	23,892,649	23,892,649	-
Fund balance - end of year	\$ 13,146,598	\$ 14,513,472	\$ 1,366,874	\$ 13,342,649	\$ 14,678,541	\$ 1,335,892



DEBT SERVICE FUNDS

Debt Service Funds are used to record tax and interest revenue and operating transfers in , and the payment of interest, principal and other expenditures on long-term bonded debt by bond issues.

2002 A Bond Fund - This fund is used to account for the payment of principal and interest on bonds issued to renovate the Arthur Eddy K-8 instructional building.

2002 B Bond Fund - This fund is used to account for the payment of principal and interest on bonds issued to renovate and equip the Arthur Eddy K-8 instructional building.

2004 Bond Fund - This fund is used to account for the payment of principal and interest on bonds issued to renovate three elementary school buildings and construct one new elementary building.

2006 Bond Fund - This fund is used to account for the payment of principal and interest on bonds issued to renovate school buildings and construct one new middle school.

2008 Bond Fund - This fund is used to account for the payment of principal and interest on bonds issued for construction of Saginaw Arts and Science Academy and Zilwaukee and improvements to Arthur Hill High School and Saginaw High School.

Durant Bond Fund - This fund is used to account for the payment of principal and interest on bonds issued as a result of the Durant special education lawsuit settlement. The State of Michigan makes these payments. The school district records a state source revenue and an offsetting principal and interest expenditure for this transaction.

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Debt Service Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2010

	<u>Non-Major Fund</u>			<u>Non-Major Fund</u>		
	<u>2002 A Bond Fund</u>			<u>2002 B Bond Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance From Final Budget</u>
Revenues						
Local sources						
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Earnings on investments	-	-	-	-	1,675	1,675
Total local sources	-	-	-	-	1,675	1,675
State sources	-	-	-	-	-	-
Total revenues	-	-	-	-	1,675	1,675
Expenditures						
Debt retirement						
Principal	470,000	470,000	-	95,000	95,000	-
Interest	122,740	122,740	-	17,000	17,000	-
Bank fees	275	275	-	-	-	-
Total expenditures	593,015	593,015	-	112,000	112,000	-
Other financing sources						
Transfers from						
General Fund	593,015	593,015	-	112,000	110,325	1,675
Net change in fund balance	-	-	-	-	-	1,675
Fund balance - July 1	-	-	-	48,123	48,123	-
Fund balance - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,123</u>	<u>\$ 48,123</u>	<u>\$ 1,675</u>

(Continued)

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Debt Service Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2010

	<u>Non-Major Fund</u>			<u>Non-Major Fund</u>		
	<u>2004 Bond Fund</u>			<u>2006 Bond Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance From Final Budget</u>
Revenues						
Local sources						
Property Taxes	\$ 1,130,675	\$ 686,938	\$ (443,737)	\$ 1,647,431	\$ 1,750,000	\$ 102,569
Earnings on investments	<u>-</u>	<u>1,663</u>	<u>1,663</u>	<u>-</u>	<u>2,188</u>	<u>2,188</u>
Total local sources	<u>1,130,675</u>	<u>688,601</u>	<u>(442,074)</u>	<u>1,647,431</u>	<u>1,752,188</u>	<u>104,757</u>
State sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,130,675</u>	<u>688,601</u>	<u>(442,074)</u>	<u>1,647,431</u>	<u>1,752,188</u>	<u>104,757</u>
Expenditures						
Debt retirement						
Principal	325,000	325,000	-	500,000	500,000	-
Interest	805,450	805,450	-	1,145,206	1,145,206	-
Bank fees	<u>225</u>	<u>225</u>	<u>-</u>	<u>2,225</u>	<u>225</u>	<u>(2,000)</u>
Total expenditures	<u>1,130,675</u>	<u>1,130,675</u>	<u>-</u>	<u>1,647,431</u>	<u>1,645,431</u>	<u>(2,000)</u>
Other financing sources						
Transfers from General Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	(442,074)	(442,074)	-	106,757	106,757
Fund balance - July 1	<u>699,695</u>	<u>699,695</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30	<u>\$ 699,695</u>	<u>\$ 257,621</u>	<u>\$ (442,074)</u>	<u>\$ -</u>	<u>\$ 106,757</u>	<u>\$ 106,757</u>

(Continued)

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Debt Service Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2010

	<u>Non-Major Fund</u>			<u>Non-Major Fund</u>		
	<u>2008 Bond Fund</u>			<u>Durant Bond Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance From Final Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance From Final Budget</u>
Revenues						
Local sources						
Property Taxes	\$ 1,077,430	\$ 1,100,000	\$ 22,570	\$ -	\$ -	\$ -
Earnings on investments	-	1,425	1,425	-	-	-
Total local sources	<u>1,077,430</u>	<u>1,101,425</u>	<u>23,995</u>	<u>-</u>	<u>-</u>	<u>-</u>
State sources	-	-	-	340,500	340,897	397
Total revenues	<u>1,077,430</u>	<u>1,101,425</u>	<u>23,995</u>	<u>340,500</u>	<u>340,897</u>	<u>397</u>
Expenditures						
Debt retirement						
Principal	170,000	170,000	-	283,023	283,023	-
Interest	906,430	906,430	-	57,477	57,874	397
Bank fees	1,000	500	(500)	-	-	-
Total expenditures	<u>1,077,430</u>	<u>1,076,930</u>	<u>(500)</u>	<u>340,500</u>	<u>340,897</u>	<u>397</u>
Other financing sources						
Transfers from General Fund	-	-	-	-	-	-
Net change in fund balance	-	24,495	24,495	-	-	-
Fund balance - July 1	-	-	-	-	-	-
Fund balance - June 30	<u>\$ -</u>	<u>\$ 24,495</u>	<u>\$ 24,495</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Debt Service Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2010

	<u>Total</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance From Final Budget</u>
Revenues			
Local sources			
Property Taxes	\$ 3,855,536	\$ 3,536,938	\$ (318,598)
Earnings on investments	-	6,951	6,951
Total local sources	<u>3,855,536</u>	<u>3,543,889</u>	<u>(311,647)</u>
State sources	<u>340,500</u>	<u>340,897</u>	<u>397</u>
Total revenues	<u>4,196,036</u>	<u>3,884,786</u>	<u>(311,250)</u>
Expenditures			
Debt retirement			
Principal	1,843,023	1,843,023	-
Interest	3,054,303	3,054,700	397
Bank fees	3,725	1,225	(2,500)
Total expenditures	<u>4,901,051</u>	<u>4,898,948</u>	<u>(2,103)</u>
Other financing sources			
Transfers from			
General Fund	<u>705,015</u>	<u>703,340</u>	<u>(1,675)</u>
Net change in fund balance	-	(310,822)	(310,822)
Fund balance - July 1	<u>747,818</u>	<u>747,818</u>	<u>-</u>
Fund balance - June 30	<u>\$ 747,818</u>	<u>\$ 436,996</u>	<u>\$ (310,822)</u>



FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the School District in a trustee or agent capacity. The School District presently maintains the following Fiduciary Funds:

Private Purpose Trust Funds

Scholarship Fund - Accounts for funds entrusted to the School District for scholarship loans and awards to worthy students when the principal and interest of the trust may be spent.

Scholarship Endowment Fund - Accounts for funds entrusted to the School District and the principal must remain intact. Interest earned may be spent for scholarship awards to worthy students.

Agency Funds:

Agency Fund - Accounts for monies held by the School District as fiscal agent.

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Combining Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Funds
Year Ended June 30, 2010

	Scholarship Fund	Scholarship Endowment Fund	Total
Revenues			
Local sources	\$ 141,396	\$ -	\$ 141,396
Expenses			
Scholarships and awards	74,251	-	74,251
Change in net assets	67,145	-	67,145
Net Assets - July 1	1,849,089	254,138	2,103,227
Net Assets - June 30	<u>\$ 1,916,234</u>	<u>\$ 254,138</u>	<u>\$ 2,170,372</u>

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Combining Statement of Fiduciary Net Assets - Private Purpose Trust Funds
June 30, 2010

	Assets	Scholarship Fund	Scholarship Endowment Fund	Total
Cash and cash equivalents		\$ 230,273	\$ -	\$ 230,273
Investments		1,652,161	254,138	1,906,299
Loans receivable		33,800	-	33,800
	Total assets	\$ 1,916,234	\$ 254,138	\$ 2,170,372
	Net Assets			
Restricted for scholarships and loans		\$ 1,916,234	\$ 254,138	\$ 2,170,372

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2010

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>
Assets				
Cash and cash equivalents	\$ 628,460	\$ 91,446	\$ 92,058	\$ 627,848
Liabilities				
Accounts payable	\$ 538	\$ 123,155	\$ 92,058	\$ 31,635
Due to student and other groups	627,922	91,446	123,155	596,213
Total liabilities	\$ 628,460	\$ 214,601	\$ 215,213	\$ 627,848

SCHOOL DISTRICT OF THE CITY OF SAGINAW
Agency Funds
Schedule of Changes in Due to Student and Other Groups
Year Ended June 30, 2010

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010
Student Groups				
Senior High Schools				
Arthur Hill	\$ 92,598	\$ 70	\$ 7,709	\$ 84,959
Saginaw	25,933	12,420	498	37,855
Middle Schools				
Central	10,349	2	8,433	1,918
Thompson	8,189	6	1,167	7,028
Webber	3,018	-	3,018	-
Elementary Schools				
Arthur Eddy	13,107	21	5,484	7,644
Chester Miller	6,235	5,181	-	11,416
Coulter	47	-	47	-
Handley	38,421	1,161	209	39,373
Heavenrich	3,782	285	-	4,067
Herig	272	166	-	438
Houghton	5,884	2	3,725	2,161
Jerome	14,831	10	2,873	11,968
Jessie Loomis	9,001	2,272	-	11,273
Jessie Rouse	1,556	1	396	1,161
Kempton	8,837	3,277	-	12,114
Longfellow	1,894	-	1,329	565
Merrill Park	15,692	13	802	14,903
Stone	1,170	-	1,170	-
Zilwaukee	210	7,433	-	7,643
Subtotal carried forward	261,026	32,320	36,860	256,486

(Continued)

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SCHOOL DISTRICT OF THE CITY OF SAGINAW
Agency Funds
Schedule of Changes in Due to Student and Other Groups
Year Ended June 30, 2010

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2010
Subtotal brought forward	261,026	32,320	36,860	256,486
Adult and Other Schools				
Alternative High School	9,917	99	-	10,016
Saginaw Career Complex	44,178	29,530	81	73,627
Saginaw Arts and Sciences Academy	32,360	24,709	767	56,302
Community Education Department	3,046	-	1,540	1,506
Hillier Education Center	189	-	-	189
Total due to student groups	<u>350,716</u>	<u>86,658</u>	<u>39,248</u>	<u>398,126</u>
Other Groups				
21st Century	3,455	-	-	3,455
Administrative	16,196	-	16,196	-
Bus Garage	3,387	285	-	3,672
FEMA	13,110	3,272	-	16,382
Parent Resource	817	1,231	-	2,048
Project SOAR	5	-	-	5
Saginaw AAU Sports	77	-	-	77
Social Work	715	-	165	550
Special education	1	-	-	1
Special Events	8,203	-	891	7,312
Special Needs - District-wide	185,153	-	53,978	131,175
Staff Development Center	46,087	-	12,677	33,410
Total due to other groups	<u>277,206</u>	<u>4,788</u>	<u>83,907</u>	<u>198,087</u>
Total due to student and other groups	<u><u>\$ 627,922</u></u>	<u><u>\$ 91,446</u></u>	<u><u>\$ 123,155</u></u>	<u><u>\$ 596,213</u></u>

School District of the City of Saginaw

Saginaw, Michigan

Single Audit Report

June 30, 2010

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Board of Education
School District of the City of Saginaw
Saginaw, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Saginaw as of and for the year ended June 30, 2010, which collectively comprise School District of the City of Saginaw's basic financial statements and have issued our report thereon dated November 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District of the City of Saginaw's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting identified as 2010-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether School District of the City of Saginaw's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We noted certain matters that we reported to management of School District of the City of Saginaw in a separate letter dated November 12, 2010.

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

This report is intended solely for the information and use of management, the Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan

November 12, 2010

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

Members of the Board of Education
School District of the City of Saginaw
Saginaw, Michigan

Compliance

We have audited School District of the City of Saginaw's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of School District of the City of Saginaw's major federal programs for the year ended June 30, 2010. School District of the City of Saginaw's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of School District of the City of Saginaw's management. Our responsibility is to express an opinion on School District of the City of Saginaw's compliance based on our audit.

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

In our opinion, School District of the City of Saginaw complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of School District of the City of Saginaw as of and for the year ended June 30, 2010, and have issued our report thereon dated November 12, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise School District of the City of Saginaw's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, Board of Education, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan

November 12, 2010

School District of the City of Saginaw
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Deferred) Revenue June 30, 2009	(Memo Only) Prior Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue June 30, 2010
U.S. Department of Agriculture							
Passed through Saginaw Intermediate School District							
Michigan Nutrition Network	10.551	\$ 28,554	\$ -	\$ -	\$ 28,554	\$ 22,560	\$ 5,994
Child Nutrition Cluster							
Passed through Michigan Department of Education							
Cash assistance							
091970 - National School Breakfast	10.553	733,552	106,604	733,552	-	106,604	-
101970 - National School Breakfast		737,930	-	-	737,930	626,494	111,436
			<u>106,604</u>	<u>733,552</u>	<u>737,930</u>	<u>733,098</u>	<u>111,436</u>
091950 - Section 4 - All Lunches	10.555	273,321	-	210,622	62,699	62,699	-
101950 - Section 4 - All Lunches		196,884	-	-	196,884	196,884	-
091960 - Section 11 - Free and Reduced	10.555	2,124,367	326,397	1,958,553	165,814	492,211	-
101960 - Section 11 - Free and Reduced		1,905,482	-	-	1,905,482	1,570,000	335,482
091980 - National School Snack Program	10.555	12,394	1,266	11,450	944	2,210	-
101980 - National School Snack Program		9,340	-	-	9,340	9,093	247
			<u>327,663</u>	<u>2,180,625</u>	<u>2,341,163</u>	<u>2,333,097</u>	<u>335,729</u>
090900 - Summer Food Meals	10.559	131,561	35,810	35,810	54,494	90,304	-
091900 - Summer Food Sponsor ADM		8,415	-	-	8,415	8,415	-
100900 - Summer Food Meals		47,433	-	-	47,433	47,433	-
			<u>35,810</u>	<u>35,810</u>	<u>110,342</u>	<u>146,152</u>	<u>-</u>
Total cash assistance			<u>470,077</u>	<u>2,949,987</u>	<u>3,189,435</u>	<u>3,212,347</u>	<u>447,165</u>
Non-cash assistance (commodities)							
Entitlement commodities	10.555	212,047	-	-	99,536	99,536	-
Bonus commodities	10.555	9,537	-	-	9,537	9,537	-
Total non-cash assistance (commodities)			<u>-</u>	<u>-</u>	<u>109,073</u>	<u>109,073</u>	<u>-</u>
Total Child Nutrition Cluster			<u>470,077</u>	<u>2,949,987</u>	<u>3,298,508</u>	<u>3,321,420</u>	<u>447,165</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

School District of the City of Saginaw
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Deferred) Revenue June 30, 2009	(Memo Only) Prior Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue June 30, 2010
Passed through Michigan Department of Education 091995 - Food Service Equipment Grant - ARRA	10.579	\$ 60,622	\$ -	\$ -	\$ 60,622	\$ 60,622	\$ -
Passed through Michigan Department of Education 091920 CCFP Meals	10.558	151,779	36,369	140,891	10,888	47,257	-
101920 CCFP Meals		158,651	-	-	158,651	133,966	24,685
092010 Child Care Cash in Lieu		12,166	2,935	11,373	793	3,728	-
102010 Child Care Cash in Lieu		15,330	-	-	15,330	9,747	5,583
			<u>39,304</u>	<u>152,264</u>	<u>185,662</u>	<u>194,698</u>	<u>30,268</u>
Total U.S. Department of Agriculture			<u>509,381</u>	<u>3,102,251</u>	<u>3,573,346</u>	<u>3,599,300</u>	<u>483,427</u>
U. S. Department of Labor							
Passed through Saginaw, Midland and Bay Michigan Works!							
WIA - Youth - 67436-96744-09- Saginaw County	17.259	97,942	18,198	92,996	-	18,198	-
WIA - Youth - 67436-96745-09- Saginaw County		112,816	20,750	105,674	3,000	23,750	-
WIA - Youth - 67479-96714-09- Saginaw County		815,866	18,248	18,248	797,618	815,866	-
WIA - Youth - 67479-96737-09- Saginaw County		543,910	12,249	12,249	531,661	543,910	-
Total U.S. Department of Labor			<u>69,445</u>	<u>229,167</u>	<u>1,332,279</u>	<u>1,401,724</u>	<u>-</u>
U.S. Department of Education							
Special Education Cluster							
Passed through Saginaw Intermediate School District							
090450-0809 - IDEA Flow through	84.027	2,156,878	812,392	2,156,878	-	812,392	-
100450-0910 - IDEA Flow through		2,136,177	-	-	2,136,121	1,406,833	729,288
090450-0809 - IDEA Flow through		100,000	36,315	100,000	-	36,315	-
100450-0910 - IDEA Flow through		100,000	-	-	100,000	71,993	28,007
100455-0910 - IDEA Hearing Impaired		1,007,136	1,007,136	1,007,136	-	1,007,136	-
			<u>1,855,843</u>	<u>3,264,014</u>	<u>2,236,121</u>	<u>3,334,669</u>	<u>757,295</u>
090450-0809 - ARRA - IDEA Flow through	84.391A	1,910,010	323,512	323,512	1,375,639	1,310,249	388,902

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

School District of the City of Saginaw
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Deferred) Revenue June 30, 2009	(Memo Only) Prior Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue June 30, 2010
090460-0809 - Preschool Incentive	84.173	\$ 87,102	\$ 41,867	\$ 87,102	\$ -	\$ 41,867	\$ -
100460-0910 - Preschool Incentive		77,026	-	-	77,026	51,488	25,538
			<u>41,867</u>	<u>87,102</u>	<u>77,026</u>	<u>93,355</u>	<u>25,538</u>
ARRA IDEA Preschool	84.392	40,290	-	-	40,290	34,780	5,510
Total Special Education Cluster			<u>2,221,222</u>	<u>3,674,628</u>	<u>3,729,076</u>	<u>4,773,053</u>	<u>1,177,245</u>
Passed through Michigan Department of Education							
Title I Part A Cluster							
091530-0809 - Title I Part A - Improving Basic Programs	84.010	9,414,658	2,097,844	7,392,389	787,591	2,885,435	-
101530-0910 - Title I Part A - Improving Basic Programs		9,958,652	-	-	5,658,722	3,431,896	2,226,826
			<u>2,097,844</u>	<u>7,392,389</u>	<u>6,446,313</u>	<u>6,317,331</u>	<u>2,226,826</u>
101535-0910 - ARRA Title I Part A	84.389	4,033,766	-	-	1,239,236	776,255	462,981
Total Title I Part A Cluster			<u>2,097,844</u>	<u>7,392,389</u>	<u>7,685,549</u>	<u>7,093,586</u>	<u>2,689,807</u>
Passed through Bay Arenac Intermediate School District							
Vocational Education - Perkins II	84.048	546,473	310,511	531,270	-	310,511	-
Vocational Education - Perkins II		531,935	-	-	530,614	305,575	225,039
			<u>310,511</u>	<u>531,270</u>	<u>530,614</u>	<u>616,086</u>	<u>225,039</u>
Passed through Saginaw Intermediate School District							
091340-190 Early On	84.181	21,700	2,507	2,507	19,193	21,700	-
101340-190 Early On		21,700	-	-	9,359	-	9,359
			<u>2,507</u>	<u>2,507</u>	<u>28,552</u>	<u>21,700</u>	<u>9,359</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

School District of the City of Saginaw
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Deferred) Revenue June 30, 2009	(Memo Only) Prior Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue June 30, 2010
Direct Award from U.S. Department of Education							
Q184E070189 Reading & Emergency Management for Schools	84.184E	\$ 244,414	\$ 10,074	\$ 112,522	\$ 131,892	\$ 141,966	\$ -
Passed through Michigan Department of Education							
092860-0809 - Drug Free Schools & Communities	84.186	141,793	28,023	123,075	14,287	42,310	-
102860-0910 - Drug Free Schools & Communities		108,327	-	-	78,510	59,909	18,601
			<u>28,023</u>	<u>123,075</u>	<u>92,797</u>	<u>102,219</u>	<u>18,601</u>
Passed through Delta College							
073540 7014-09 Tech Prep	84.243A	20,896	12,264	20,704	192	12,456	-
073540 7014-10 Tech Prep		23,901	-	-	23,901	1,267	22,634
			<u>12,264</u>	<u>20,704</u>	<u>24,093</u>	<u>13,723</u>	<u>22,634</u>
Passed through Michigan Department of Education							
092110-D07032 - 21st Century CLC	84.287C	749,999	202,893	690,715	-	202,893	-
092110-DA07021 - 21st Century CLC		625,000	245,267	616,419	-	245,267	-
102110-D07032 - 21st Century CLC		750,000	-	-	750,000	520,106	229,894
102110-DA0702 - 21st Century CLC		749,999	-	-	749,999	484,595	265,404
			<u>448,160</u>	<u>1,307,134</u>	<u>1,499,999</u>	<u>1,452,861</u>	<u>495,298</u>
Passed through Michigan Department of Education							
090250-0809 - Title V, Part A - Innovative Programs	84.298	38,633	38,633	38,633	-	38,633	-
Title II Part D Cluster							
Passed through Michigan Department of Education							
094290-0809 - Title II Part D Ed Tech	84.318	104,976	48,918	57,830	8,357	57,275	-
104290-0910 - Title II Part D Ed Tech		38,789	-	-	38,789	-	38,789
			<u>48,918</u>	<u>57,830</u>	<u>47,146</u>	<u>57,275</u>	<u>38,789</u>
104295-0910 - ARRA Title II Part D	84.386A	188,675	-	-	12,741	-	12,741
Total Title II Part D Cluster			<u>48,918</u>	<u>57,830</u>	<u>59,887</u>	<u>57,275</u>	<u>51,530</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

School District of the City of Saginaw
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Deferred) Revenue June 30, 2009	(Memo Only) Prior Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue June 30, 2010
Passed through Saginaw Valley State University Saginaw Valley State University Math Grant	84.336B	\$ 5,309	\$ -	\$ -	\$ 5,309	\$ 5,309	\$ -
Passed through Michigan Department of Education 092930-0809 - Reading First State Grants	84.357A	566,921	171,835	560,080	-	171,835	-
Passed through Michigan Department of Education 090580-0809 - Title III - Limited English Proficient Students	84.365A	82,436	51,834	73,185	4,295	56,129	-
Passed through Michigan Department of Education 090520-0809 - Improving Teacher Quality - Title IIA 100520-0910 - Improving Teacher Quality - Title IIA	84.367	2,719,094 1,384,254	984,018 -	1,570,331 -	337,625 217,353	1,321,643 120,261	- 97,092
Passed through Central Michigan University Improving Teacher Quality - Title IIA		7,000	-	-	6,097	6,097	-
			<u>984,018</u>	<u>1,570,331</u>	<u>561,075</u>	<u>1,448,001</u>	<u>97,092</u>
Passed through Michigan Department of Education 092525-0809 ARRA - State Fiscal Stabilization Fund 102525-0910 ARRA - State Fiscal Stabilization Fund	84.394	3,447,710 2,599,855	3,447,710 -	3,447,710 -	- 2,599,855	3,447,710 1,883,323	- 716,532
			<u>3,447,710</u>	<u>3,447,710</u>	<u>2,599,855</u>	<u>5,331,033</u>	<u>716,532</u>
Total U.S. Department of Education			<u>9,873,553</u>	<u>18,911,998</u>	<u>16,952,993</u>	<u>21,323,409</u>	<u>5,503,137</u>
U.S. Department of Health and Human Services Passed through Saginaw Intermediate School District Medicaid - Outreach 2009 Medicaid - Outreach 2010	93.778	16,596 18,837	16,596 -	16,596 -	- 18,837	16,596 18,837	- -
			<u>16,596</u>	<u>16,596</u>	<u>18,837</u>	<u>35,433</u>	<u>-</u>
Total			<u>\$ 10,468,975</u>	<u>\$ 22,260,012</u>	<u>\$ 21,877,455</u>	<u>\$ 26,359,866</u>	<u>\$ 5,986,564</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

School District of the City of Saginaw
Schedule of Expenditures of Federal Awards
Provided to Subrecipients
For the Year Ended June 30, 2010

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Sub-recipient Award/ Contract Amount	Due to (from) Sub - recipient July 1, 2009	(Memo Only) Sub-recipient Prior Year Expenditures	Sub-recipient Current Year Expenditures	Current Year Cash Transferred to Sub-recipient	Due to (from) Sub - recipient June 30, 2010
U.S. Department of Education Passed through Michigan Department of Education 102860-0910 - Drug Free Schools & Communities St. Stephen's	84.186	\$ 625	\$ -	\$ -	\$ 625	\$ 625	\$ -

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

School District of the City of Saginaw
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2010

1. The Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.
2. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports that have been submitted as of June 30, 2010.
3. The federal amounts reported on the Forms Grant Auditor Report and the R-7120 "Grant Sections Auditor's Report" are in agreement with the Schedule of Expenditures of Federal Awards.
4. The amounts reported on the Recipient Entitlement Balance Report agree with the Schedule of Expenditures of Federal Awards for U.S.D.A. donated food commodities.

School District of the City of Saginaw
Schedule of Findings and Questioned Costs
June 30, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant Deficiency(ies) identified that are not considered to be material weaknesses? _____ X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant Deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
84.027, 84.173, 84.391 & 84.392	Special Education Cluster
84.010 & 84.389	Title I Cluster
84.298	21 st Century
84.394	ARRA – State Fiscal Stabilization Fund

Dollar threshold used to distinguish between type A and type B programs: \$ 656,324

Auditee qualified as low-risk auditee? _____ X yes _____ no

School District of the City of Saginaw
Schedule of Findings and Questioned Costs
June 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2010-1 Significant Deficiency – Payroll Accrual Reconciliation

Criteria: Generally accepted accounting principles require management to be responsible for timely and accurate reporting of financial data.

Condition: Payroll transactions that are posted in control accounts are not cleared out on a monthly basis, causing large outstanding items on the general ledger at year end.

Effect: Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved in a timely manner.

Cause: Reconciliations for these payroll liability control accounts are not being performed until year end so the general ledger does not accurately present the financial position of the District.

Recommendation: All payroll liability control accounts should be reconciled monthly.

Management's response: The District will take measures to make sure payroll related transactions are reconciled timely and accurately.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2010.

School District of the City of Saginaw
Summary Schedule of Prior Audit Findings
June 30, 2010

Finding 2009-1

During the current year, we noted some improvement in the area of payroll liability account reconciliations. However, this still remains an issue. See finding at 2010-1.

Finding 2009-2

During the current year we noted much improvement in the area of bank account reconciliations being completed timely. This item is not longer considered a significant deficiency in internal control.



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November 12, 2010

Management and the Board of Education
School District of the City of Saginaw
Saginaw, Michigan

We have completed our audit of the financial statements of School District of the City of Saginaw as of and for the year ended June 30, 2010 and have issued our report dated November 12, 2010. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

- I Auditors' Communication of Significant Matters with Those Charged with Governance
- II Significant Deficiency
- III Management Comments
- IV Status or Prior Year Items
- V Other Items

We discussed these matters with various personnel in the organization during the audit and have already met with management. We will meet with you on November 17, 2010 to discuss these matters.

These communications are intended solely for the information and use of management, the Board of Education, and others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan

Appendix I

Auditor's Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards* and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was accrued compensated absences.

Disclosures in the financial statements are neutral, consistent and clear (unless otherwise noted). Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments, posted all but the following adjustments:

Management has determined that the effects of the uncorrected misstatements attached are immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

General Fund

	Liabilities	Expenses	Change in Fund Balance
Certain liabilities were not recorded, thereby understating liabilities and expense	\$ (137,468)	\$ (137,468)	\$ 137,468
Federal revenues not received within revenue recognition period	(323,427)	323,427	323,427
Prior year audit differences			(66,686)
Total audit differences			<u>\$ 394,246</u>

District Wide

	Liabilities	Expenses	Change in Fund Balance
Certain liabilities were not recorded, thereby understating liabilities and expense	\$ (137,468)	\$ (137,468)	\$ 137,468
Compensated absences estimates do not include the current rate of employee	\$ (58,666)	\$ (58,666)	58,666
Prior year audit differences			(67,951)
Total audit differences			<u>\$ 128,420</u>

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a

consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in (those reports to ensure you are aware of relevant information.

Appendix II
Significant Deficiency

Payroll Liability Control Accounts

Again in the current year, several payroll liability accounts were not reconciled on a timely basis. In the current year, we did note that some effort had been made to improve the process. However, we discovered several accounts that were not properly reconciled at yearend. These accounts need to be reconciled on a monthly basis to prevent staff members who rely on the accuracy of the payroll information to complete their work efficiently and avoid yearend adjustments.

We recommend that the District take measures to make sure payroll related transactions are reconciled timely and accurately. We believe that looking at the system that is posting these activities and possibly coding some of these transactions differently will help improve the process.

Appendix III Management Comments

In planning and performing our audit of the financial statements of the School District of the City of Saginaw as of and for the year ended June 30, 2010, we considered the District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated November 12, 2010, on the financial statements of the School District of the City of Saginaw. Our comments and recommendations regarding those matters are:

Account Reconciliations

In the current year, the District made many improvements in the reconciliation process. In past years, several accounts were not reconciled until well after year end. In the current year, all bank accounts except the student activity bank account were reconciled timely. However, some of the journal entries from those reconciliations were not posted due to significant staff turnover in the current year. The reconciliation process is a key step in the internal control system that ensures that the general ledger and the financial records are being maintained accurately.

We recommend that the District continue to make improvements to this process so that during the current fiscal year all of the accounts are reconciled timely.

Electronic Funds Transactions

In the current electronic age, more and more funds are being received and paid electronically. One of our tests this year of management's controls was electronic funds transactions. We noted that there was no formal review or sign off on electronic funds transactions related to payroll and federal funds requests.

Although we noted no unusual items in our testing, we suggest that management review the current process and make sure that adequate safeguards are in place to protect District's assets.

Compensated Absences

The District calculates accrued compensated absences (sick and vacation time) for employees who the District believes will be paid out upon separation. The calculation for these days is based on estimates and expectations that the District believes are accurate. Those expectations and rates have not been changed in recent years. We believe that the effect of changes in those expectations could have an impact on the compensated absences obligations reported in the financial statements.

We recommend that management review these expectations and the calculation to make sure that the District obligation is accounted for properly and that the balance is accurate.

Appendix IV
Status of Prior Year Items

Below is a listing of the items identified in the prior year audit and their current year status.

Significant Deficiencies:

Payroll Liability Control Accounts

Modest improvements, but remains an issue see current year significant deficiency.

Account Reconciliations

Much improved, no longer a significant deficiency see current year management comment.

Management Comments:

Documentation of Internal Controls

Item addressed in the current year.

Journal Entry Review

Item addressed in the current year.

Electronic Funds Transactions

Remains a comment in the current year.

Purchasing Cards

Item addressed in the current year.

Athletic Game Tickets

Improvements made. Discussed with management and is no longer a management comment.

Property Taxes

Item addressed in the current year.

Appendix V - Other Information

GASB 54 Changes Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) is at it again. *Fund Balance Reporting and Governmental Fund Type Definitions* includes new fund balance classifications and additional note disclosures. GASB 54 will mean a new look for your governmental funds balance sheet. However, it will not change the total amount of the fund balance.

Why was GASB 54 Created?

There has been inconsistency reporting fund balances. There is widespread confusion about terminology. Restrictions are being placed on the use of some resources, but it is unclear at what level the restrictions have been imposed, and by what authority. Users of the financial statements misunderstand the fund balance components. It is often unclear if any of the reserved or designated fund balances are available or not to help balance a school district's budget.

The purpose of GASB 54 is to improve transparency and eliminate inconsistency. It is intended to eliminate the mismatch between what governments are reporting about fund balance and what the users of the financial statements really need.

Definitions

GASB 54 requires fund balance classifications in a hierarchy that shows the extent to which the school is bound to honor constraints on the specific purposes for which each amount can be spent. **Fund balances are required to be presented based on the most restricted (non-spendable) to the least restricted (unassigned) classification.**

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

Restricted – amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or legislation. Examples include bonded capital projects, debt service funds established for voter approved debt millage, school food service revenues associated with national school lunch programs and special education millage.

Committed – amounts constrained on use imposed by the school district itself using its highest level of decision making authority. Resources should be constrained before the school's fiscal year-end, although the exact amount may be determined at a later time. A committed amount can be reversed only by the same manner as it was initiated, and it should be done before the end of the fiscal year. Two examples of this are a school board resolution to move a certain percentage of general fund balance into a capital project fund or a board resolution to maintain a general fund balance of 10% of current expenditures.

Assigned – amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or an authorized school official. Residual amounts in governmental funds other than the general fund are assigned. An appropriation of the existing fund balance to cover current year expenditures is considered an assignment of fund balance.

Unassigned – all other resources; the remaining fund balance after non-spendable, restrictions, commitments and assignments. This class only occurs in the general fund, except for cases of negative fund balances. Those are always reported as Unassigned, no matter which fund.

Note Disclosures

Schools will be required to disclose more information about amounts reported in fund balance, including the following:

1. Description of authority and actions that lead to committed and assigned fund balance.
2. The district's policy regarding order of spending of:
 - a. Restricted vs. unrestricted
 - b. Committed, assigned and unassigned
 - c. Multiple policies
 - d. The "default" policy
 - e. Negative balances – general fund and others
3. Restricted and unrestricted fund balances
4. Committed, assigned and unassigned
5. Encumbrances, if significant, are reported in conjunction with other disclosures of significant commitments.
6. Description of any formally adopted minimum fund balance policies.
 - a. Appropriate level of unrestricted fund balance to be maintained in the general fund
 - b. Circumstances in which unrestricted fund balances can be "spent down"
 - c. Policy for replenishing deficiencies (source of funding and time period)
 - d. Circumstances under which contingencies may be spent should be as specific as possible.
7. The purpose of each major special revenue fund and which revenues or other sources are reported in each of those funds.

Fund Balance Policies

If a school establishes a minimum fund balance policy, it needs to look at their operations and determine what they want their fund balance limits to be. Determining the components of fund balance will be an exercise to perform each year as part of the year-end financial reporting. Consider the following variables when setting the minimum amount of general fund unrestricted fund balance:

- Volatility of operating revenues (state and federal sources)
- Exposure to natural disasters
- Concentration of revenue sources (state and federal funded)
- Timing differences between revenue collections and expenditures

The Next Step

Schools should review their current policies and procedures to determine if resources will meet the definition of committed or assigned, and consider policy changes as they approach adoption of this statement. Additional policies may need to be adopted or revised to be consistent with the new definitions.

GASB 54 will improve the reporting of the fund balance and will help those who use the financial statements. Disaggregating the fund balance into non-spendable, restricted, committed, assigned and unassigned categories will greatly facilitate the understanding of a school's commitment of financial resources. It means we will have to get used to changes in the familiar fund accounting terminology before the end of the 2010-11 school year.