

Detroit Public Schools Board Presentation Comprehensive Annual Financial Report (CAFR) Year Ended June 30, 2006

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December 14, 2006



Detroit Public Schools

June 30, 2006

Overview of Presentation:

- II. Introductions
- III. Overview of audit– KPMG, LLP
- IV. Overview of CAFR components
- V. Financial statement overview
- VI. Federal programs overview
- VII. Audit findings
- VIII. Awards



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I. INTRODUCTIONS

DPS Staff

KPMG LLP



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III. OVERVIEW OF AUDIT

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I. COMPONENTS OF CAFR:

- Introductory Section – Transmittal Letter
- Independent Auditor’s Report – KPMG
- Management Discussion and Analysis
- Financial Statements and Notes to Basic Financial Statements
- Required Supplemental Information
- Other Required Supplemental Information
- Statistical Section

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I. **FINANCIAL STATEMENT OVERVIEW**

Overview of Independent Auditor's Report – Consolidated Annual Financial Report (CAFR)

- Unqualified (clean) audit opinion

- Two Emphasis paragraphs
 - GASB Statement #42 – Asset Impairment

 - Financial uncertainty

Detroit Public Schools

Government-Wide Statement of Net Assets

Year Ended June 30, 2006

	Governmental Activities
Assets:	
Cash/Investments	\$ 129,391,464
Restricted assets	128,968,834
Receivables	329,708,613
Inventory	1,457,301
Other Assets	7,165,735
Capital Assets – Net	1,541,553,333
Total assets	\$ 2,138,245,280
Liabilities:	
Salaries and benefits	\$ 103,374,925
Payables and accrued liabilities	211,455,653
State Aid Anticipation and other notes payable	144,511,197
Long-term liabilities	1,780,804,719
Total liabilities	2,240,144,494
Net Assets:	
Investment in Capital Assets – Net of related debt	\$ 164,888,672
Restricted for capital projects	89,371,255
Unrestricted net deficit	(356,159,141)
Total net deficit	\$ (101,899,214)

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Government-Wide Statement of Activities

Year Ended June 30, 2006

	Expenses	Charges for services	Program revenue Operating grants and contributions	Net (expense) revenue and changes in net assets Governmental activities
Primary government - governmental activities:				
Instruction	\$ 794,562,326	984,197	292,546,831	(501,031,298)
Support services	639,214,481	425,003	203,112,297	(435,677,181)
Community Services	4,826,249	687,752	4,383,535	245,038
Food Services	44,092,775	7,045,785	39,085,719	2,038,729
Athletics	4,604,056			(4,604,056)
Other	7,349,305			(7,349,305)
Interest on long-term debt	77,948,487			(77,948,487)
Depreciation	15,618,000			(15,618,000)
governmental activities	\$ 1,588,215,679	9,142,737	539,128,382	(1,039,944,560)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				88,759,919
Property taxes, levied for debt service				111,058,199
Federal and State aid not restricted to specific purposes				786,283,179
Interest and investment earnings				16,871,373
Other				3,707,459
general revenue				1,006,674,129
Special item - loss on sale of assets				(1,029,140)
Total general revenue and special item				1,005,644,989
Change in net assets				(34,299,571)
Net deficit- July 1, 2005 - as restated				(67,599,643)
Net deficit - June 30, 2006				\$ (101,899,214)

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Governmental Funds - Balance Sheet

June 30, 2006

	General Fund	1994 Building Site Improvement Bonds Series IV Fund	1994 Building Site Improvement Bonds Series V Fund	Other Non-major Governmental Funds
Assets:				
Cash/Investments	\$ 134,897,478	\$ 65,846	\$ 103,767,714	\$ 19,629,260
Receivables	285,028,742	264	171,551	44,507,668
Inventory	1,457,301	-	-	-
Due from other funds	245,418	82,297,980	44,438,001	91,578,165
Total assets	<u>\$ 421,628,939</u>	<u>\$ 82,364,090</u>	<u>\$ 148,377,266</u>	<u>\$ 155,715,093</u>
Liabilities:				
Payroll	\$ 80,499,355	\$ -	\$ -	\$ -
Payables and accrued liabilities	63,565,692	5,515,933	16,330,047	5,053,715
Compensated absences	5,184,191	-	-	-
Notes payable	144,511,197	-	-	-
Due to other funds	35,445,016	54,551,133	77,731,167	69,936,697
Deferred revenue	70,400,795	-	-	37,531,700
Total liabilities	399,606,246	60,067,066	94,061,214	112,522,112
Fund balances	<u>22,022,693</u>	<u>22,297,024</u>	<u>54,316,052</u>	<u>43,192,981</u>
Total liabilities and fund balances	<u>\$ 421,628,939</u>	<u>\$ 82,364,090</u>	<u>\$ 148,377,266</u>	<u>\$ 155,715,093</u>

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Governmental Funds – Statement of Revenue & Expenditures

Year Ended June 30, 2006

	General Fund	1994 Building Site Improvement Bonds Series IV Fund	1994 Building Site Improvement Bonds Series V Fund	Other Nonmajor Governmental Funds
Revenue:				
Local	\$ 174,770,593	\$ 2,638	\$ 6,769,943	\$ 112,626,661
State	972,484,297	–	–	11,758,554
Federal	232,094,003	–	–	34,515,815
Total revenue	1,379,348,893	2,638	6,769,943	158,901,030
Expenditures:				
Instruction	773,046,823	–	–	–
Supporting services	614,815,850	–	–	–
Community services	4,804,658	–	–	–
Food services	–	–	–	43,819,136
Athletics	–	–	–	3,546,883
Debt Service	2,022,143	–	–	115,491,625
Capital outlay	6,109,796	31,472,890	78,450,082	10,821,784
Other	–	–	–	7,349,305
Total expenditures	1,400,799,270	31,472,890	78,450,082	181,028,733
Deficiency of Revenue Over Expenditures	(21,450,377)	(31,470,252)	(71,680,139)	(22,127,703)
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	228,675	–	–	–
Transfers in / (out) – net	(3,546,883)	428,923	17,152,205	(14,034,245)
Transfer to bond escrow agent	–	–	–	(544,050,233)
Other Financing sources	–	–	–	554,093,250
Net Change in Fund Balances	(24,768,585)	(31,041,329)	(54,527,934)	(26,118,931))
Fund Balances – July 1, 2005	46,791,278	53,338,353	108,843,986	69,311,9128
Fund Balances – June 30, 2006	\$ 22,022,693	\$ 22,297,024	\$ 54,316,052	\$ 43,192,981

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I. FEDERAL PROGRAMS OVERVIEW

Overview of Independent Auditor's Opinion – Federal Awards

- Unqualified (clean) opinion on Child Nutrition and Title II programs
- Qualified opinions on Vocational Educational, 21st Century, Reading First, Special Education and Head Start programs. A qualified opinion means – a material instance of non-compliance with a material compliance requirement.
- Adverse opinion on Title I program. An adverse opinion means the same as qualified but with the magnitude and scope of the program it elevates the level of severity.



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Schedule of Expenditures of Federal Awards (SEFA)

- Includes federal grants only
- Total expenditures as of June 30, 2006 for all federal programs = \$256,939,771



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I. AUDIT FINDINGS

Audit findings for the financial statements and the federal grant programs are presented within the Report on Federal Awards.



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Findings related to Financial Reporting

- Financial reporting (2)
- Internal Audit and Fraud Reporting (2)
- Reserves for liabilities (3)
- Capital Assets (2)
- Accounting controls (4)
- Procurement (2)
- Investments(4)

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Findings related to Financial Reporting, (continued)

Findings focused on the following areas:

- Methodologies used for estimates for long term liabilities (workers compensation, health claims, legal reserves)
- Documentation of internal control processes and procedures – current processes should be documented in case of staff transition
- Re-establishment of internal audit department and establishing a mechanism for fraud reporting
- Adherence to established District policies:
 - Reporting requirements within Investment policy
 - Initiation of contracts procedures within Procurement policy

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Findings & Questioned Costs – Major Federal Programs

Total questioned costs – approx. \$1.4 million out of \$257 million total federal grant expenditures (less than 1%)

Major Program Findings:

- Title I findings (8)
- Special Education Cluster (5)
- Head Start (5)
- Reading First (4)
- Vocational Education (4)
- 21st Century Community Learning Centers (3)
- Title II (2)
- Child Nutrition Cluster (1)

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Findings –Major Federal Programs, (continued)

Findings focused on the following areas:

- Ensuring that costs are incurred in proper grant period
- Evaluation and assessment of school-wide plans for schools needing improvement
- Adherence to major compliance requirements (Title I – Professional Development 10% allocation)
- Proper review, signoff and timely submission of reports



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I. FINANCIAL REPORTING AWARDS

For the fourth consecutive year, the District was awarded:

- **Association of School Business Officials (ASBO)
certificate of Excellence in Financial Reporting**
- **Government Finance Officers Association (GFOA)
certificate of Achievement for Excellence in Financial
Reporting**



**Detroit Public Schools
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Questions?