

PERFORMANCE AND FINANCIAL AUDIT
OF THE
CAPITAL OUTLAY PROJECT
FOR THE
LEARNING RESOURCE CENTER AND THE
HEALTH CAREERS EDUCATION CENTER

HENRY FORD COMMUNITY COLLEGE

May 13, 1996 through January 12, 1998

EXECUTIVE DIGEST

CAPITAL OUTLAY PROJECT FOR THE LEARNING RESOURCE CENTER AND THE HEALTH CAREERS EDUCATION CENTER

INTRODUCTION

This report contains the results of our performance* and financial audit* of Henry Ford Community College's Capital Outlay Project for the Learning Resource Center and the Health Careers Education Center. The financial portion of our audit covered the period May 13, 1996 through January 12, 1998.

AUDIT PURPOSE

This performance and financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. This audit was conducted under the authority of Section 203(2), Act 85, P.A. 1997 (a section of the community colleges' appropriations act), which mandates that the Auditor General conduct not less than three performance audits of community colleges each year. The audit was also conducted to comply with Section 1351a(2) of the Revised School Code (Section 380.1351a(2) of the *Michigan Compiled Laws*), which mandates that a school district have an independent audit of bonded construction activities after completion of all projects financed by the proceeds of the bonds.

BACKGROUND

Henry Ford Community College is a public two-year institution of higher education that was established in 1938. The College is part of the School District of the City of Dearborn and is governed by the School District's Board of Education.

The College operates under the authority of Sections 1601 - 1607 of the Revised School Code. The College's purpose is that of a comprehensive, public, nonresidential community college which meets the diversified post-secondary educational needs of the community by offering occupational/career programs in addition to traditional college and university transfer programs.

For the fiscal year ended June 30, 1997, the College reported current fund revenue (general, designated, auxiliary, and restricted funds) of \$60,542,236 and an enrollment of 7,020 full-year equated students. As of June 30, 1998, the College employed 206 full-time faculty, 598 part-time faculty, and 230 administrative and support personnel.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To evaluate the relevancy and accuracy of the College's capital outlay program statement that was submitted to the Department of Management and Budget (DMB) for the Learning Resource Center and the Health Careers Education Center.

Conclusion: Our evaluation disclosed that the College's program statement was relevant but generally not

accurate. Our evaluation disclosed one material condition*:

- The College did not accurately determine and report classroom and laboratory utilization information in its capital outlay program statement that was submitted to DMB for the Learning Resource Center and the Health Careers Education Center (Finding 1).

The College agrees that it should accurately determine and report information supporting the need for capital outlay projects in program statement documents submitted to DMB. Further, the College informed us that it has taken steps to ensure more accurate room utilization reporting in future capital outlay program statements.

Our evaluation also disclosed one reportable condition* regarding the capital outlay project payment process (Finding 2).

Noteworthy Accomplishments: The College's capital outlay program statement reported a significant increase in the use of the Learning Laboratory as one of the conditions demonstrating the need for the Learning Resource Center. The Learning Laboratory opened in the fall of 1974 and had 11,263 visitations that year. By the fall of 1991, the annual number of visits to the Learning Laboratory had increased to 62,976.

Audit Objective: To determine if the College expended certain bond proceeds* for the Learning Resource Center and the Health Careers Education Center, as approved, in

* See glossary on page 30 for definition.
32-615-98

accordance with Section 1351a(2) of the Revised School Code (Section 380.1351a(2) of the *Michigan Compiled Laws*).

Conclusion: We determined that the College expended certain bond proceeds for the Learning Resource Center and the Health Careers Education Center in accordance with the Revised School Code. Although we have cited undocumented expenditures in Finding 2.b., under our capital outlay project evaluation objective, those expenditures did not pertain to the bond proceeds as approved and subject to the Revised School Code.

Audit Objective: To audit the College's financial statements pertaining to the Learning Resource Center and the Health Careers Education Center as of and for the 20-month period ended January 12, 1998 for bond proceeds subject to audit in accordance with the Revised School Code and the Department of Treasury's *Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan*.

Conclusion: We expressed an unqualified opinion on the financial statements pertaining to the Learning Resource Center and the Health Careers Education Center as of and for the 20-month period ended January 12, 1998. However, our review disclosed one reportable condition related to the accounting for construction bond proceeds (Finding 3).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and financial records for Henry Ford Community College's capital outlay project for the Learning Resource Center and Health Careers Education Center. Also, our audit scope was to examine the financial records for the period May 13, 1996 through January 12, 1998. Our audit was conducted in

accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The College's financial statements not related to the bonded construction funds are audited annually by a public accounting firm engaged by the College.

Our examinations of the College's records and activities primarily covered the period October 1, 1995 through January 12, 1998 and classroom and laboratory utilization data for fall terms 1991 and 1993.

We evaluated the College's capital outlay program statement regarding its recently completed Learning Resource Center and Health Careers Education Center. We compared assertions in the program statement with classroom and laboratory utilization data obtained from the College's data base and other available records.

We reviewed selected expenditures and applicable bid procedures for the capital outlay project to determine if the College complied with applicable laws and regulations.

We assessed the adequacy of applicable internal accounting controls to determine if the College reported financial transactions in compliance with the Revised School Code and the Department of Treasury's *Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan*.

AGENCY RESPONSES

Our audit report contains 3 findings and 5 corresponding recommendations. The College's preliminary response indicated that it agreed with all 5 recommendations. The College informed us that it has implemented or plans to implement each of the recommendations.

Mr. Gerald Stockwell, Chairperson
Board of Trustees
Henry Ford Community College
and
Dr. Andrew Mazzara, President
Henry Ford Community College
and
Board of Education
School District of the City of Dearborn
Dearborn, Michigan

Dear Mr. Stockwell, Dr. Mazzara, and Board of Education Members:

This is our report on the performance and financial audit of Henry Ford Community College's Capital Outlay Project for the Learning Resource Center and the Health Careers Education Center. The financial portion of our audit covered the period May 13, 1996 through January 12, 1998.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on compliance and on internal control over financial reporting and on the financial statements. This report also contains the School District of the City of Dearborn's 1996 School Building and Site Bond Issue Capital Project Fund financial statements and notes to financial statements and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. Annual appropriations acts require that the audited institution develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Agency

Henry Ford Community College is a public two-year institution of higher education that was established in 1938. The College is part of the School District of the City of Dearborn and is governed by the School District's Board of Education.

The College operates under the authority of Sections 1601 - 1607 of the Revised School Code (Sections 380.1601 - 380.1607 of the *Michigan Compiled Laws*). The College's purpose is that of a comprehensive, public, nonresidential community college which meets the diversified post-secondary educational needs of the community by offering occupational/career programs in addition to traditional college and university transfer program. The College also is continually providing counseling, guidance, and evaluation services for current students and for individuals considering further education and training. In addition, the College provides ongoing research, development, and evaluations to improve curriculum and teaching methods.

The College receives its financial support primarily from appropriations from the State of Michigan, local property tax assessments, student tuition and fees, and State and federal grants. For the fiscal year ended June 30, 1997, the College reported current fund revenue (general, designated, auxiliary, and restricted funds) of \$60,542,236 and an enrollment of 7,020 full-year equated students. As of June 30, 1998, the College employed 206 full-time faculty, 598 part-time faculty, and 230 administrative and support personnel.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance and financial audit of Henry Ford Community College's Capital Outlay Project for the Learning Resource Center and the Health Careers Education Center had the following objectives:

1. To evaluate the relevancy and accuracy of the College's capital outlay program statement that was submitted to the Department of Management and Budget for the Learning Resource Center and the Health Careers Education Center.
2. To determine if the College expended certain bond proceeds for the Learning Resource Center and the Health Careers Education Center, as approved, in accordance with Section 1351a(2) of the Revised School Code (Section 380.1351a(2) of the *Michigan Compiled Laws*).
3. To audit the College's financial statements pertaining to the Learning Resource Center and the Health Careers Education Center as of and for the 20-month period ended January 12, 1998 for bond proceeds subject to audit in accordance with the Revised School Code and the Department of Treasury's *Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan*.

Audit Scope

Our audit scope was to examine the program and financial records for Henry Ford Community College's capital outlay project for the Learning Resource Center and the Health Careers Education Center. Also, our audit scope was to examine the financial records for the period May 13, 1996 through January 12, 1998. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The College's financial statements not related to the bonded construction funds are audited annually by a public accounting firm engaged by the College.

Audit Methodology

Our fieldwork was performed during May through June 1998 and included examinations of the College's records and activities primarily covering the period October 1, 1995 through January 12, 1998 and classroom and laboratory utilization data for fall terms 1991 and 1993.

We evaluated the College's capital outlay program statement regarding its recently completed Learning Resource Center and Health Careers Education Center. We compared assertions in the program statement with classroom and laboratory utilization data obtained from the College's data base and other available records.

We reviewed selected expenditures and applicable bid procedures for the capital outlay project to determine if the College complied with applicable laws and regulations.

We assessed the adequacy of applicable internal accounting controls to determine if the College reported financial transactions in compliance with the Revised School Code and the Department of Treasury's *Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan*.

Agency Responses

Our audit report contains 3 findings and 5 corresponding recommendations. The College's preliminary response indicated that it agreed with all 5 recommendations. The College informed us that it has implemented or plans to implement each of the recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Annual appropriations acts require the principal executive officer of the audited institution to submit a written response to our audit to the House and Senate Appropriations Committees, the House and Senate Fiscal Agencies, the Department of Education, the Auditor General, and the Department of Management and Budget. The response is due within 60 days after the audit report has been issued and should specify the action taken by the institution regarding the audit report's recommendations.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

CAPITAL OUTLAY PROJECT EVALUATION

COMMENT

Audit Objective: To evaluate the relevancy and accuracy of Henry Ford Community College's capital outlay program statement that was submitted to the Department of Management and Budget (DMB) for the Learning Resource Center and the Health Careers Education Center.

Conclusion: Our evaluation disclosed that the College's program statement was relevant but generally not accurate. Our evaluation disclosed one material condition. The College did not accurately determine and report classroom and laboratory utilization information in its capital outlay program statement that was submitted to DMB for the Learning Resource Center and the Health Careers Education Center. Our evaluation also disclosed one reportable condition regarding the capital outlay project payment process.

Noteworthy Accomplishments: The College's capital outlay program statement reported a significant increase in the use of the Learning Laboratory as one of the conditions demonstrating the need for the Learning Resource Center. The Learning Laboratory opened in the fall of 1974 and had 11,263 visitations that year. By the fall of 1991, the annual number of visits to the Learning Laboratory had increased to 62,976.

FINDING

1. Capital Outlay Program Statement Documentation

The College did not accurately determine and report classroom and laboratory utilization information in its capital outlay program statement that was submitted to DMB for the Learning Resource Center and the Health Careers Education Center.

In November 1992, the College submitted a request for capital outlay appropriations to the State to fund the construction of a resource center and classroom facility. The College's program statement listed high utilization of

existing classroom and laboratory space, significant increases in student use of the Learning Laboratory, inadequate space for student services, and the division of programs among several buildings as conditions which demonstrate the need for the capital outlay project. The Legislature appropriated \$25,144,800 for a two-phase project. Phase I, the Learning Resource Center, was to provide appropriate learning, tutoring, and study spaces for students. Phase II, the Health Careers Education Center, was to consolidate all health career programs in one building to provide efficiency in instruction and ease of access for health career students.

The College's program statement included the following information regarding space utilization:

- a. The time periods of 8:00 a.m. to 1:00 p.m. Monday through Friday and 5:00 p.m. to 8:00 p.m. Monday through Thursday were identified as peak periods with space utilization rates of 96.4% and 94.5%, respectively.
- b. The average campuswide classroom utilization for Monday through Friday between 8:00 a.m. and 10:00 p.m. and for Saturday between 8:00 a.m. and noon was 79.5%.

The College reported that its space utilization analysis was based on information from a room utilization data base and a utilization survey completed by College instructors; however, the analysis was not retained. Therefore, we analyzed the College's room utilization data base for fall semester 1991 and other available data:

- (a) The College's actual peak space utilization was from 9:00 a.m. to 2:00 p.m. Monday through Friday and from 6:00 p.m. to 10:00 p.m. Monday through Thursday.
- (b) College staff could not recall how scheduled academic courses and dedicated laboratory times were used to customize student training or how community service programs were evaluated for inclusion in the program statement.

- (c) The capital outlay program statement did not clearly define if the utilization rates included both general classrooms and classrooms restricted to certain functions, such as laboratories, shops, and clinical activities. College staff could not recall how classroom facilities were evaluated for inclusion in the program statement.
- (d) College staff informed us that the instructor utilization survey was not available because the survey was informal and verbal. College staff stated that the informal survey may have supported a 5% increase in reported utilization rates.
- (e) College staff informed us that the utilization data reported may have included canceled classes. The College's room utilization data base appropriately did not contain detailed classroom information for canceled classes, and the inclusion of such data would overstate actual space needs. We determined that improperly including canceled classes could have increased campuswide utilization by approximately 5%.

Based on the best information available, we determined that the program statement significantly overstated peak period and campuswide classroom and laboratory utilization. The College's daytime and evening peak space utilization rates were approximately 60% and 57%, respectively, and the College's average campuswide utilization rate was approximately 46%.

To help facilitate the efficient use of limited State resources, it is important that the planning documents submitted to DMB provide accurate information for evaluating a project and support the project's priority in relation to other proposed capital outlay projects.

In other recent college audits, we have also noted the need for DMB, in conjunction with the colleges, to establish procedures to determine the continued relevance of community college capital outlay program statements prior to final project funding being authorized. Our discussions with DMB staff disclosed that a policy revision is currently being developed.

RECOMMENDATION

We recommend that the College accurately determine and report classroom and laboratory utilization information which supports the need for the capital outlay projects described in the program statement documents submitted to DMB.

AGENCY PRELIMINARY RESPONSE

The College agrees that it should accurately determine and report information supporting the need for capital outlay projects in program statement documents submitted to DMB. Further, the College informed us that it has taken steps to ensure more accurate room utilization reporting in future capital outlay program statements.

FINDING

2. Capital Outlay Project Payment Process

The College made capital outlay project payments for the Learning Resource Center and the Health Careers Education Center based on estimated rather than actual project costs. Also, the College sometimes did not retain documentation to support project payments made directly to vendors. In addition, the College did not mark documents to prevent them from being submitted twice to DMB for inclusion in project cost records.

Our review of project payments disclosed:

- a. The College made payments to the State for construction costs based on verbal instructions from DMB and estimates received from the contractor rather than written DMB payment requests based on actual expenditures.

Throughout the construction project, the general contractor and the architect provided the College with written estimates of monthly expenditures for the Learning Resource Center and the Health Careers Education Center. The College subsequently made 13 payments, totaling \$10,497,943, to DMB based on the original or revised estimates.

DMB, as construction project manager, was responsible for requesting payments from the College. Although the College and DMB had communications during the project, DMB did not prepare and submit progress billings based on actual construction costs to the College. As a result, the College remitted \$1,515,350 to DMB for the Learning Resource Center and the Health Careers Education Center in excess of actual project costs.

Sound internal control procedures should provide for billing and paying construction project costs based on actual work completed.

- b. The College did not maintain a detailed listing and documentation of all the capital outlay payments that it made directly to various vendors and reported to the State Building Authority (SBA).

The College made payments of \$987,587 directly to various vendors for construction costs of the Learning Resource Center and Health Careers Education Center project. When making direct vendor payments, the College is required to submit payment detail to SBA on a monthly, quarterly, or yearly basis. The College was unable to provide us with documentation to support the direct payment of \$372,346 in project expenditures that were recorded on DMB's accounting records. However, we subsequently obtained documentation from SBA to support the project expenditures.

Sound internal control procedures would require the College to retain documentation for all expenditures to support their propriety.

- c. The College submitted the same documentation to SBA twice for seven direct vendor payments totaling \$48,533. As a result, SBA's recorded project costs were overstated by \$48,533. Sound internal control procedures would require that all original billings be identified as having been submitted to DMB to prevent duplicate reporting.

RECOMMENDATIONS

- (a) We recommend that the College make capital outlay project payments based on actual rather than estimated project costs.

- (b) We recommend that the College retain documentation for all direct payment capital outlay expenditures.
- (c) We recommend that the College ensure that all original direct payment billings are identified as having been submitted to DMB and that the College request SBA to adjust its records for the duplicate payment documentation that the College submitted.

AGENCY PRELIMINARY RESPONSE

The College agrees with the first recommendation. The College informed us that, at the beginning of the construction phase, the construction contractor was instructed by the DMB Office of Facilities to provide a projection of cash needs for the project. DMB then verbally directed the College to remit payments to the State of Michigan according to the projection to ensure that sufficient cash was available to make payments to vendors on a timely basis.

The College agrees with the second recommendation. The College informed us that, in the early stages of the project, a listing and copies of invoices for payments made directly to vendors by the College was sent to SBA. However, the College did not retain a copy of the list or invoices submitted to SBA.

The College agrees with the third recommendation and will request SBA to make the necessary adjustment to the project costs.

REVIEW OF BOND PROCEEDS

COMMENT

Audit Objective: To determine if the College expended certain bond proceeds for the Learning Resource Center and the Health Careers Education Center, as approved, in accordance with Section 1351a(2) of the Revised School Code (Section 380.1351a(2) of the *Michigan Compiled Laws*).

Conclusion: We determined that the College expended certain bond proceeds for the Learning Resource Center and the Health Careers Education Center in accordance

with the Revised School Code. Although we have cited undocumented expenditures in Finding 2.b., under our capital outlay project evaluation objective, those expenditures did not pertain to the bond proceeds as approved and subject to the Revised School Code.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit the College's financial statements pertaining to the Learning Resource Center and the Health Careers Education Center as of and for the 20-month period ended January 12, 1998 for bond proceeds subject to audit in accordance with the Revised School Code and the Department of Treasury's *Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan*.

Conclusion: We expressed an unqualified opinion on the financial statements pertaining to the Learning Resource Center and the Health Careers Education Center as of and for the 20-month period ended January 12, 1998. However, our review disclosed one reportable condition related to the accounting for construction bond proceeds.

FINDING

3. **Accounting for Construction Bond Proceeds**

The College did not maintain separate and distinct accounts for proceeds from each of its bond issues.

The College established separate checking accounts to pay construction costs for each of its bond issues. However, the College later transferred funds from a 1994 bond issue to the checking account which was specifically set up for the 1996 bond proceeds and did not separately account for the funds. This commingling of the proceeds from the two bond issues in one checking account makes it difficult to identify costs related specifically to the 1996 bond proceeds and to determine that those proceeds were properly spent in accordance with Section 1351a(2) of the Revised School Code.

RECOMMENDATION

We recommend that the College maintain separate and distinct accounts for proceeds from each of its bond issues.

AGENCY PRELIMINARY RESPONSE

The College agrees with the recommendation. The College did establish separate accounts to receive the bond proceeds from each issue. However, a limited number of transfers were made between separate bond proceeds accounts. The College informed us that it has taken steps to ensure that future disbursements from bond issues will be maintained separately as well as the receipts from bond issues.

Independent Auditor's Report on Compliance
and on the Internal Control Over Financial Reporting

June 26, 1998

Board of Education
School District of the City of Dearborn
Dearborn, Michigan

Dear Board Members:

We have audited the balance sheet and the statement of revenues, expenditures, and changes in fund balance of the 1996 School Building and Site Bond Issue Capital Project Fund of the School District of the City of Dearborn, Michigan, which includes Henry Ford Community College, as of and for the 20-month period ended January 12, 1998, and have issued our report thereon dated June 26, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District of the City of Dearborn's financial statements for the 1996 School Building and Site Bond Issue Capital Project Fund are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District of the City of Dearborn's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily

disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we did note one condition involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This reportable condition is more fully described in Finding 3.

This report is intended for the information of the Board of Education, School District and College management, and the Michigan Department of Treasury. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

June 26, 1998

Board of Education
School District of the City of Dearborn
Dearborn, Michigan

Dear Board Members:

We have audited the accompanying balance sheet and statement of revenues, expenditures, and changes in fund balance of the 1996 School Building and Site Bond Issue Capital Project Fund of the School District of the City of Dearborn, Michigan, which includes Henry Ford Community College, as of and for the 20-month period ended January 12, 1998. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 opinion.

As discussed in Note 1b, the accompanying financial statements were prepared for the purpose of complying with Section 1351a(2) of the Revised School Code (Section 380.1351a(2) of the *Michigan Compiled Laws*). The presentation is not intended to be a presentation of the School District's total revenues and expenditures.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets and liabilities of the 1996 School Building and Site Bond Issue Capital Project Fund of the School District of the City of Dearborn,

Michigan, as of January 12, 1998 and the revenues and expenditures for the 20-month period then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 26, 1998 on our consideration of the School District's compliance with laws and regulations and its internal control over financial reporting.

AUDITOR GENERAL

SCHOOL DISTRICT OF THE CITY OF DEARBORN, MICHIGAN
1996 School Building and Site Bond Issue Capital Project Fund
Balance Sheet
As of January 12, 1998

ASSETS	
Cash and interest bearing deposits	<u>\$ 41,291</u>
Total Assets	<u><u>\$ 41,291</u></u>
LIABILITIES AND FUND BALANCE	
Accounts payable	<u>\$ 41,291</u>
Total Liabilities	<u>\$ 41,291</u>
Fund Balance	<u>\$ 0</u>
Total Liabilities and Fund Balance	<u><u>\$ 41,291</u></u>

The accompanying notes are an integral part of the financial statements

SCHOOL DISTRICT OF THE CITY OF DEARBORN, MICHIGAN
 1996 School Building and Site Bond Issue Capital Project Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
Twenty-Month Period Ended January 12, 1998

REVENUES	
Investment income	\$ 83,609
Total Revenues	\$ 83,609
EXPENDITURES	
Building improvements and equipment	\$ 5,200,669
Bond costs and fees	30,101
Total Expenditures	\$ 5,230,770
Excess of Revenues Over (Under) Expenditures	\$ (5,147,161)
OTHER FINANCING SOURCES	
Proceeds from sale of bonds (Note 2a)	\$ 3,425,000
Transfers from other bonds (Note 2b)	1,722,161
Total Other Financing Sources	\$ 5,147,161
Excess of Revenues and Other Financing Sources Over Expenditures	\$ 0
Fund Balance - Beginning of period	0
Fund Balance - End of period	\$ 0

The accompanying notes are an integral part of the financial statements

Notes to Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The School District of the City of Dearborn, Michigan, is composed of elementary and secondary school operations and Henry Ford Community College operations. The School District's Board of Education members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. This report includes only the financial statements of the 1996 School Building and Site Bond Issue Capital Project Fund of the School District. The Fund's activities are considered to be part of the School District, and the Fund is controlled by the Board of Education.

b. Basis of Presentation

The accompanying financial statements have been prepared on the modified accrual basis of accounting in accordance with generally accepted accounting principles. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

Section 1351a(2) of the Revised School Code (Section 380.1351a(2) of the *Michigan Compiled Laws*) requires that, for bonds issued under this section after May 1, 1994, an independent audit be performed on certain operating results and compliance tests be performed related to specified bond activities.

The accompanying statements reflect the activity of the 1996 General Obligation School Building and Site Bond Issue, recorded in the School District's 1996 School Building and Site Bond Issue Capital Project Fund,

from the date of the bond issue, May 13, 1996, through project completion, January 12, 1998, as indicated on the Certificate of Substantial Completion (AIA Form G 704). The project, for which the bonds were issued, was considered complete as of January 12, 1998.

Note 2 Bond Description

a. General

The School District issued the 1996 General Obligation School Building and Site Bond Issue on May 13, 1996, in the amount of \$3,425,000. The principal and interest on this bond issue are financed primarily from property taxes. The bonds, dated May 1, 1996, bear interest at 5% to 7% and are due serially through the year 2014.

The bond proceeds and interest income earned on those proceeds were used for the purpose of erecting, furnishing, and equipping Henry Ford Community College's Learning Resource Center and Health Careers Education Center and for improving and developing the sites.

b. Transfers From Other Bonds

A transfer of \$1,722,161 was made from a 1994 bond approved by the City of Dearborn voters in March 1991 and issued for a series of related construction/maintenance projects.

Glossary of Acronyms and Terms

certain bond proceeds

Dearborn voters in March 1991 and allocated to the College for the capital outlay project for the Learning Resource

DMB

Department of Management and Budget.

An audit that is designed to provide reasonable assurance about whether the financial statements of an audited entity accounting principles.

material condition

of management to operate a program in an effective and efficient manner and/or adversely affect the opinion of an efficiency of the program.

performance audit

designed to provide an independent assessment of the performance of a governmental entity, program, activity, or decision making by parties responsible for overseeing or initiating corrective action.

A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents

deficiency in the design or operation of the internal control structure or in management's ability to operate a program in

SBA

State Building Authority.