

NEW ISSUE - Book-Entry-Only**RATINGS:†*****S&P: AAA****Moody's: Aaa****BONDS QUALIFIED FOR MICHIGAN
SCHOOL BOND LOAN FUND*****Financial Guaranty Insured**

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, under existing law as presently interpreted (i) the Bonds and the interest thereon are exempt from all taxation in the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof, (ii) the interest on the Bonds is excluded from gross income for federal income tax purposes to the extent and subject to the conditions described herein, and (iii) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS."

\$69,600,000

DEXTER COMMUNITY SCHOOLS
Counties of Washtenaw and Livingston, State of Michigan
1998 SCHOOL BUILDING AND SITE BONDS
(Unlimited Tax General Obligation)

Dated: Date of Delivery**Due:** May 1, as shown below

On April 20, 1998 the qualified electors of Dexter Community Schools, Counties of Washtenaw and Livingston, State of Michigan (the "School District") approved proposals authorizing the School District to issue bonds in the sum of not to exceed \$69,600,000 for school building and site purposes as further described in this Official Statement. Proceeds of the 1998 School Building and Site Bonds (the "Bonds") in the amount of \$69,600,000 will be used for such school building and site purposes and to pay the costs of issuing the Bonds. The Bonds were authorized by the Board of Education of the School District by the resolutions adopted on April 20, 1998 and May 17, 1998 (collectively, the "Resolutions"). The Bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the School District without limitation as to rate or amount.

The Bonds will be fully qualified as of their date of delivery for the Michigan School Bond Loan Fund Program pursuant to Act 108, Public Acts of Michigan, 1961, as amended, enacted pursuant to Article IX, Section 16 of the Michigan Constitution of 1963. Under the terms of these constitutional and statutory provisions if for any reason the School District will be or is unable to pay the principal of and interest on the Bonds when due, then the School District shall borrow and the State of Michigan shall lend to it an amount sufficient to enable the School District to make the payment. See "QUALIFICATION BY THE STATE OF MICHIGAN."

The Bonds are issuable as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry-only form in the denomination of \$5,000 or any multiple of \$5,000. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive certificates representing their beneficial interest in Bonds purchased. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references in this Official Statement to the Bondholders or registered owners shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. See "THE BONDS -- Book-Entry-Only System."

Principal and interest on the Bonds will be paid by First of America Bank, N.A., Birmingham, Michigan (the "Paying Agent"). So long as DTC or its nominee, Cede & Co., is the Bondholder, such payments will be made directly to such Bondholder. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described in this Official Statement. Interest will be payable semi-annually on November 1 and May 1 commencing November 1, 1998 to the Bondholders of record as of the applicable record dates.

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy (see "BOND INSURANCE" and APPENDIX F) to be issued simultaneously with the issuance of the Bonds by



**Financial Guaranty Insurance
Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

MATURITY SCHEDULE

Maturity		Interest	Price or	Maturity		Interest	Price or
May 1	Amount	Rate	Yield	May 1	Amount	Rate	Yield
1999	\$1,730,000	3.80%	100%	2008	\$1,730,000	6.25%	4.75%
2000	1,730,000	4.00	100	2009	2,600,000	4.70	4.75
2001	1,730,000	4.10	100	2010	2,600,000	4.80	4.85
2002	1,730,000	4.20	100	2011	2,600,000	4.90	4.95
2003	1,730,000	4.30	100	2012	2,600,000	5.00	5.05
2004	1,730,000	5.50	4.40	2013	2,600,000	5.00	5.10
2005	1,730,000	5.625	4.50	2014	2,600,000	5.00	5.15
2006	1,730,000	6.125	4.60	2015	2,600,000	5.00	5.18
2007	1,730,000	6.25	4.70	2016	2,600,000	5.00	5.20

\$5,250,000 5.10% Term Bonds Due May 1, 2018 - Price 100%

\$13,125,000 5.00% Term Bonds Due May 1, 2023 - Yield 5.15%

\$13,125,000 5.10% Term Bonds Due May 1, 2028 - Yield 5.18%

THE BONDS MATURING ON MAY 1, 2009 THROUGH MAY 1, 2016 ARE SUBJECT TO OPTIONAL REDEMPTION BEGINNING MAY 1, 2008 IN THE MANNER AND AT THE TIMES DESCRIBED IN THIS OFFICIAL STATEMENT. See "THE BONDS -- Optional Redemption." TERM BONDS MATURING ON MAY 1, 2018, MAY 1, 2023 AND MAY 1, 2028 ARE SUBJECT TO MANDATORY REDEMPTION AS FURTHER SET FORTH IN THIS OFFICIAL STATEMENT. See "THE BONDS -- Mandatory Redemption of Term Bonds."

The Bonds will be offered when, as and if issued by the School District and accepted by the Underwriters subject to receipt of the approving legal opinion of Miller, Canfield, Paddock and Stone, P.L.C., Detroit, Michigan, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Howard & Howard Attorneys, P.C., Lansing, Michigan. It is expected that the Bonds will be available for delivery in New York, New York on or about June 1, 1998.

NatCity Investments, Inc.
Comerica Securities, Inc.

EVEREN Securities, Inc.

Edward D. Jones & Co., L.P.
Standard Federal Capital Markets
 (a division of ABN AMRO, Inc.)

The date of this Official Statement is May 18, 1998

† For an explanation of ratings, see "RATINGS."

* As of date of delivery.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement in connection with the offer made hereby and, if given or made, such other information or representation must not be relied upon as having been authorized by the School District or the Underwriters. This Official Statement and the information contained in this Official Statement are subject to completion and amendment. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Information in this Official Statement has been obtained from the School District and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation by, the Underwriters (except for information under the section captioned "UNDERWRITING" which was obtained from the Underwriters).

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency will have passed upon the adequacy of this Official Statement, or, except for the School District and the State Treasurer of the State of Michigan, approved the Bonds for sale.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

FOR NEW HAMPSHIRE RESIDENTS

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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Counties of Washtenaw and Livingston, State of Michigan
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BOARD OF EDUCATION

PRESIDENT
Sharon Crawford
Term Expires 1999

VICE PRESIDENT
Sherri Munson
Term Expires 2001

SECRETARY
Jean Christian
Term Expires 1998

TREASURER
Richard Lundy
Term Expires 1999

TRUSTEES
Ann Davis
Term Expires 2000

Ron Miller
Term Expires 2000

Paul White
Term Expires 2001

SUPERINTENDENT
John P. Hansen, Ph.D.

DEPUTY SUPERINTENDENT
Ross Stephenson, Ph.D.

PROFESSIONAL SERVICES

SENIOR UNDERWRITER EVEREN Securities, Inc.
PAYING AGENT First of America Bank, N.A.
BOND COUNSEL Miller, Canfield, Paddock and Stone, P.L.C.
FINANCIAL CONSULTANT Erickson & Associates Limited

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**OFFICIAL STATEMENT
relating to**

\$69,600,000

**DEXTER COMMUNITY SCHOOLS
Counties of Washtenaw and Livingston, State of Michigan
1998 SCHOOL BUILDING AND SITE BONDS
(Unlimited Tax General Obligation)**

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and Appendices, is to furnish information in connection with the issuance and sale by Dexter Community Schools in the Counties of Washtenaw and Livingston, State of Michigan (the "School District") of its 1998 School Building and Site Bonds (Unlimited Tax General Obligation) (the "Bonds").

PURPOSE AND SECURITY

The Bonds are being issued for the purpose of (i) defraying the cost of erecting, furnishing and equipping a new high school building; erecting, furnishing and equipping additions to school buildings; remodeling, furnishing, refurnishing, equipping and re-equipping existing school district buildings; acquiring and installing technology in the School District; and improving and developing sites, including outdoor athletic facilities and playgrounds in the School District; and (ii) paying the costs of issuing the Bonds.

The Bonds will be issued by the School District pursuant to the provisions of Act 202, Public Acts of Michigan 1943, as amended, Act 451, Public Acts of Michigan, 1976, as amended, and resolutions adopted by the Board of Education of the School District on April 20, 1998, and May 17, 1998 (collectively, the "Resolutions").

The Bonds are a full faith and credit unlimited tax general obligation of the School District and the principal thereof and interest thereon will be payable from the proceeds of ad valorem taxes levied on all taxable property in the School District without limitation as to rate or amount. On the date of delivery, the Bonds will be fully qualified for participation in the State of Michigan School Bond Loan Fund. See "QUALIFICATION BY THE STATE OF MICHIGAN" and "APPENDIX A - State Qualification" in this Official Statement.

ESTIMATED SOURCES AND USES OF FUNDS

ESTIMATED SOURCES

Par amount of Bonds	\$69,600,000.00
Plus original issue premium	782,565.50
Less original issue discount	<u>(664,904.00)</u>
Total Sources:	\$69,717,661.50

ESTIMATED USES

Deposit to 1998 Capital Projects Fund	\$67,751,942.06
Costs of issuance*	542,706.75
Deposit to Bond Fund for Capitalized Interest	<u>1,423,012.69</u>
Total Uses:	\$69,717,661.50

*Includes Underwriters' discount and bond insurance premium.

THE BONDS

Description and Form of the Bonds

The Bonds will be issued in book-entry-only form as one fully registered Bond per maturity, without coupons, in the aggregate principal amount for each maturity set forth on the cover page of this Official Statement and may be purchased in denominations of \$5,000 or any integral multiple of \$5,000. The Bonds will be dated and bear interest from their date of delivery. Interest on the Bonds will be payable on November 1, 1998 and semiannually on each subsequent May 1 and November 1 prior to maturity or redemption. Interest on the Bonds shall be computed using a 360-day year with twelve 30-day months, and the Bonds will mature on the dates and in the principal amounts and will bear interest at the rates as set forth on the cover of this Official Statement.

First of America Bank, N.A., Birmingham, Michigan or its successor will serve as the Paying Agent (the "Paying Agent") and also as bond registrar and transfer agent if the Bonds cease to be held in book-entry-only form. For a description of payment of principal and interest, transfers and exchanges and notice of redemption on the Bonds which are held in the book-entry-only system, see "Book-Entry-Only System" below. In the event the Bonds cease to be held in the book entry-only system, then interest on the Bonds shall be payable when due by check or draft mailed by the Paying Agent to the person or entity who or which is, as of the 15th day of the month preceding each interest payment date, the registered owner of record, at the owner's registered address. See "Transfer Outside Book-Entry-Only System" below.

Book-Entry-Only System

The information in this section has been furnished by The Depository Trust Company, New York, New York ("DTC"). No representation is made by the School District, the Paying Agent or the Underwriters as to the completeness or accuracy of such information or as to the

absence of material adverse changes in such information subsequent to the date of this Official Statement. No attempt has been made by the School District, the Paying Agent or the Underwriters to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the School District nor the Paying Agent will have any responsibility or obligation to DTC Participants, Indirect Participants (both as defined below) or the persons for which they act as nominees with respect to the Bonds, or for payment of any principal of or interest on the Bonds.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which

may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the School District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the School District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Paying Agent or the School District, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to the Bondholders, registered owners or owners (or similar terms) shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the School District or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The School District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the School District believes to be reliable, but the School District takes no responsibility for the accuracy thereof.

Transfer Outside Book-Entry-Only System

In the event that the book-entry-only system is discontinued, the following provisions would apply to the Bonds. The Paying Agent shall keep the registration books for the Bonds (the "Bond Register") at its corporate trust office. Subject to the further conditions contained in the Resolutions, the Bonds may be transferred or exchanged for one or more Bonds in different authorized denominations upon surrender thereof at the corporate trust office of the Paying Agent by the registered owners or their duly authorized attorneys; upon surrender of any Bonds to be transferred or exchanged, the Paying Agent shall record the transfer or exchange in the Bond Register and shall authenticate replacement bonds in authorized denominations; during the 15 days immediately preceding the date of mailing (the "Record Date") of any notice of redemption or any time following the mailing of any notice of redemption, the Paying Agent shall not be required to effect or register any transfer or exchange of any Bond which has been selected for such redemption, except the Bonds properly surrendered for partial redemption may be exchanged for new Bonds in authorized denominations equal in the aggregate to the unredeemed portion; the School District and Paying Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in the Bond Register as of the appropriate dates, as the owners of such Bonds for all purposes under the Resolutions. No transfer or exchange made other than as described above and in the Resolutions shall be valid or effective for any purposes under the Resolutions.

Optional Redemption

Bonds maturing prior to May 1, 2009, and Bonds maturing on May 1, 2018, May 1, 2023, and May 1, 2028 are not subject to optional redemption prior to maturity. The Bonds or portions of Bonds in multiples of \$5,000, maturing on May 1, 2009, through May 1, 2016, are subject to redemption prior to maturity at the option of the School District in such order as the School District may determine, by lot within any maturity, on any interest payment date occurring on or after May 1, 2008, at par and accrued interest to the date fixed for redemption.

Mandatory Redemption of Term Bonds

The Bonds maturing on May 1, 2018, May 1, 2023 and May 1, 2028 are term bonds (the "Term Bonds") subject to mandatory redemption, in part, by lot, on the redemption dates and in the principal amounts set forth below and at a redemption price equal to the principal amount of such Bonds, without premium, together with interest on such Bonds to the redemption date. When Term Bonds are purchased by the School District and delivered to the Paying Agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of the Term Bonds affected shall be reduced by the principal amount of the Bonds so redeemed or purchased in the order determined by the School District.

Term Bonds due May 1, 2018

<u>Redemption Dates</u>	<u>Principal Amounts</u>
May 1, 2017	\$2,625,000
May 1, 2018*	2,625,000

Term Bonds Due May 1, 2023

Term Bonds Due May 1, 2028

<u>Redemption Dates</u>	<u>Principal Amounts</u>	<u>Redemption Dates</u>	<u>Principal Amounts</u>
May 1, 2019	\$2,625,000	May 1, 2024	\$2,625,000
May 1, 2020	2,625,000	May 1, 2025	2,625,000
May 1, 2021	2,625,000	May 1, 2026	2,625,000
May 1, 2022	2,625,000	May 1, 2027	2,625,000
May 1, 2023*	2,625,000	May 1, 2028*	2,625,000

*maturity

Notice of Redemption and Manner of Selection

Notice of redemption of any Bond shall be given not less than 30 days and not more than 60 days prior to the date fixed for redemption by mail to the registered owner at the registered address shown on the registration books kept by the Paying Agent. The Bonds shall be called for redemption in multiples of \$5,000 and Bonds of denominations of more than \$5,000 shall be treated as representing the number of Bonds obtained by dividing the face amount of the Bond by \$5,000 and such Bonds may be redeemed in part. The notice of redemption for Bonds redeemed in part shall state that upon surrender of the Bond to be redeemed a new Bond or Bonds in an aggregate face amount equal to the unredeemed portion of the Bond surrendered shall be issued to the registered owner of such Bond.

If less than all of the Bonds of any maturity shall be called for redemption prior to maturity, unless otherwise provided, the particular Bonds or portions of Bonds to be redeemed shall be selected by lot by the Paying Agent, in the principal amounts designated by the School District. Any Bonds selected for redemption will cease to bear interest on the date fixed for redemption provided funds are on hand to redeem said Bonds. Upon presentation and surrender of such Bonds at the corporate trust office of the Paying Agent, such Bonds shall be paid and redeemed.

As long as the book-entry-only system remains in effect, in the event of a partial redemption the Paying Agent will give notice to Cede & Co., as nominee of DTC, only, and only Cede & Co. will be deemed to be a holder of the Bonds. DTC is expected to reduce the credit balances of the applicable DTC Participants in respect of the Bonds and in turn the DTC Participants are expected to select those Beneficial Owners whose ownership interests are to be

extinguished or reduced by such partial redemptions, each by such method as DTC or such DTC Participants, as the case may be, deems fair and appropriate in its sole discretion.

QUALIFICATION BY THE STATE OF MICHIGAN

The Bonds will be fully qualified as of the date of delivery pursuant to Act 108 of the Public Acts of Michigan, 1961, as amended, enacted pursuant to Article IX, Section 16, of the Michigan Constitution of 1963. Under the terms of such constitutional and statutory provisions, if for any reason the School District will be or is unable to pay the principal and interest on the Bonds when due, the School District shall borrow and the State of Michigan (the "State") shall lend to it from the School Bond Loan Fund (the "School Bond Loan Fund") established by the State, an amount sufficient to enable the School District to make the payment. Article IX, Section 16 of the State Constitution as implemented by Act 112 of the Public Acts of Michigan, 1961, as amended, authorizes the State, without approval of its electors, to borrow from time to time such amounts as shall be required, to pledge the State's full faith and credit and to issue its notes or bonds, for the purpose of making loans to school districts as provided under such section. Loans to school districts for such purposes are made from the proceeds of such State borrowing. See also "APPENDIX A - State Qualification."

Complete financial statements of all of the State's funds as included in the State's Comprehensive Annual Financial Report ("CAFR") prepared by the State's Department of Management and Budget are available upon request from the Department of Management and Budget, Office of Financial Management, P.O. Box 30026, Lansing, Michigan 48909, telephone (517) 373-1011. The State has agreed to file its CAFR with the Nationally Recognized Municipal Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities and Exchange Commission) annually, so long as any bonds qualified for participation in the School Bond Loan Fund remain outstanding.

TAX PROCEDURES

Article IX, Section 3, of the Michigan Constitution provides that the proportion of true cash value at which property shall be assessed shall not exceed 50% of true cash value. The Michigan Legislature by statute has provided that property shall be assessed at 50% of its true cash value. The Michigan Legislature of the electorate may at some future time reduce the percentage below 50% of true cash value.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize ad valorem taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as "Taxable Value." Beginning in 1994, taxable property has two valuations - State Equalized Valuation ("SEV") and Taxable Value. Property taxes are levied on Taxable Value. Generally, Taxable Value of property is the lesser of (a) the Taxable Value of the property in the immediately preceding year, adjusted for losses, multiplied by the lesser of the net percentage change in the property's SEV, or the inflation rate, or 5%, plus additions, or (b)

the property's current SEV. Under certain circumstances, therefore, the Taxable Value of property may be different from the same property's SEV.

This constitutional amendment and the implementing legislation base the Taxable Value of existing property for the year 1995 on the SEV of that property in 1994 and for the years 1996 and thereafter on the Taxable Value of the property in the preceding year. When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

Responsibility for assessing taxable property rests with the local assessing officer of each township and city. Any property owner may appeal the assessment to the local assessor, the local board of review and ultimately to the Michigan Tax Tribunal.

The Michigan Constitution also mandates a system of equalization of assessments. Although the assessors for each local unit of government within a county are responsible for actually assessing at the Taxable Value, the final SEV and Taxable Value are arrived at through several steps. Assessments are established initially by the municipal assessor. Municipal assessments are then equalized to the 50% levels as determined by the county's department of equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important, aside from its use in determining Taxable Value for the purpose of levying ad valorem property taxes, because of its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs, State revenue sharing and in the calculation of debt limits.

Property that is exempt from property taxes, e.g., churches, government property, and public schools, is not included in the SEV and Taxable Value data in this Official Statement. Property granted tax abatements under either Act 198, Public Acts of Michigan, 1974, as amended ("Act 198"), or Act 255, Public Acts of Michigan, 1978, as amended ("Act 255"), is recorded on separate tax rolls while subject to tax abatement. The valuation of tax abated property is based upon SEV but is not included in either the SEV or Taxable Value data in the Official Statement except as noted.

LEVY AND COLLECTION OF TAXES FOR PAYMENT OF THE BONDS AND BONDHOLDERS' REMEDIES

The Resolutions authorizing issuance of the Bonds and State law obligate the School District to levy a tax in an amount sufficient so that the estimated collections from such taxes, together with amounts, if any, to be borrowed from the School Bond Loan Fund for the Bonds, will be sufficient to pay promptly when due the principal of and interest on the Bonds becoming due prior to the time of the next tax levy. The tax levy shall not be subject to limitation as to rate or amount. Taxes for the payment of the principal of or interest on the Bonds are certified for collection each year with the school tax levies. In the event of the failure of the proper officials to certify taxes for the payment of the principal and interest requirements, a timely action in the nature of mandamus could compel certification and collection of adequate taxes for the next year or, for the Bonds, could compel the School District to make application to borrow

the necessary funds from the School Bond Loan Fund and thus prevent a default. However, in the event that the principal of or interest on any Bond is not paid when due or upon proper presentation of the Bond to the agent or officer charged with making payment of such principal and interest (irrespective of whether an application by the School District to the State for a loan to pay such principal or interest has been made or approved), the State Treasurer shall promptly pay such principal or interest upon presentation of the Bond to him. Any amount so paid by the State Treasurer shall be deemed a loan made to the School District pursuant to the requirements of Article IX, Section 16, of the State Constitution. Registered owners of the Bonds may attempt to obtain a money judgment against the School District for the principal amount of the Bonds or interest not paid when due and may periodically attempt to enforce the collection of the money judgment by requiring the tax assessing officers for the School District to place the amount of such judgment on the next tax rolls of the School District. The rights of the owners of the Bonds and the enforceability of the Bonds are subject to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights now existing or later enacted and their enforcement also may be subject to the exercise of judicial discretion in appropriate cases. See also "APPENDIX A - State Qualification" for the excerpt from the State Constitution and for the statute creating the School Bond Loan Fund and the related opinions of the Attorney General of the State of Michigan.

SOURCES OF SCHOOL OPERATING REVENUE - SCHOOL FINANCE REFORM

On March 15, 1994, the electors of the State of Michigan approved a ballot proposition to amend the State Constitution of 1963, in part, to increase the state sales tax from 4% to 6% as part of a complex plan to restructure the source of funding of public education (K-12) in order to reduce reliance on local property taxes for school operating purposes and to equalize the per pupil finance resource disparities among school districts. The state aid package passed by the Legislature as part of the school finance reform legislation instituted a per pupil foundation guarantee beginning in fiscal year 1994/1995. The foundation guarantee in 1997/1998 is from \$5,124 to \$6,962 per pupil, depending upon the district's 1993/1994 revenue. In following years the foundation guarantee is required by the State Constitution to be adjusted by an index based upon the change in revenues to the state school aid fund and change in the total number of pupils statewide and the disparity between the high and low pupil guarantee will be reduced; however, for fiscal year 1998/1999 the Michigan Legislature has increased only the lower end of the range to \$5,170 per pupil, leaving all other foundation guarantees intact at the 1997/1998 levels. The foundation guarantee consists of the locally raised property taxes plus state aid. The source of revenues for the state's contribution to the foundation allowance is derived from a mix of taxing sources, including but not limited to, a statewide property tax of six mills on all property (homestead and non-homestead), a state sales and use tax, a real estate transfer tax and a cigarette tax.

School districts are required to levy a local property tax of not more than 18 mills or the number of mills levied in 1993 for school operating purposes, whichever is less, on non-homestead properties in order for the district to receive its per pupil foundation grant. An intermediate school district may seek voter approval for three enhancement mills for distribution to local constituent school districts on a per pupil basis. The enhancement mills are not counted

towards the foundation allowance. Furthermore, districts whose per pupil foundation allowance in 1997/1998 calculates to an amount in excess of \$6,962 are authorized to levy a supplemental property tax in excess of the 18 mills necessary to hold themselves harmless and to obtain the foundation allowance. The supplemental millage is levied first on homestead property until millage levied on all property is 18 mills and then levied on all property uniformly.

THE SCHOOL FINANCE REFORM FOR SCHOOL DISTRICTS' OPERATING REVENUES DOES NOT IMPACT THE TAXING AUTHORITY OF A SCHOOL DISTRICT FOR PAYMENT OF GENERAL OBLIGATION UNLIMITED TAX SCHOOL BONDS AND DOES NOT AFFECT THE OBLIGATION OF THE SCHOOL DISTRICT TO LEVY TAXES FOR PAYMENT OF DEBT SERVICE ON GENERAL OBLIGATION UNLIMITED TAX BONDS OF THE SCHOOL DISTRICT, INCLUDING THE BONDS OFFERED BY THIS OFFICIAL STATEMENT.

LITIGATION

To the knowledge of the appropriate officials of the School District, no litigation or administrative action or proceeding is pending or threatened restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Bonds, or questioning or contesting the validity of the Bonds or the proceedings or authorities under which they are authorized to be issued, sold, executed and delivered. A certificate to such effect will be delivered to the Underwriters at the time of the original delivery of the Bonds.

TAX MATTERS

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, based on its examination of the documents described in its opinion, under existing law as presently interpreted, the interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion is subject to the condition that the School District comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements may include rebating certain earnings to the United States. Failure to comply with any of such requirements could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The School District has covenanted to comply with all such requirements. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds and interest thereon.

Bond Counsel is further of the opinion that under existing law as presently interpreted, the Bonds and the interest thereon are exempt from all taxation provided by the laws of the State

of Michigan except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

Additional federal tax consequences relative to the Bonds and interest thereon include the following matters. The following is a general description of some of these consequences, but is not intended to be complete or exhaustive, and investors should consult their tax advisors with respect to these matters. For federal income tax purposes: (a) tax-exempt interest, including interest on the Bonds, is included in the calculation of modified adjusted gross income required to determine the taxability of social security or railroad retirement benefits; (b) the receipt of tax-exempt interest, including interest on the Bonds, by life insurance companies may affect the federal income tax liabilities of such companies; (c) the amount of certain loss deductions otherwise allowable to property and casualty insurance companies will be reduced (in certain instances below zero) by 15% of, among other things, tax-exempt interest, including interest on the Bonds; (d) interest incurred or continued to purchase or carry the Bonds may not be deducted in determining federal income tax; (e) commercial banks, thrift institutions and other financial institutions may not deduct their costs of carrying certain obligations (other than "qualified" obligations) such as the Bonds; (f) interest on the Bonds will be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States; (g) passive investment income, including interest on the Bonds, may be subject to federal income taxation for Subchapter S Corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S Corporation is passive investment income; and (h) the receipt or accrual of interest on the Bonds may cause disallowance of the earned income credit under Section 32 of the Code.

Original Issue Premium

Bond Counsel are also of the opinion that, for federal income tax purposes, under existing law as presently interpreted, the difference between a purchaser's cost basis of the Bonds maturing on May 1, 2004 through May 1, 2008, inclusive (the "Premium Bonds") and the amounts payable on the Premium Bonds (other than payment of the stated interest thereon) constitutes an amortizable bond premium. Such amortizable bond premium is not deductible from gross income, but is treated for federal income tax purposes as an offset to the amount of stated tax-exempt interest paid on the Premium Bonds, and is taken into account by certain corporations in determining adjusted current earnings for the purpose of computing the alternative minimum tax, which may also affect liability for the branch profits tax imposed by Section 884 of the Code.

In general, the amount of amortizable bond premium allocated to each "accrual period" is the excess of the stated interest on a Premium Bond allocable to such accrual period over the product of the bond purchaser's adjusted acquisition price at the beginning of the accrual period multiplied by the discount rate that, when used in computing the present value of all remaining payments to be made on such Premium Bond (including stated interest) produces an amount equal to the holder's basis in the Premium Bonds. For purposes of this calculation, the adjusted acquisition price at the beginning of any accrual period is equal to the purchaser's original basis in the Premium Bond decreased by (i) the amount of bond premium amortized in prior accrual

periods and (ii) the amount of any payments previously made on the Premium Bond other than payments of stated interest on such Premium Bond.

The amount of amortizable bond premium allocable to each taxable year is deducted from the bond purchaser's adjusted basis on such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such bonds.

Original Issue Discount

If the initial public offering price of a Bond is less than the stated redemption price at maturity (hereinafter referred to as an "OID Bond"), then in the opinion of Bond Counsel, under existing law as presently interpreted, for United States federal income tax purposes, each OID Bond will be considered to have an "original issue discount" equal to the difference between its original issue price and the amount payable upon its maturity. The original issue price of each OID Bond will be the initial offering price to the public at which a substantial amount of OID Bonds are sold, and the issue date will be the date on which an OID Bond is first issued to the public.

In the opinion of Bond Counsel, under existing law as presently interpreted, the original issue discount on an OID Bond accrued in the hands of a registered owner is treated for federal income tax purposes as tax-exempt interest as described below. The registered owner's basis for determining gain or loss on a sale, maturity or other disposition of an OID Bond generally will equal the registered owner's cost, increased by any original issue discount that accrued while the owner held the OID Bond as described below. Generally, any gain or loss incurred by a U.S. registered owner on the sale, exchange or payment at maturity of an OID Bond (based on the registered owner's basis) would be taxable as capital gain or loss (assuming the OID Bond is held as a capital asset), which would be long-term or short-term depending on whether the OID Bond was held for more than the applicable period for treatment of long-term capital gain.

Subject to the modification described in the next paragraph for certain subsequent registered owners, the original issue discount accrued in each "accrual period" will equal the original issue price of the OID Bond (increased by the amount of the original issue discount accrued in all prior accrual periods without regard to the modifications discussed in the next paragraph) multiplied by the yield to the maturity of the OID Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less the interest payable on such OID Bond during such accrual period. For purposes of this paragraph "accrual period" means a six-month period (or shorter period from the date of original issue of the OID Bond) which ends on a day in the calendar year corresponding to the maturity date of the OID Bond or the date six months before such maturity date. The original issue discount so accrued in a particular accrual period will then be considered to accrue ratably on each day of the accrual period.

A modification of the foregoing rules will generally apply to a registered owner who acquired an OID Bond by "purchase" if the cost of the OID Bond to that purchaser exceeds the sum of (a) the original issue price of the OID Bond and (b) the total original issue discount accrued under the rules of the preceding paragraph during the entire period prior to the registered owner's purchase of the OID Bond. In that case, the amount of the original issue

discount considered to accrue in an accrual period will equal (i) the amount determined under the rules of the preceding paragraph reduced by (ii) the portion of such excess purchase price allocable to the days beginning on the date of such purchase and ending on the stated maturity date of the OID Bond. Such excess would be allocated so as to equal a constant percentage of the original issue discount accrued on each such day in the remaining period to maturity as described above. For this purpose, a "purchase" is any acquisition of an OID Bond other than one in which the registered owner's basis in such OID Bond is determined by reference to the basis of the OID Bond in the hands of the person from whom acquired (such as a gift).

Market Discount

Pursuant to amendments made to the Code by the Omnibus Budget Reconciliation Act of 1993, the "market discount rules" of the Code apply to the Bonds. Accordingly, holders acquiring their Bonds subsequent to the initial issuance of the Bonds will generally be required to treat market discount recognized under the provisions of the Code as ordinary taxable income (as opposed to capital gain income). Holders should consult their own tax advisors regarding the application of the market discount provisions of the Code and the advisability of making any of the elections relating to market discount allowed by the Code.

Future Developments

NO ASSURANCE CAN BE GIVEN THAT ANY FUTURE LEGISLATION OR CLARIFICATIONS OR AMENDMENTS TO THE CODE, IF ENACTED INTO LAW, WILL NOT CONTAIN PROPOSALS WHICH COULD CAUSE THE INTEREST ON THE BONDS TO BE SUBJECT DIRECTLY OR INDIRECTLY TO FEDERAL OR STATE OF MICHIGAN INCOME TAXATION, ADVERSELY AFFECT THE MARKET PRICE OR MARKETABILITY OF THE BONDS, OR OTHERWISE PREVENT THE HOLDERS FROM REALIZING THE FULL CURRENT BENEFIT OF THE STATUS OF THE INTEREST THEREON.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS, INCLUDING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND ORIGINAL ISSUE PREMIUM, IF ANY.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization, issuance and sale by the School District of the Bonds and with regard to the tax-exempt status of the Bonds are subject to the approving opinion of Miller, Canfield, Paddock and Stone, P.L.C., Detroit, Michigan, Bond Counsel. Except to the extent necessary to issue its approving opinion as to the validity of the Bonds, Bond Counsel has made no inquiry as to any financial information, statements or materials contained in any financial documents, statements or materials that have been or may be furnished in connection with the authorization, issuance or marketing of the Bonds, and accordingly will not express any opinion with respect to the accuracy or completeness of any such financial information, statements or materials.

Certain legal matters will be passed upon for the Underwriters by their counsel, Howard & Howard Attorneys, P.C., Lansing, Michigan.

APPROVAL BY THE MICHIGAN DEPARTMENT OF TREASURY

Issuance of the Bonds has been authorized by an exception from prior approval issued by the Department of Treasury of the State of Michigan in accordance with the provisions of Act 202 of the Public Acts of Michigan, 1943, as amended.

BOND INSURANCE

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the School District. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the School District. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal or interest made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal of the Bonds on their respective stated maturity dates, or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Bonds and references should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the School District and the Bonds for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement and the circumstances, if any, under which the School District is required to provide additional or substitute credit enhancement, and related matters.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. As of December 31, 1997, the total capital and surplus of Financial Guaranty was approximately \$1,255,590,411. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: (212) 312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: (212) 480-5187).

See Appendix F for a specimen of the Policy.

RATINGS

The School District has been advised by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("S&P") that they will assign, as of the date of delivery of the Bonds, their municipal bond ratings as shown on the cover of this Official Statement with the understanding that upon delivery of the Bonds a municipal bond insurance policy with respect to the Bonds will be issued by Financial Guaranty.

No application has been made to any other ratings service for a rating on the Bonds. The School District furnished to Moody's and S&P certain materials and information in addition to that provided here. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions by the rating agencies. There is no assurance that such ratings will prevail for any given period of time or that they will not be revised downward or withdrawn entirely by Moody's and/or S&P if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Any ratings assigned represent only the views of Moody's or S&P, respectively.

A brief description of the Moody's and S&P rating definitions reads as follows:

Moody's Investors Service, Inc.

Bonds which are rated "Aaa" are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Bonds which are rated "Aa" are judged to be of a high quality by all standards. Together with the "Aaa" group, they comprise what are generally known as high grade Bonds. They are rated lower than the best Bonds because margins of protection may not be as large as in "Aaa" securities or fluctuation of protective elements may be of great amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in the "Aaa" securities.

Bonds which are rated "A" possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.

General Note: Those Bonds in the "Aa" and "A" groups which Moody's believes possess the strongest investment attributes are designated by the symbols "Aa1" and "A1." Under the expanded rating scale adopted by Moody's on January 7, 1997, the numerical rating modifiers 2 and 3 have been added for long-term debt. The numerical modifier 2 indicates that the security is in the mid-range of its category, while the modifier 3 indicates that the issue is in the lower end of its generic category. A triple-A (Aaa) rating will have no numerical modifier; it remains Moody's highest bond rating.

Standard & Poor's Ratings Services

Bonds rated "AAA" have the highest rating assigned. Capacity to pay interest and repay principal is extremely strong.

Bonds rated "AA" qualify as high quality debt obligations. Capacity to pay principal and interest is very strong, and in the majority of instances they differ from "AAA" issues only in a small degree.

Bonds rated "A" have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of change in circumstances and economic conditions.

Plus (+) or Minus (-): To provide more detailed indications of credit quality, the ratings from "AA" to "A" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

SECONDARY MARKET DISCLOSURE

Annual audits and other financial information pertaining to the School District are a matter of public record and may be obtained from the School District pursuant to the Freedom of Information Act, being Act 442 of the Public Acts of Michigan, 1976, as amended, which provides that a person desiring to inspect or receive a copy of a public record may make an oral or written request for the public record to the public body. Subject to the limitations set forth in the Freedom of Information Act, the School District may charge a fee for providing a copy of the annual audit or other financial information.

Requests for copies of public records should be made to the office of the School District's Deputy Superintendent, 7714 Ann Arbor Street, Dexter, Michigan 48130, telephone (734) 426-4623.

CONTINUING DISCLOSURE

Prior to delivery of the Bonds the School District will execute a Continuing Disclosure Undertaking (the "Undertaking") for the benefit of the holders of the Bonds and Beneficial Owners to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and the other terms of the Undertaking, are set forth in "Appendix E - FORM OF CONTINUING DISCLOSURE UNDERTAKING."

A failure by the School District to comply with the Undertaking will not constitute an event of default under the Resolutions authorizing issuance of the Bonds and holders of the Bonds or Beneficial Owners are limited to the remedies described in the Undertaking. A failure by the School District to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price. Further, the School District has not, in the previous five years, executed any other continuing disclosure undertakings and has not, therefore, failed to comply, in all material respects, with any continuing disclosure undertaking under the Rule.

UNDERWRITING

EVEREN Securities, Inc. and the other firms listed on the cover of this Official Statement (the "Underwriters") have agreed, subject to the terms of the Bond Purchase Agreement, to purchase the Bonds from the School District. The Bond Purchase Agreement provides, in part, that the Underwriters, subject to certain conditions, will purchase from the School District the aggregate principal amount of the Bonds for the purchase price as set forth in such Bond Purchase Agreement. The aggregate underwriting discount equals 0.373% of the original principal amount of the Bonds. The offering prices or yields may be changed from time to time by the Underwriters.

The Bond Purchase Agreement provides that the obligations of the Underwriters are subject to certain conditions, including, among other things, that (i) no event has occurred which impairs or threatens to impair (a) the status of the Bonds or the interest on the Bonds as exempt from taxation in the State of Michigan (except estate and inheritance taxes and taxes on gains realized from the sale, payment or other disposition of the Bonds) or (b) the exclusion of interest on the Bonds from gross income for federal income tax purposes and (ii) proceedings relating to the Bonds are not pending or threatened by the Securities and Exchange Commission. The Bond Purchase Agreement further provides that the School District will provide to the

Underwriters within seven business days of the date of the Bond Purchase Agreement sufficient copies of the Official Statement to enable the Underwriters to comply with the requirements of Rule 15c2-12(b)(4) under the Securities Exchange Act of 1934, as amended.

FINANCIAL ADVISOR'S OBLIGATION

Erickson & Associates Limited, Lansing, Michigan (the "Financial Advisor") has been retained by the School District to provide certain financial advisory services. The information contained in the Official Statement was prepared in part by the Financial Advisor and is based on information supplied by various officials from records, statements and reports required by various local, county or state agencies of the State of Michigan in accordance with constitutional or statutory requirements.

To the best of the Financial Advisor's knowledge, all of the information contained in the Official Statement, which it assisted in preparing, while it may be summarized is (i) complete and accurate; (ii) does not contain any untrue statement of a material fact; and (iii) does not omit any material fact, or make any untrue statement which would be misleading in light of the circumstances under which these statements are being made. However, the Financial Advisor has not or will not independently verify the completeness and accuracy of the information contained in the Official Statement.

The Financial Advisor's duties, responsibilities and fees arise solely as financial advisor to the School District and it has no underwriting, secondary market obligations or other responsibility to the School District. The Financial Advisor's fees are expected to be paid from Bond proceeds.

FURTHER INFORMATION

Further information concerning the Bonds may be secured from Erickson & Associates Limited, 4710 West Saginaw Highway, Lansing, Michigan 48917, telephone (517) 321-0110, Financial Advisor to the School District, or from the office of the School District's Deputy Superintendent, 7714 Ann Arbor Street, Dexter, Michigan 48130, telephone (734) 426-4623.

OTHER MATTERS

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources of such information. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether expressly identified as such, should not be considered statements of facts.

This Official Statement has been duly executed and delivered by the School District.

DEXTER COMMUNITY SCHOOLS
Counties of Washtenaw and Livingston
State of Michigan

By: /s/ Sharon Crawford

Its: President
Board of Education

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APPENDIX A STATE QUALIFICATION

ARTICLE IX, SECTION 16 OF THE 1963 STATE OF MICHIGAN CONSTITUTION

State loans to school districts

Sec. 16. The state, in addition to any other borrowing power, may borrow from time to time such amounts as shall be required, pledge its faith and credit and issue its notes or bonds therefor, for the purpose of making loans to school districts as provided in this section.

Amount of loans

If the minimum amount which would otherwise be necessary for a school district to levy in any year to pay principal and interest on its qualified bonds, including any necessary allowances for estimated tax delinquencies, exceeds 13 mills on each dollar of its assessed valuation as finally equalized, or such lower millage as the legislature may prescribe, then the school district may elect to borrow all or any part of the excess from the state. In that event the state shall lend the excess amount to the school district for the payment of principal and interest. If for any reason any school district will be or is unable to pay the principal and interest on its qualified bonds when due, then the school district shall borrow and the state shall lend to it an amount sufficient to enable the school district to make the payment.

Qualified bonds

The term "qualified bonds" means general obligation bonds of school districts issued for capital expenditures, including refunding bonds, issued prior to May 4, 1955, or issued thereafter and qualified as provided by law pursuant to Section 27 or Section 28 of Article X of the Constitution of 1908 or pursuant to this section.

Repayment of loans, tax levy by school district

After a school district has received loans from the state, each year thereafter it shall levy for debt service, exclusive of levies for nonqualified bonds, not less than 13 mill or such lower millage as the legislature may prescribe, until the amount loaned has been repaid, and any tax collections therefrom in any year over and above the minimum requirements for principal and interest on qualified bonds shall be used toward the repayment of state loans. In any year when such levy would produce an amount in excess of the requirements and the amount due to the state, the levy may be reduced by the amount of the excess.

Bonds, state loans, repayment

Subject to the foregoing provisions, the legislature shall have the power to prescribe and to limit the procedure, terms and conditions for the qualification of bonds, for obtaining and making state loans, and for the repayment of loans.

Power to tax unlimited

The power to tax for the payment of principal and interest on bonds hereafter issued which are the general obligations of any school district, including refunding bonds, and for repayment of any state loans made to school districts, shall be without limitations as to rate or amount.

Rights and obligations to remain unimpaired

All rights acquired under Sections 27 and 28 of Article X of the Constitution of 1908, by holders of bonds heretofore issued, and all obligations assumed by the state or any school district under these sections, shall remain unimpaired.

ACT 108 OF THE PUBLIC ACTS OF MICHIGAN OF 1961, AS AMENDED

State Loans to School Districts Act 108, 1961, as amended

AN ACT to provide for loans by the state of Michigan to school districts for the payment of principal and interest upon school bonds; to prescribe the terms and conditions of the loans and the conditions upon which levies for bond principal and interest shall be included in computing the amount to be so loaned by the state; to prescribe the powers and duties of the superintendent of public instruction and the state treasurer in relation to such loans; to provide for the repayment of such loans; to provide incentives for repayment of such loans; to provide for other matters in respect to such loans; and to make an appropriation.

The People of the State of Michigan enact:

Sec. 1. The purpose of this act is to implement section 16 of article 9 of the 1963 Michigan constitution, hereinafter referred to as section 16.

Sec. 2. (1) If the minimum amount which it would otherwise be necessary for a school district to levy in any year to pay principal and interest on its qualified bonds, including any necessary allowances for estimated tax delinquencies, exceeds 13 mills or the computed millage under subsection (2), whichever is less, on each dollar of its assessed valuation as last equalized by the state, then the school district may elect to borrow all or any part of the excess from the state. In that event the state shall loan the excess amount to the school district for the payment of principal and interest. For bond issues sold before October 1, 1991 or bond issues sold exclusively to refund qualified bond issues sold before October 1, 1991, schools shall be allowed to borrow at least the percentage over 7 mills allowed them in the 1990-91 fiscal year. The school district shall levy not less than 12 mills or its equivalent for operating purposes.

(2) The computed millage referred to in subsection (1) is the number of mills as computed by the state treasurer that the school district would have to levy in the year the computation is made and each succeeding year to be able to pay the principal and interest on all of its qualified bonds and loans made to the school district under this act, taking into account loans made to the school district under this act for debt service, by not later than 60 months after the final maturity date of all of its qualified bonds outstanding as of the date of the computation, but shall be not less than 7 mills. The state treasurer shall make the computation based on the following assumptions:

(a) An assumed interest rate on loans made under this act equal to the average interest rate on school bond loan fund notes and bonds over the immediately preceding 5-year period.

(b) A projected total state equalized valuation for the school district that assumes a state equalized valuation growth rate or decline rate equal to the school district's average yearly state equalized valuation growth rate or decline rate over the immediately preceding 5-year period.

(3) Upon request made by a school district before June 1 of any year, the superintendent of public instruction and the treasurer annually may issue an order waiving all or a portion of the millage required to be levied by a school district to pay principal and interest on its qualified bonds pursuant to subsection (1) if they find all of the following:

(a) The school board of the school district has applied to the department of education for permission to levy less than the millage required to be levied to pay the principal and interest on its qualified bonds pursuant to subsection (1).

(b) The application specifies the number of mills the school district requests permission to levy.

(c) The waiver will be financially beneficial to the state or to the school district, or both.

(d) The waiver will not reduce the millage levied by the school district to pay principal and interest on qualified bonds under subsection (1) to less than 7 mills.

(e) The school board, by resolution, has agreed to comply with all conditions that the superintendent of public instruction and the state treasurer considers are necessary.

Sec. 3. (1) As used in this act, "qualified bonds" means general obligation bonds of school districts issued for capital expenditures, including refunding bonds, issued as follows:

(a) Before May 4, 1955.

(b) On or after May 4, 1955 but before January 1, 1964, only if, and to the extent that, the bonds have been qualified pursuant to section 27 or 28 of article X of the state constitution of 1908 and implementing acts.

(c) On or after January 1, 1964, if the bonds are qualified pursuant to section 16 of article IX of the state constitution of 1963 and this act.

(2) All actions heretofore taken by the superintendent of public instruction in qualifying bonds pursuant to sections 27 and 28 of article X of the state constitution of 1908 and implementing acts, are validated and all certificates of qualification heretofore or hereafter issued by the superintendent are conclusive as to the existence of facts entitling the bonds to be qualified as provided in the certificates and as to the qualification and shall not be subject to attack in any proceeding. Any certificate of qualification issued before January 1, 1964, qualifying bonds pursuant to section 28 of article X of the state constitution of 1908, and the act implementing that section, shall constitute qualification pursuant to section 16 of article IX of the state constitution of 1963 and this act, for any bonds sold or delivered to the purchaser of the bonds on or after January 1, 1964. Any bonds issued between May 4, 1955 and before January 1, 1964, that were partially qualified shall be considered to be 100% qualified bonds if they would be 100% qualifiable under this act.

(3) Bonds issued for a purpose described in section 1274a of the school code of 1976, Act No. 451 of the Public Acts of 1976, being section 380.1274a of the Michigan Compiled Laws, shall be considered general obligation bonds of school districts issued for capital expenditures.

Sec. 4. (1) The superintendent of public instruction shall issue his or her certificate qualifying an issue of bonds, upon application for a certificate being made by the school district, if the superintendent finds the following:

(a) That the last maturity date of the issue of bonds is not less than 10 years from the issuance date appearing on the bonds subject to the following qualifications and exceptions:

(i) Except for bonds issued for a purpose described in section 1274a of the school code of 1976, Act No. 451 of the Public Acts of 1976, being section 380.1274a of the Michigan Compiled Laws, or as otherwise provided in this subparagraph, if the ratio of debt to valuation of the school district exceeds 4%, the last maturity date of the issue of bonds shall be not less than 15 years from the issuance date appearing on the bonds; if the ratio of debt to valuation of the school district exceeds 7%, the last maturity date of the issue of bonds shall be not less than 25 years from the issuance date appearing on the bonds; or if the ratio of debt to valuation of the school district exceeds 12%, the last maturity date

of the issue of bonds shall be not less than 29 years from the issuance date appearing on the bonds. Regardless of the ratio of debt to valuation of a school district, the state treasurer may authorize the last maturity date of an issue of bonds of that school district to be not less than 10 years from the issuance date appearing on the bonds if the state treasurer determines it is financially beneficial to the state or to the school district. As used in this section, "ratio of debt to valuation" means that ratio arrived at by dividing the total tax supported bonded indebtedness of the school district outstanding as of the date of the filing of the application required by this act, including the bonds proposed to be qualified, by the assessed valuation of the school district as last equalized by the state. The refunding part of any proposed issue of bonds shall not be included in the total indebtedness of the school district for the purposes of this section.

(ii) If the bonds are issued for a purpose described in section 1274a of Act No. 451 of the Public Acts of 1976, the last maturity of the issue of bonds may be less than 10 years from the issuance date appearing on the bonds but not less than the number of years approved by the state treasurer in the certificate of qualification. The certificate of qualification of the superintendent of public instruction shall contain a certification and approval that the bonds are issued for such a purpose, which approval shall be final and conclusive and shall set forth the minimum number of years for the last maturity of the bonds.

(b) That the yearly principal maturity date is not less than 5 months after the major part of the taxes for the bonds becomes by law a lien upon the property assessed.

(c) Except as otherwise provided in this subdivision, that the amount of principal maturing in any calendar year is not less than the amount of principal maturing in any prior calendar year and, except for bonds issued for a purpose described in section 1274a of Act No. 451 of the Public Acts of 1976, if the ratio of debt to valuation of the school district exceeds 12%, that the first 10 principal maturities do not in the aggregate exceed 25% of the total principal amount of the bonds proposed to be qualified. Regardless of the amount of principal maturing in any calendar year and regardless of the ratio of debt to valuation of the school district, the state treasurer may authorize principal maturities in any amount if the state treasurer determines it is financially beneficial to the state or to the school district. At the request of the school district, the state treasurer may grant that authorization as part of the procedure of preliminary qualification under subdivision (f).

(d) That the cost of the project for which the bonds are to be issued is within reasonable standards of cost as established by the state board of education, which standards may vary as to different localities in accordance with any variance in construction costs between localities.

(e) Except for bonds issued for a purpose described in section 1274a of Act No. 451 of the Public Acts of 1976, that there exists a need for the project based upon current and probable future enrollment and that the project is designed to provide school facilities reasonably adequate to meet that need.

(f) Subject to subsection (3), if a bond issue requires an election, that a bond issue that a school district wishes to qualify has been given preliminary qualification prior to the official action of the board of education calling for the election on the bond issue.

(g) If the bonds are issued for a purpose described in section 1274a of Act No. 451 of the Public Acts of 1976, and if the bonds have not been approved by a majority of the school electors voting on the question, that the school district has demonstrated and the state treasurer has approved the method of payment for, and the ability to pay, the bonds and that the school district has received the prior approval of the

department of treasury for the issuance of the bonds under the municipal finance act, Act No. 202 of the Public Acts of 1943, being sections 131.1 to 139.3 of the Michigan Compiled Laws.

(2) For refunding bonds issued to refund bonds issued before May 4, 1955, the superintendent of public instruction shall issue the certificate of qualification if the superintendent finds that the refunding bonds comply with the requirements set forth in subsection (1)(c). For refunding bonds issued to refund bonds issued on or after May 4, 1955, or issued to refund loans from the state made under the authority of this act, the superintendent shall issue the certificate of qualification if the superintendent finds that the refunding bonds comply with the requirements set forth in subsection (1)(c) and also that the refunding bonds are being issued to refund loans from the state made under the authority of this act or that the bonds representing the original indebtedness either were qualified or satisfied the requirements for qualification set forth in subsection (1)(d) and (e) in effect when issued or would have satisfied the requirements set forth in subsection (1)(d) and (e) had those requirements been in effect when the bonds were issued. Refunding bonds issued to refund loans from the state made under the authority of this act shall be considered as refunding bonds for all purposes including section 16 of article IX of the state constitution of 1963.

(3) The requirement of subsection (1)(f) does not apply to a bond issue that is approved by the school district electors between December 31, 1990 and July 1, 1991 and that is in part ineligible for qualification. A series of bonds for such a bond issue may be qualified by the state treasurer if it is limited to either a project or projects eligible for qualification or refunding of obligations issued for a purpose described in section 1274a of Act No. 451 of the Public Acts of 1976, or both.

Sec. 4a. (1) Subject to subsection (2), an unexpended balance of the proceeds of sale of any school district bonds heretofore or hereafter issued, remaining after completion of the project, to the extent of 15% of the amount of the issue or for a fourth class school district located in a county with a population of not more than 27,000, to the extent of 40% of the amount of the issue, with the approval of the electors in the case of bonds issued before August 28, 1964, may be used for school construction, equipment and site acquisition and development if that use is approved by the superintendent of public instruction, and any remaining balance shall be paid immediately into the bond and interest redemption fund established for the bonds and shall be used either for the redemption of callable bonds, or, before the first call date only, for purchasing the bonds on the open market at not more than the fair market value or used to reduce the amount required to be levied to meet current principal and interest on the bonds as they become due. Any unexpended balance of the proceeds of sale of any school district bonds heretofore or hereafter issued, remaining after payment in full of the principal of and interest on the bonds, may be used to increase or continue expenditures for any of the projects or purposes for which the bonds were initially authorized and issued, even though all projects for which the bonds were initially authorized and issued have not been completed. This section shall apply unless allocations of specified amounts for stated projects or purposes were contained in the ballot question by which the bonds were initially authorized, in which case the use must be approved by the superintendent of public instruction.

(2) The superintendent of public instruction shall not approve a use of the unexpended balance of the proceeds of any school district bonds as authorized under subsection (1) unless he or she finds that the school district seeking approval has demonstrated a compelling justification for not immediately paying all of the unexpended balance into the bond and interest redemption fund established for the bonds.

(3) As used in this section, "fourth class school district" means a school district organized as a school district of the fourth class under the school code of 1976, Act No. 451 of the Public Acts of 1976, being sections 380.1 to 380.1852 of the Michigan Compiled Laws.

Sec. 4b. Bonds issued after May 4, 1955 and prior to August 1, 1969 that were not qualified based on reorganization of the school district may be qualified upon a renewal application to the superintendent of public instruction.

Sec. 4c. If the superintendent of public instruction determines that there are sufficient funds to complete all projects for which the bonds were initially authorized and issued, and if the use is approved by the superintendent of public instruction, an unexpended balance of the proceeds of sale of any school district bonds issued on or after September 1, 1989 may be used to increase or continue expenditures for any of the projects or purposes for which the bonds were initially authorized and issued, even though 1 or more of the projects for which the bonds were initially authorized and issued have not been completed. This section shall not apply after December 31, 1995.

Sec. 5. All certificates of qualification shall be kept in a permanent file in the office of the superintendent of public instruction and copies thereof shall be delivered to the school district and to the office of the municipal finance commission or its successor agency. Applications for such certificates shall be made on forms prepared and supplied by the superintendent of public instruction and he or she shall prescribe reasonable rules and regulations in respect thereto. If prior to the issuance of bonds, the school district does not secure such certificate of qualification from the superintendent of public instruction, it shall be deemed to have waived the right to have such bonds so qualified.

Sec. 6. In any school district where the amount necessary to be levied in any year for principal and interest on qualified bonds, including any necessary allowance for estimated tax delinquencies but excluding any funds pledged to and available for the payment of the principal and interest, exceeds that amount stipulated in section 2, the school district, on or before 60 days prior to the time of the certification of its tax levy to the assessing officer, shall file with the superintendent of public instruction and the municipal finance commission or its successor agency a preliminary application for a loan from the state in the amount of any part of such excess over that amount stipulated in section 2 which it does not propose to levy in such year. If the excess over that amount stipulated in section 2 is reached or increased by reason of bonds authorized by resolution of the board of education of the school district within the 60-day period, an original or amended application shall be filed within that period. An application shall set forth the amount of the last state equalized valuation of the school district and, for each of the 5 years immediately preceding the application, the amount of principal and interest on qualified bonds necessary to be levied upon the tax roll of that year, the amount of any moneys on hand pledged to and available for the payment of the principal and interest, the probable delinquency in tax collections at the time the principal and interest will become due, the estimated amount of the loan which will be required from the state, and any other pertinent facts which may be required to be included in the application by the superintendent of public instruction. The superintendent of public instruction shall examine the application and shall request the state treasurer to compute the computed millage under section 2(2); if applicable, as soon as possible and notify the school district of any erroneous statements or assumptions in the application and within the 60-day period shall approve or deny the preliminary application in whole or in part and shall notify the school district of his or her action. The school district shall include in its tax levy any amount otherwise required to be levied for the payment of principal and interest on qualified bonds for which it does not secure approval for a state loan as aforesaid.

Sec. 7. If a loan from the state shall become necessary for the payment of principal and interest on qualified bonds in accordance with such approved preliminary application, or for any reason pursuant to said section 16 of article IX of the 1963 constitution and this act, then the school district shall file with the superintendent of public instruction a supplemental application (or an original application, if no preliminary application has been filed), setting forth the amount of the tax collections to the date of said application, an estimate of probable collections prior to the time when such principal and interest will become due and the amount of the loan necessary from the state. Such supplemental or original application shall be made not less than 30 days prior to the time when the proceeds of the loan will be necessary in order to pay

maturing principal or interest or both. Upon receipt of such supplemental or original application, it shall be the duty of the superintendent of public instruction after auditing the same, to forward to the state treasurer a statement setting forth the amount to be loaned to the school district for the payment of principal and interest and the date on or before which such loan shall be made. He shall also prepare the proper voucher as a basis for the issuance of the necessary warrant in accordance with state accounting practices. Upon receipt of such statement and warrant, it shall be the duty of the state treasurer to loan to the school district from "the school bond loan fund" the amount set forth in the statement of the superintendent of public instruction on or before the date specified therein. The state treasurer upon the making of said loan shall obtain from the school district a receipt for the amount so loaned, which receipt shall specify the terms of repayment in accordance with the provisions of said section 16 of article IX of the 1963 constitution and this act. Upon receipt by any school district of such loan, it shall be the duty of the treasurer thereof to cause the same to be deposited in the debt retirement fund and used solely for the payment of principal and interest on qualified bonds.

Sec. 8. If for any reason any school district will be or is unable to pay the principal and interest on its qualified bonds when due, then the school district shall borrow and the state shall loan to it an amount sufficient to enable the school district to make the payment. Any school district which finds that it will be or is unable to pay such principal or interest when due shall forthwith make application for the necessary loan and the state shall, in time to prevent default in such payment, make such loan and obtain a receipt therefor as provided in section 7 of this act. In the event that the principal or interest on any qualified bond is not paid when due upon proper presentation of the bond or interest coupon to the agent or officer charged with making payment thereof (irrespective of whether an application for a loan to pay such principal or interest has been made or approved), the state treasurer shall forthwith pay such principal or interest upon presentation of the bond or coupon to him. Any amount so paid by the state treasurer shall be deemed a loan made to the school district pursuant to the requirements of said section 16 of article IX of the 1963 constitution and this act and the school district shall give a receipt therefor and repay such loan in the same manner as hereinbefore provided with respect to other loans: Provided, That any funds of the school district which are or become available in its hands or in the hands of the paying agent or officer for payment of the principal or interest which has been paid by the state treasurer shall forthwith be remitted to the state treasurer and applied toward repayment of said loan.

Sec. 9 (1) Except as provided in this section, section 2, and section 10a, any school district having received 1 or more loans from "the school bond loan funds" under Sections 27 and 28 of article X of the state constitution of 1908 or section 16 of article IX of the state constitution of 1963 and implementing acts shall continue to levy on its tax rolls not less than 13 mills or the computed millage under section 2(2), whichever is less, on each dollar of its assessed valuation as last equalized by the state, exclusive of any levy for unqualified bonds or for school operating purposes, until all loans made to the school district by the state are repaid with interest at rates to be annually determined by the state treasurer. Except as provided in this section, these rates shall represent not more than the average interest rate paid by the state on obligations issued under sections 27 and 28 of article X of the state constitution of 1908 and section 16 of article IX of the state constitution of 1963 and implementing acts and, except to the extent required to maintain the tax-exempt status of bonds or notes issued by the state pursuant to this act and Act No. 112 of the Public Acts of 1961, being sections 388.981 to 388.985 of the Michigan Compiled Laws, not less than that average interest rate, computed to the nearest 1/8 of 1%. The state treasurer shall annually certify to the several borrowing districts the rate of interest to be currently collected. The proceeds of each such levy shall be used first for the payment of the minimum principal and interest requirements on the qualified bonds that shall become due before the next tax collection, and any balance shall be paid to the state until the principal and interest due the state are paid.

(2) Before the adoption of a resolution approving annexation and transfer of a school district to be divided pursuant to part 10a of the school code of 1976, Act No. 451 of the Public Acts of 1976, being sections 380.941 to

380.949 of the Michigan Compiled Laws, the state superintendent of public instruction and the state treasurer may issue a joint order determining that, upon division of a school district pursuant to part 10a of the school code of 1976, the divided district or any other school district affected by the division, or all, may cease levying on its tax rolls for all or a portion, as shall be determined in the joint order by the state superintendent of public instruction and the state treasurer, of the amount required by subsection (1) for repayment of all or a portion of the principal or interest on, or both, the loans received before the issuance of the joint order from the school bond loan fund for a number of years to be determined in the joint order by the state superintendent of public instruction and the state treasurer, not to exceed 5 years, beginning with the first tax levy after the election approving the division or until the bonded indebtedness of the district for which loans have been received has been paid in full or provision for the payment has been made, whichever occurs first. During the period in which the levy is waived pursuant to this subsection, the school district payments due to the state pursuant to subsection (1) from that waived levy shall be waived. After expiration of the period of waiver, each school district shall levy each year for repayment of loans an amount designated in the order of the state superintendent of public instruction and the state treasurer, which amount, when added to the amount required for debt service, shall not be more than the amount required by subsection (1) until all loans to the school district by the state are repaid with interest at rates to be determined annually by the state treasurer. A school district determining not to levy for loan repayment during the following year shall notify before December 15 of each year the state treasurer of its determination not to levy and shall supply the state treasurer with any additional related information the state superintendent of public instruction or the state treasurer shall require.

(3) During any year in which a school district levy is waived, an amount equal to the annual interest for that year on the amount owed by the school district to the school bond loan fund shall be added to the amount of loans to the school district by the state.

(4) Any repayment of principal or interest that was waived pursuant to subsection (2) shall be transferred to the general fund if general fund revenue supplements were required to pay obligations issued under sections 27 and 28 of article X of the state constitution of 1908 or section 16 of article IX of the state constitution of 1963 during the period of the waiver.

Sec. 9a (1) Notwithstanding any other section of this act, if a school district agrees to repay the outstanding balance on a loan made under this act not later than September 30, 1991 or, for a school district that has covenanted not to issue additional obligations during calendar year 1991, not later than March 31, 1992, and if the school district submits to the state treasurer not later than August 1, 1991 a board-adopted resolution indicating that the school district intends to repay an outstanding balance in accordance with this section, the state treasurer shall reduce the total loan amount due from the school district as provided in subsection (2) and shall calculate and pay to the school district a general fund incentive payment as provided in subsection (3). There are hereby appropriated sufficient funds to pay the general fund incentive payments under subsection (3).

(2) The amount of the loan repayment reduction to be made by the state treasurer for the purposes of subsection (1) shall be an amount equal to the sum of the amounts described in subdivisions (a) and (b) as follows, but shall not exceed 10% of the total outstanding balance on the loan as calculated without reduction on the settlement date:

(a) The cost to the school district of obtaining the funds to use for the repayment of the outstanding balance of the loan.

(b) The amount by which the school district's payments of principal and interest on the obligations issued by the school district to obtain the funds to use for the repayment of the outstanding balance of the loan exceed the projected payments of principal and interest the school district otherwise would have paid to repay the loan based on the following assumptions:

(i) An assumed interest rate equal to the average interest rate on school bond loan fund notes and bonds over the immediately preceding 5-year period.

(ii) A projected total state equalized valuation for the school district that assumes a state equalized valuation growth rate equal to the school district's average yearly state equalized valuation growth rate over the immediately preceding 5-year period.

(3) The amount of the general fund incentive payment to be made by the state treasurer for the purposes of subsection (1) shall equal the lesser of either 5% of the reduced loan amount after the reduction made under subsection (2) or an amount calculated by subtracting the amount of the reduction made under subsection (2) from an amount equal to 10% of the school district's total outstanding balance on the loan as calculated without reduction on the settlement date. The state treasurer shall pay the general fund incentive payment to the school district on the settlement date. To receive a general fund incentive payment, a school district shall agree to use the general fund incentive payment only for capital expenditures.

(4) A school district that issues its obligations to obtain the funds to use for the repayment under this section of the outstanding balance of a loan under this act shall sell those obligations only to the Michigan municipal bond authority created in the shared credit rating act, Act No. 227 of the Public Acts of 1985, being sections 141.1051 to 141.1078 of the Michigan Compiled Laws, unless the Michigan municipal bond authority notifies the school district and the state treasurer in writing that the authority is unwilling or unable to purchase those obligations.

(5) As used in this section, "settlement date" means the date on which a school district repays the outstanding balance of a loan made under this act, as reduced under this section.

Sec. 9b. To receive a loan under this act or a general fund incentive payment under Section 9a, a school district shall agree to take actions and to refrain from taking actions as necessary to maintain the tax-exempt status of bonds or notes issued by the state pursuant to this act and Act No. 112 of the Public Acts of 1961, being sections 388.981 to 388.985 of the Michigan Compiled Laws. The state treasurer shall take the actions permitted by law that are necessary to maintain the tax-exempt status of obligations issued by school districts to provide the funds to repay a loan made under this act.

Sec. 10. Except as provided in section 10a, if a school district that has 1 or more loans pursuant to either this act or Act No. 151 of the Public Acts of 1955, as amended, being sections 388.931 to 388.938 of the Michigan Compiled Laws, or both, fails to levy at least the amount specified in section 2 or section 9, as applicable, upon its state equalized valuation for debt retirement purposes for qualified bonds and for repayment of a state loan made under this act while any part of the loan is unpaid, or defaults in its agreement to repay a loan or any installment of a loan, money shall not be distributed to the school district out of the state school aid fund until satisfactory arrangements have been made with the superintendent of public instruction for the payment of the amount in default.

Sec. 10a. Upon request made by a school district before June 1 of any year, the superintendent of public instruction and the state treasurer annually may jointly issue an order waiving all or a portion of the millage required to be levied by a school district pursuant to section 9(1) if he or she finds all of the following:

(a) The school board of the school district has applied to the department of education for permission to levy less than the millage required to be levied pursuant to section 9(1).

(b) The application specifies the number of mills the school district requests permission to levy.

(c) The school board, by resolution, has agreed to transfer from available identified funds of the school district to the school debt retirement fund an amount equal to the amount that would have been raised by the levy of the millage requested to be waived.

(d) The school board, by resolution, has agreed that the funds to be transferred to the school debt retirement fund shall be earmarked for the payment of state loans to the school district and for debt retirement purposes for qualified bonds before taxes are certified for the year the school board is requesting permission to levy less than the millage required to be levied pursuant to section 9(1).

(e) The school board, by resolution, has agreed to comply with all conditions that the superintendent of public instruction considers are necessary.

Sec. 11. Any school district applying for preliminary qualification of bonds or final qualification of refunding bonds under this act shall pay a fee for the preliminary qualification of bonds or final qualification of refunding bonds, which fee shall be used toward defraying the administrative expenses in connection with this act and Act No. 151 of the Public Acts of 1955, as amended, being sections 388.931 to 388.938 of the Michigan Compiled Laws. The fee shall be paid to the superintendent of public instruction within 30 days after the money obtained through the sale of the preliminarily qualified bonds or finally qualified refunding bonds has been received by the treasurer of the board of education of the school district. The superintendent of public instruction shall promulgate necessary rules in accordance with the administrative procedures act of 1969, Act No. 306 of the Public Acts of 1969, being sections 24.201 to 24.328 of the Michigan Compiled Laws. The amount of the fee to be charged to the school district shall be determined by the superintendent of public instruction. The amount of the fee shall vary according to the amount of the bond issue, except that it shall not be less than \$100.00, and the total amount to be charged to all school districts in any 1 fiscal year shall be approximately equal to the estimated administrative expenses in connection with this act for the same fiscal year. Upon failure of any school district to pay the preliminary qualification fee or final qualification of refunding bonds fee within the time specified, the superintendent of public instruction may withhold the amount of the fee from the payment of state school aid money next due the district.

Sec. 12. Any person who shall knowingly make any false statement or conceal any material information for the purpose of obtaining a loan under the provisions of this act, or use the proceeds of a loan or any portion thereof for any purpose not authorized by this act shall be guilty of a felony.

Sec. 13. This act does not repeal Act No. 151 of the Public Acts of 1955, as amended, but supersedes said act insofar as concerns that portion of a school district's principal and interest requirements on qualified bonds which may be borrowed from the state and insofar as concerns the tax levy which a school district is required to maintain until its state loans have been repaid.

OPINION #4422 OF THE ATTORNEY GENERAL, STATE OF MICHIGAN
DATED MARCH 12, 1965

CONSTITUTIONAL LAW:
SCHOOL BONDS:
MUNICIPAL FINANCE COMMISSION:

Article 9, § 16, Michigan Constitution of 1963, requires school districts to borrow and State to lend sufficient sum to cover debt service payments on qualified bonds of school districts. Although this is not a pledge of full faith and credit of the State, the Municipal Finance Commission may and must enforce the duty of the district to borrow and the State to lend such sum.

No. 4422

March 12, 1965

Hon. Sanford A Brown
State Treasurer
Lansing, Michigan

You have asked in your letter of February 5 whether Article IX, § 16 of the Michigan Constitution of 1963 pledges the full faith and credit of the State to the payment of principal and interest of qualified school bonds.

Article IX, § 16 of the Michigan Constitution of 1963 provides in pertinent part as follows:

"The state * * * may borrow from time to time such amounts as shall be required, pledge its faith and credit and issue its notes or bonds therefor, for the purpose of making loans to school districts as provided in this section.

"If the minimum amount which would otherwise be necessary for a school district to levy in any year to pay principal and interest on its qualified bonds, including any necessary allowances for estimated tax delinquencies, exceeds 13 mills on each dollar of its assessed valuation as finally equalized, or such lower millage as the legislature may prescribe, then the school district may elect to borrow all or any part of the excess from the state. In that event the state shall lend the excess amount to the school district for payment of principal and interest. If for any reason any school district will be or is unable to pay the principal and interest on its qualified bonds when due, then the school district shall borrow and the state shall lend to it an amount sufficient to enable the school district to make the payment.

"The term 'qualified bonds' means general obligation bonds of school districts issued for capital expenditures, including refunding bonds, issued prior to May 4, 1955, or issued thereafter and qualified as provided by law pursuant to Section 27 or Section 28 of Article X of the Constitution of 1908 or pursuant to this section."

Thus, the school district is required to borrow and the State to lend an amount sufficient to enable the school district to make payments of principal and interest due on qualified bonds, and the state is empowered to borrow and to issue its notes or bonds for the purpose of making such loans, and to pledge its full faith and credit for such state bonds or notes.

The constitutional provision quoted does not pledge the full faith and credit of the state to all qualified bonds. The state is not primarily liable on qualified bonds of a school district. Rather, the state is required to lend whatever the school district needs, from time to time, to meet debt service requirements on such bonds.

You ask what remedies are available to enforce the obligation of the state.

The quoted language makes it mandatory upon the school district to borrow and upon the state to lend "an amount necessary to enable the school district to make the payment." Under Chapter 11, Section 2(f) of the Municipal Finance Act [C.L. 1948 § 132.2; M.S.A 1958 Rev. Vol. § 5.3188(4)f], the Municipal Finance Commission has power to enforce compliance with any law by, inter alia, the "institution of appropriate proceedings in the courts of the state, including those for writs of mandamus and injunction."

The Commission could and indeed must enforce the duty of the district to borrow and the state to lend. The bondholders also would have an action to enforce the duty of the district to borrow and of the state to lend.

Thus the bondholders are assured of the availability of state funds where needed to meet debt service requirements on qualified bonds. This is not a pledge of full faith and credit, but gives the bondholders as much or more protection as would such a pledge.

FRANK J. KELLEY,
Attorney General

**OPINION #4508 OF THE ATTORNEY GENERAL, STATE OF MICHIGAN
DATED AUGUST 29, 1966**

BONDS: Qualified bonds of school districts.
CONSTITUTION OF 1963: School Bond Loan Fund.
SCHOOLS: Bond Loans.
STATE TREASURER: Payment of principal and interest on qualified school district bonds.

Authority of State Treasurer and procedures to be followed in paying from the School Bond Loan Fund principal and interest on qualified school bonds upon presentment by a bondholder.

No. 4508 Hon. Allison Green
August 29, 1966
State Treasurer
Capitol Building
Lansing, Michigan

You have requested my opinion on what procedures should be followed by the state treasurer preparatory to making loans to local school districts which are unable to make payments on principal and interest of qualified school district bonds.

Loans to bonded school districts are authorized by Article IX, Section 16, Constitution of 1963, which in part contains the following pertinent language:

"If the minimum amount which would otherwise be necessary for a school district to levy in any year to pay principal and interest on its qualified bonds, including any necessary allowances for estimated tax delinquencies, exceeds 13 mills on each dollar of its assessed valuation as finally equalized, or such lower millage as the legislature may prescribe, then the school district may elect to borrow all or any part of the excess from the state. In that event the state shall lend the excess amount to the school district for the payment of principal and interest. If for any reason any school district will be or is unable to pay the principal and interest on its qualified bonds when due, then the school district shall borrow and the state shall lend to it an amount sufficient to enable the school district to make the payment.

"The term 'qualified bonds' means general obligation bonds of school districts issued for capital expenditures, including refunding bonds, issued prior to May 4, 1955, or issued thereafter and qualified as provided by law pursuant to Section 27 or Section 28 of Article X of the Constitution of 1908 or pursuant to this section."

Article IX, Section 16, Constitution of 1963, is a continuation with minor revisions of the provisions relating to school bond financing which appeared in Sections 27 and 28 of Article X, Constitution of 1908. Section 27, Article X, Constitution of 1908, was proposed by joint resolution of the legislature in 1955 and approved by the people at the regular election of April 4, 1955. The loan provisions of Section 27 ceased to have effectiveness after July 1, 1962, and were replaced by the provisions of Section 28, Article X, Constitution of 1908, which was proposed by joint resolution of the legislature in 1960 and approved by the people at the general election of November 8, 1960. Section 28 by its own terms took effect on July 1, 1962.

Section 28, Article X, Constitution of 1908, was implemented by the legislature by the enactment of Act 108, P.A. 1961, which took effect September 8, 1961. The first section of Act 108, P.A. 1961, stated that the purpose of the act was to implement Section 28 of Article X of the Constitution of 1908. The Constitution of 1963 took effect on January 1, 1964. In anticipation of the effectiveness of that Constitution, the legislature passed Act 33, P.A. 1963, Second Extra Session, such act to take effect on January 1, 1964. Act 33, P.A. 1963, Second Extra Session, amended Sections 1, 3, 8 and 9 of Act 108, P.A.

1961 and further amended section 7 of Act 108, P.A. 1961, as amended by Act 131, P.A. 1962. The first section of amendatory Act 33 stated that the act's purposes was to implement Section 16 of Article IX of the Constitution of 1963. Subsequent amendment has been made to Sections 2, 4, 6, 9 and 10 of Act 108, P.A. 1961, by Act 169, P.A. 1964, which act also added a new Section 4a.

Answer to your question is to be found in amended Sections 6, 7 and 8 of the act. These sections present two situations in which you may become involved as state treasurer. The first situation is where a loan is to be made to the school district to permit the district to meet the principal and interest requirements on its bonds without a default in payment; the second is where the principal or interest on the bonds has not been paid when due upon proper presentation because of inadequate funds resulting in a default in payment.

Under amended Section 6 of the act, in any school district where the amount necessary to be levied in any year for principal and interest on qualified bonds exceeds 7 mills on each dollar of the assessed valuation of the school district as last equalized by the state, such school district on or before 60 days prior to the time of certification of its tax levy to the assessing officer shall file with the superintendent of public instruction a preliminary application for a loan from the state in the amount of any part of such excess over 7 mills which the school district does not propose to levy in such year. Amended Section 6 specifies the information to be supplied in the application. The superintendent of public instruction if he finds the application in proper form shall approve or deny the application in whole or in part and notify the school district of his action. Amended Section 7 of the act provides that if a loan from the state shall become necessary for the payment of principal and interest on qualified bonds in accordance with an approved preliminary application to the superintendent of public instruction or by virtue of a supplemental application, it shall be the duty of the superintendent of public instruction after audit to forward to the state treasurer a statement setting forth the amount to be loaned to the school district for the payment of principal and interest and the date on or before which such loan shall be made. The superintendent shall prepare a voucher as a basis for the issuance of a warrant and upon receipt of such statement and warrant, it shall be the duty of the state treasurer to loan to the school district from the school bond loan fund the amount set forth in the statement of the superintendent of public instruction on or before the date specified therein. The state treasurer upon making such loan shall obtain from the school district a receipt for the amount so loaned which receipt shall specify the terms of repayment in accordance with the provisions of Section 16 of Article IX, Constitution of 1963 and the act. The school district treasurer upon receipt of the loan is required to deposit the same in the debt retirement fund to be used solely for the payment of principal and interest on qualified bonds.

The foregoing summaries of the procedures prescribed by amended Section 6 and 7 related to the first situation above-described where the loan to the school district is to be made before the school district has defaulted in the payment of the principal or interest on its bonds.

The second situation described above is covered by amended Section 8 of the act which prescribes that in the event the principal or interest on any qualified bond is not paid when due, upon proper presentation of the bond or interest coupon to the agent or officer charged with making payment thereof, the state treasurer shall forthwith pay such principal or interest upon presentation of the bond or coupon to him. Any amount so paid by the state treasurer shall be deemed a loan to the school district made pursuant to the requirements of Section 16, Article IX, Constitution of 1963, and the act and the school district shall give a receipt therefor and repay the loan in the manner provided in the act for the repayment of loans.

The method of processing loans to school districts under amended Sections 6 and 7 before default in payment of principal or interest is adequately spelled out in those sections and no additional comment from me is necessary. Your real concern is in regard to the applicable procedures which you should follow in the situation where the school district has defaulted in the payment of principal or interest on its bonds and the bond or bonds and the interest coupons have not been paid when due by the paying agent because of lack of funds. In the event of such a happening it is assumed for the purposes of this

opinion that the holder of the bond or of the interest coupon will make demand on you as state treasurer for the prompt payment of the obligation thereunder. Should such demand be made on you as state treasurer, you would be entitled to take the following action before making payment:

a. Ascertaining from the superintendent of public instruction or from the records in your own office that the bonds involved are duly qualified bonds as defined and described in Section 3 of the act;

b. Requiring proof reasonably satisfactory to you that the bond or bonds or the interest coupons have been properly presented for payment to the paying agent or officer charged with the responsibility for making payment thereof and that payment has been refused because sufficient monies had not been deposited by the school district for that purpose; such proof of nonpayment may be furnished you in the form of a certificate from the paying agent.

c. Notification to the school district given by you or your designee of the action taken by paying agent in refusing payment of the bonds or interest coupons on presentment because of the failure of the school district to have deposited funds with the paying agent for that purpose and verification from the school district of the fact of such failure to supply the required funds; notification to the school district by you or your designee that payment of the required amounts were to be made from the school bond loan fund by you as state treasurer and that such payment would be in the form of a loan to the school district which the school district would be required to repay to the school bond loan fund in the manner required by law; the school district will be required to furnish you as state treasurer with a receipt evidencing the loan and specifying the terms of repayment, as required by law.

Upon the fulfillment of the above conditions in a manner reasonably acceptable to you, you would be authorized to make payment of the amounts due on the bonds and interest coupons and thereupon to demand their surrender and delivery to you as state treasurer.

Because of the safeguards built into the Michigan Constitution and statutes there should be no default of Michigan qualified school bonds. The School Loan Fund Program will have afforded the school district access to loan funds prior to the due date of the principle [sic] and interest on such bonds. In order to advise of the procedures in the remote possibility of nonpayment, however, I have set forth the foregoing guide lines [sic].

FRANK J. KELLEY,
Attorney General

1- In your letter of request you stated that you were familiar with Opinion No. 4422 issued by me on March 12, 1965, in which it was ruled that Article IX, Section 16, Constitution of 1963, requires school districts to borrow and that state to lend sufficient sums to cover debt service payments on qualified bonds of school districts but that this requirement is not a pledge of the full faith and credit of the state; the Municipal Finance Commission however may and must enforce the duty of the school district to borrow and have the state to lend the necessary amounts.

2- Act 108, P.A. 1961, in its present amended form appears in M.S.A. 1965 Cum. Supp. § 3.424(111) et seq.

3- Article VIII, Section 3, Constitution of 1963 requires the state board of education to appoint a superintendent of public instruction who shall be the principal executive officer of the department of education and who shall have powers and duties provided by law. Section 14 of Act 287, P.A. 1964 (M.S.A. 1965 Cum. Supp. § 15.1023(14) specifies that after June 30, 1965, a reference to any law to the powers and duties of the superintendent of public instruction shall be deemed to be made to the state board of education, subject to exceptions not pertinent here, and that the state board of education may delegate any of its functions to the superintendent. Section 300 of Act 380, P.A. 1965, creates a department of education. Section 301 of that act provides that the head of the department of education is the state board of education. Section 303 of that act transfers by a Type III transfer all powers, duties and functions then vested by law in the superintendent of public instruction to the department of education. Section 305 of the act specifies that the principal executive officer of the department of education is the superintendent of public instruction. Act 380 appears in M.S.A. 1965 Cum. Supp. at § 3.29(1) et seq. Act 380, P.A. 1965, was amended without regard to the sections involved here by Act 407, P.A. 1965. Without doubt, under the foregoing provisions the state board of education could delegate to the superintendent of public instruction the performance of all of the functions and duties imposed on the board in connection with the School Bond Loan Fund.

4- Other details set forth in amended Section 6 have been omitted.

5- Other details set forth in amended Section 7 have been omitted.

APPENDIX B¹

Description

Dexter Community Schools (the "School District") occupies an 85.1 square mile area that includes all of the Village of Dexter. The School District also includes portions of Dexter, Freedom, Lima, Lodi, Northfield, Scio and Webster Townships in Washtenaw County and Hamburg Township in Livingston County.

School Administration

John P. Hansen, Ph.D - Superintendent

Dr. Hansen has served as Superintendent of Schools since 1984 and as principal of Dexter High School from 1974 to 1984. Prior to coming to the School District, he was class principal at Huron High School in Ann Arbor, counselor at Adams Junior High School in Wayne and a teacher at Brighton Middle School in Brighton. Dr. Hansen has also served as an Adjunct Professor at Eastern Michigan University in Ypsilanti since 1976.

Dr. Hansen received his Bachelor of Arts in Science Education, his Master of Arts in Guidance and his Ph.D. in School Administration from the University of Michigan in Ann Arbor. He has been Chairperson of ten North Central Association Evaluation Teams including four Department of Defense Schools in Germany. He has served as a trustee at Chelsea Community Hospital where he was both Treasurer and Chairman of the Planning & Finance Committee (Chelsea Community Hospital's annual operating budget is approximately \$40 million per year). He has been active in civic groups and various hands on community projects such as Christmas in April, Paint the Town and Habitat for Humanity.

Dr. Hansen has tendered his resignation as Superintendent of Schools effective June 30, 1998. He is leaving the school district to campaign for a seat in the Michigan House of Representatives representing the 52nd District. The Board of Education has engaged the services of a professional consultant and expects to name a new Superintendent on May 22, 1998.

Ross Stephenson, Ph.D - Deputy Superintendent

Dr. Stephenson began his career as a teacher at the O.J. DeJonge Junior High School at Ludington Area Schools, in Ludington, Michigan, from 1967 to 1971. In 1971, he became

¹ Unless otherwise noted, information contained in Appendix B has been furnished by the School District.

principal at the Springport Middle School, in Springport, Michigan. Dr. Stephenson held this position until 1977, when he joined the School District as principal of the Wylie Middle School. In 1985, Dr. Stephenson became Assistant Superintendent in charge of operations. He became Deputy Superintendent in 1998.

Dr. Stephenson received his Bachelor of Science Degree from the University of Wisconsin, his Master of Arts Degree from Western Michigan University's College of School Administration and his Ph.D from Michigan State University.

Dr. Stephenson currently serves as Chairman of Michigan School Investment Association. He is Chairperson of the Local Development Finance Authority of the Village of Dexter and serves frequently as an off-campus instructor for Michigan State University. He is the Finance Chairperson for the Dexter United Methodist Church and is a trustee on the board of the Silver Maples of Chelsea Retirement Community. He has served from time to time as a consultant for the Michigan Department of Education and to various school districts in the State. In addition, in 1988 he was President of the Michigan Association of Middle School Educators.

Board of Education

The School District is governed by a seven member elected Board of Education. The Board is responsible for the selection and appointment of the Superintendent of Schools. The Board meets as a single body to set or amend policy, develop long range educational goals and act upon recommendations of the Superintendent of Schools. The Board is also responsible for adopting and periodically amending the operating budget and evaluating school programs in accordance with governing laws. The Board of Education members serve staggered four-year terms as follows:

Expires June 30

Sharon Crawford, President	1999
Sherri Munson, Vice President	2001
Jean Christian, Secretary	1998
Richard Lundy, Treasurer	1999
Ann Davis, Trustee	2000
Ron Miller, Trustee	2000
Paul White, Trustee	2001

Enrollments

There are no private, parochial or charter schools located within the School District's boundaries.

The following tables show a history of enrollments, as of fall pupil count day at the School District for the current and past eight years. Also shown is the total enrollment for 1997/98 and the 1997/98 enrollment by grades.

Enrollment History

The following is a history of enrollment as of

1989/90	1,953	1992/93	2,174	1995/96	2,574
1990/91	2,015	1993/94	2,299	1996/97	2,626
1991/92	2,081	1994/95	2,413	1997/98	2,780

Note: Projected 2001/02 enrollment is estimated at 3,200 students.

1997/98 Enrollment

Kindergarten	212	5th	214	10th	200
1st	210	6th	238	11th	188
2nd	237	7th	236	12th	<u>166</u>
3rd	206	8th	215		
4th	222	9th	236	TOTAL	2,780

Existing School Facilities

The School District owns and operates the following facilities:

	<u>Grades Served</u>	<u>Year Completed</u>	<u>Additions/ Remodeling</u>	<u>Type of Construction</u>
<u>Elementary</u>				
Cornerstone	K-2	1995		Brick/Block
Bates	3-4	1953	1967, 1988	"
<u>Middle</u>				
Wylie	5-6	1965	1967, 1974, 1988	"
Mill Creek	7-8	1995		"
<u>High School</u>				
Dexter	9-12	1958	1974, 1988, 1994	"
<u>Other Facilities</u>				
Copeland				
(Community Service Bldg.)		1935	1980, 1995	"
Athletic Service Bldg.		1980		"
Child Care Offices and				
Storage		1984		"
Bus Transportation Facility		1988		"
Swimming Pool Facility		1992		"
House (Proctor)		1940		"
Mast Site (Growth)		1996		"

The School District also owns 7 portable classrooms and operates 3 of them. Construction of a new high school, the cost of which (and various other capital projects described on page 1) is being financed with the proceeds of the Bonds is scheduled to be completed in 2001. Following the completion of this project, and remodeling of the existing high school there will be a realignment of grade levels at the existing school facilities.

Labor Relations

A breakdown of the number of employees of the School District and their affiliation with organized groups is as follows:

<u>Class</u>	<u>No.</u>	<u>Affiliation</u>	<u>Contract Exp.</u>
Superintendent	1	Non-Affiliated	June, 1998
Supervisors	11	Non-Affiliated	June, 1998
Child Care	19	Non-Affiliated	June, 1998
Teachers	162	MEA and NEA	June, 2001
Administrators	9	Dexter Administrator's Association	June, 1998
Para-Professionals, Secretarial/Clerical, Maintenance, Custodial & Food Service	111	Michigan Education Support Personnel Association (MESPA)	June, 1998#
Bus Drivers	<u>22</u>	Operating Engineers	June, 2001*
TOTAL	335		

#Currently in negotiation.

*Tentative agreement.

Within the past ten years the School District has not experienced a strike by any of its bargaining units.

Retirement Plan

For the period from October 1, 1997 through September 30, 1998, the School District will pay an amount of approximately 11.12% of its employees' wages to the Michigan Public Schools Employees Retirement System ("MPERS") which is administered by the State of Michigan. For the period from October 1, 1996 through September 30, 1997, the School District paid an amount equal to 15.17% of its employees' wages. For the period from October 1, 1995, through September 30, 1996, the School District paid an amount equal to 14.56% of its employees' wages. For the period from October 1, 1994, through September 30, 1995, the applicable percentage was 14.21%. These contributions are required by law. Prior to the 1994/95 school year, the School District paid an amount equal to 5% of its employees' wages. The School District's contributions for the past five years and the estimated 1997/98 contribution are shown below.

1992/93	\$ 433,822	1995/96	\$1,599,000
1993/94	458,000	1996/97	1,652,000
1995/96	1,212,000	1997/98	1,488,860*

*estimated figure.

GENERAL FINANCIAL INFORMATION

Population

The School District's estimated 1980, 1990 and 1998 populations within its boundaries are as follows:

1980	9,975
1990	12,488
1998	16,500

Sources:

1980 figure - Wayne State University, Michigan Metropolitan Information Center.

1990 figure - Michigan Department of Management and Budget.

1998 figure - School District.

The following is a record of the 1980 and 1990 populations for the entire communities comprising the School District, without regard to the School District's boundaries.

<u>Municipality</u>	<u>1980</u>	<u>1990</u>	<u>% Change</u>
<i>Washtenaw County</i>	264,740	282,937	6.87
Village of Dexter	1,524	1,497	-1.77
Dexter Township	3,872	4,407	13.82
Freedom Township	1,436	1,486	3.48
Lima Township	2,544	2,585	1.61
Lodi Township	2,773	3,902	40.71
Northfield Township	4,672	6,732	44.09
Scio Township	8,029	11,077	37.96
Webster Township	2,760	3,235	17.21
<i>Livingston County</i>	100,289	115,645	15.31
Hamburg Township	11,318	13,083	15.59

NOTE: The Village of Dexter lies within Scio Township.

Source: 1980 and 1990 U. S. Census of Population.

Property Valuations

In accordance with Act 539, Public Acts of Michigan, 1982, and Article IX, Section 3, of the 1963 Michigan Constitution, the ad valorem state equalized valuation represents 50 percent of true cash value ("TCV"). State equalized valuation does not include any value of tax exempt property (e.g. churches,

governmental property) or property granted tax abatements under either Act 198, Public Acts of Michigan, 1974, as amended, or Act 255, Public Acts of Michigan, 1978, as amended. Beginning in 1994, ad valorem property taxes are assessed on the basis of taxable value, which is subject to assessment caps. See "TAX PROCEDURES" herein.

Taxable property in the School District is assessed by the respective municipal assessors and is subject to review by the County Department of Equalization. Tax levies on property in Michigan are applied against the assessed value of all property on the ad valorem tax roll as finally equalized by the State of Michigan.

The following tables show the history of ad valorem state equalized valuations and the 1994, 1995, 1996 and 1997 taxable valuations. Also shown is an analysis of the 1997 taxable valuation by homestead and non-homestead classification, by property use and by municipal unit.

History of State Equalized Valuations/Taxable Valuations

1990	\$275,460,144	1994	\$375,420,278/375,420,278*
1991	308,262,171	1995	407,915,120/400,661,501*
1992	317,977,744	1996	444,711,215/421,875,064*
1993	353,592,144	1997	499,720,331/465,203,676*

*State Equalized Valuations/Taxable Valuations.

Source: Individual municipal units.

1997 Taxable Valuation

Homestead	\$322,214,978	69.26%
Non-Homestead	<u>142,988,698</u>	<u>30.74</u>
TOTAL	<u>\$465,203,676</u>	<u>100.00%</u>

1997 Taxable Valuation by Municipal Unit

<u>Washtenaw County</u>	Dexter Township	\$81,736,297	17.57%
	Freedom Township	263,005	.06
	Lima Township	21,579,548	4.64
	Lodi Township	4,047,199	.87
	Northfield Township	567,206	.12
	Scio Township	201,515,727	43.32
	Webster Township	131,986,194	28.37
<u>Livingston County</u>	Hamburg Township	<u>23,508,500</u>	<u>5.05</u>
	TOTAL	<u>\$465,203,676</u>	<u>100.00%</u>

Source: Washtenaw County and Livingston County Departments of Equalization.

1997 Taxable Valuation by Use

Agricultural	\$ 26,285,131	5.65 %
Commercial	17,834,287	3.83
Industrial	27,152,699	5.84
Residential	341,865,238	73.49
Developmental	3,222,095	.69
Personal	<u>48,844,226</u>	<u>10.50</u>
TOTAL	<u>\$465,203,676</u>	<u>100.00 %</u>

Industrial Facilities Tax (IFT) Valuation

Act 198 of the Public Acts of Michigan, 1974, as amended ("Act 198"), provides significant property tax incentives to industry to renovate and expand aging plants and to build new industrial facilities in Michigan. Under the provisions of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new industrial facilities.

Property tax owners situated in such districts pay an Industrial Facilities Tax ("IFT") in lieu of ad valorem taxes on the facility and equipment for a period of up to 12 years. For rehabilitated plant and equipment the IFT is determined by calculating the product of the state equalized valuation of the replacement facility in the year before the effective date of the abatement certificate multiplied by the total mills levied by all taxing units in the current year. New plants and equipment receiving their abatement certificate prior to January 1, 1994 are taxed at one-half the total mills levied by all taxing units, other than mills levied for local and intermediate school district operating purposes or under the State Education Tax Act, plus one-half of the number of mills levied for school operating purposes in 1993. For new facility abatements granted after 1993, new plants and equipment are taxed at one-half of the total mills levied as ad valorem property taxes by all taxing units except mills levied under the State Education Tax Act, plus the number of mills levied under the State Education Act. For new facility abatements granted after 1993, the State Treasurer may permit abatement of all, none or one-half of the mills levied under the State Education Tax Act. It must be emphasized, however, that ad valorem property taxes on land are not reduced in any way since land is specifically excluded under Act 198.

Total 1997 valuations of IFT abatements in the School District are as follows:

<u>Holder of Certificate</u>	<u>Total Valuation</u>	<u>Certificates Expire 12/30</u>
Berry & Associates	\$ 43,200	2001
Dapco Industries	1,556,500	2001
Dexter Fasteners Technologies	15,266,700	2002,2006
Door Controls Int.	326,500	1997
Industrial Tectonics Inc.	434,300	1998
Pilot Industries	4,495,400	2001,2002,2006
Thomson-Shore, Inc.	4,440,800	1997,2002,2009
Variety Die & Stamping	<u>454,000</u>	1998
TOTAL	<u>\$27,017,400</u>	

Source: Scio Township Assessor and Webster Township Assessor.

Village of Dexter Local Development Finance Authority

The local development finance authority ("LDFA") enabling legislation (Act 281, Public Acts of Michigan, 1986, as amended), and the tax increment finance authority ("TIFA") enabling legislation (Act 450 of the Public Acts of Michigan, 1980, as amended), enables these authorities to undertake a broad range of improvement activities which will contribute to the economic growth and the halting of deterioration of property values in designated districts.

In order to provide an authority with the means of financing the planning and implementation of development proposals, the statute affords the opportunity to undertake tax increment financing of development programs. These programs must be identified in a tax increment financing plan which has been approved by the governing body of a municipality.

Simply stated, tax increment financing permits an authority to capture tax revenues attributable to increases in value of real and personal property located within an approved development area. The increases in property value may be attributable to new construction, rehabilitation, remodeling, alterations, additions or to such other factors as the assessor may deem appropriate.

In 1987, the Village of Dexter created a LDFA district, comprised of non-homestead properties. The difference between the initial taxable value of the properties, \$862,600, and the annual taxable value is "captured" by the Authority. For the 1997 year, the LDFA valuation is \$31,102,900, which includes a captured assessed value of \$30,240,300.

The School District receives operating tax revenues based on the initial value of these properties. The debt millage is not "captured".

The Village of Dexter LDFA has issued the following bonds in 1991:

<u>Series</u>	<u>Original Amount</u>	<u>Outstanding Balance</u>
Series I	\$975,000	\$700,000
Series II	975,000	700,000
Series III	975,000	700,000
Series IV	575,000	440,000

Series I through IV all have a final maturity in 2006.

Source: Scio Township.

Village of Dexter Downtown Development Authority

On March 11, 1986, the Village of Dexter created a Downtown Development Authority (the "DDA") district (Michigan Public Act 197 of 1975, as amended), which includes certain properties in the School District, for the purpose of funding improvement projects in the central business district by using tax increment financing. The difference between the initial assessed value of the properties (\$7,609,200) and the annual assessed value is "captured" by the Authority. The 1997 DDA valuation is \$9,094,551, which includes a

captured assessed value of \$1,485,351.

The School District receives operating tax revenues based on the initial value of these properties. The debt millage is not "captured".

The Village of Dexter DDA issued bonds in 1994 in the original amount of \$255,000, with an outstanding balance of \$250,000. The final maturity of the bonds is in 2009.

Source: Scio Township.

Scio Township Downtown Development Authority

In May 1988, Scio Township created a DDA, which includes certain properties in the School District, for the purpose of funding improvement projects in the central business district by using tax increment financing. The difference between the initial assessed value of the properties (\$88,661,800, in 1988) and the annual assessed value is "captured" by the Authority. The 1997 DDA valuation is \$174,885,919, which includes a captured assessed value of \$86,224,119.

The School District receives operating tax revenues based on the initial value of these properties. The debt millage is not "captured".

<u>Date of Issuance</u>	<u>Amount</u>	<u>Outstanding Balance</u>	<u>Final Maturity</u>
12/88	\$1,500,000	\$1,075,000	2008
8/90	2,775,000	2,075,000	2010
12/94	8,000,000	7,700,000	2014

Source: Scio Township.

Tax Collection Record

The School District's fiscal year begins July 1 and ends June 30. School District property taxes are due December 1 of each fiscal year, and are payable without interest or penalty on or before the following February 14th. All real property taxes remaining unpaid on March 1st of the year following the levy are turned over to the County Treasurers for collection. Washtenaw and Livingston Counties, to date, have purchased from their Tax Payment Funds the delinquent taxes on real property from all taxing units in the Counties. The decision to make such purchases is determined on an annual basis by each county; there is no guarantee that the purchases will continue in future years. If the delinquent taxes which are due and payable to the Counties are not received by the Counties for any reason, the Counties have full right of recourse against the School District to recover the amount of the uncollected delinquent taxes together with interest thereon at the rate of 1 percent per month or fraction of a month until repaid to the Counties by the School District. Delinquent personal property taxes are negligible.

The following table shows an five year history of the School District's total tax levies and collections on a school year basis on assessed valuations to March 1 and June 30 of each year, based on the state equalized valuation in 1993/94 and prior years and based on taxable valuation in 1994/95 and thereafter.

<u>School Year</u>	<u>Total Tax Levy</u>	<u>Collections to March 1 Each Year</u>		<u>Collections to June 30 Each Year</u>	
1993/94	\$14,145,031	\$13,040,578	92.19%	\$13,818,701	97.69%
1994/95	4,170,524*	3,634,221	87.14	3,967,377	95.13
1995/96	4,475,120*	3,827,847	85.54	4,154,276	92.83
1996/97	4,873,424*	4,330,657	88.86	4,624,914	94.90
1997/98	5,070,571*	4,552,133	89.76	N/A	

NOTE: Beginning with the June 30, 1995 collection, low tax collections are a result of late settlements being received after June 30 of each year.

*Pursuant to school finance reform legislation on which become effective in March, 1994, beginning with the December 1, 1994, tax levy, the State of Michigan levies 6.00 mills for school operating purposes on all homestead and qualified agricultural property and non-homestead and non-qualified agricultural property located within the School District. The School District levies 18.00 mills of voted operating millage on non-homestead and non-qualified agricultural property and authorized debt millage on all property and non-homestead and non-qualified agricultural property located within the School District. See "SOURCES OF SCHOOL OPERATING REVENUE - SCHOOL FINANCE REFORM" herein.

Constitutional Millage Rollback

Article IX, Section 31 of the Michigan Constitution requires that if the total value of existing taxable property (State Equalized Valuation) in a local taxing unit, exclusive of new construction and improvements, increases faster than the U.S. Consumer Price Index from one year to the next, the maximum authorized tax rate for that local taxing unit must be reduced through a Millage Reduction Fraction unless reversed by a vote of the electorate of the local taxing unit. See "TAX PROCEDURES" herein.

School District Tax Rates (Per \$1,000 of Valuation)

The following table shows the total tax rates for the last five years for property owners within the School District's boundaries.

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
School District					
Operating					
Allocated	9.5673	0.0000	0.0000	0.0000	0.0000
Voted(1)	24.5301	18.0000(1)	18.0000(1)	18.0000(1)	18.0000(1)
Sinking Fund(2)	0.0000	0.0000	1.0000(2)	0.0000	0.0000
Debt	<u>5.7500</u>	<u>5.7500</u>	<u>5.7500</u>	<u>6.1000</u>	<u>6.1000</u>
TOTAL SCHOOL	39.8474	5.7500/ 23.7500(3)	6.7500/ 23.7500(3)	6.1000/ 24.1000(3)	6.1000/ 24.1000(3)

(1) Pursuant to school finance reform legislation, which became effective in March, 1994, beginning with the December 1, 1994, tax levy, the State of Michigan levies 6.00 mills for school operating purposes on all homestead and qualified agricultural property and non-homestead and non-qualified agricultural property located within the School District. The School District levies 18.00 mills of voted operating millage on non-homestead and non-qualified agricultural property and authorized debt millage on all homestead and qualified agricultural property and non-homestead and non-qualified agricultural property located within the School District. The extra voted 18 mills will expire with the June, 2014 levy. See "SOURCES OF SCHOOL OPERATING REVENUE - SCHOOL FINANCE REFORM" herein.

(2) For 1995 only, the School District levied a one mill voted sinking fund millage for the purchase of land.

(3) Homestead/Non-Homestead.

Source: School District.

Other Tax Rates Within School District Boundaries (Per \$1,000 of Valuation)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
State Ed. Tax	0.0000	6.0000*	6.0000*	6.0000*	6.0000*
Washtenaw County	5.7700	5.7600	5.5100	5.4967	5.4963
Village of Dexter	14.8000	14.8000	14.8000	13.1400	16.6900
Dexter Township	.9500	.9500	1.2200	1.2200	1.2176
Freedom Township	1.1100	1.1100	1.1100	1.1100	1.0347
Lima Township	.9300	1.0600	1.0600	1.0600	1.0629
Lodi Township	.9300	1.0600	1.0600	1.0600	2.1499
Northfield Township	5.4800	6.3400	7.0500	8.9800	8.6914
Scio Township	1.1800	1.1800	1.1800	2.2800	2.2766
Webster Township	.9800	1.4400	1.4400	1.5000	1.5064
Washtenaw I.S.D.	3.4327	3.4327	3.4327	3.4327	3.4257
Washtenaw Comm. College	3.0921	3.0821	3.0629	2.9329	3.9029
Livingston County	4.5100	4.8700	4.8600	4.8500	4.7637
Hamburg Township	3.3400	2.3200	2.3200	2.3100	2.3809

*See footnote (1) under School District Tax Rates, above.

Source: County Apportionment Reports - State of Michigan Property Tax Division.

Largest Taxpayers

Shown below are the ten largest identifiable taxpayers in the School District based on their 1997 taxable valuations.

<u>Taxpayer</u>	<u>Product/Service</u>	<u>Taxable Value</u>	<u>IFT</u>	<u>Total</u>
Dexter Fastener Technologies	engine fasteners	\$ 884,300	\$15,266,700	\$16,151,000
Detroit Edison	utility	10,996,385	-0-	10,996,385
Pilot Industries	research/plastic inj.	6,406,300	4,495,400	10,901,700
Michigan Consolidated Gas	utility	7,279,800*	-0-	7,279,800
Thomson-Shore Inc.	publishing	1,661,500	4,440,800	6,102,300
Dapco Industries	auto parts supplier	1,667,845	1,556,500	3,224,345
Thomson Information Services	computer software dev'l	2,912,500	-0-	2,912,500
Thetford Corporation	plastic components	2,884,000	-0-	2,884,000
Sweepster Inc.	runway sweepers	2,633,000	-0-	2,633,000
Nagel Precision Inc.	manufacturing	<u>1,973,600</u>	<u>-0-</u>	<u>1,973,600</u>
		\$39,299,230	\$25,759,400	\$65,058,630

TOTAL

% of School District's 1997

Taxable Valuation (\$465,203,676)	8.45 %	5.54 %	13.99 %
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*Only located in Lima, Scio and Webster Townships.

Source: Lima, Scio and Webster Townships' Assessors, Detroit Edison and Michigan Consolidated Gas.

Legal Debt Margin as of Date of Sale

1997 State Equalized Valuation		\$499,720,331.00
Debt Limit (15% of 1997 State Equalized Valuation)		74,958,049.65
Debt Outstanding, including Bonds described herein	\$106,495,000.00	
Less Bonds excluded from Debt Limit *	<u>106,495,000.00</u>	
Total Subject to Debt Limit		<u>0.00</u>
Additional Debt which could be Legally Incurred		\$74,958,049.65

* Act 451, Public Acts of Michigan, 1976, provides debt limits as follows:

(a) Section 1351(3) - The bonded indebtedness of a school district shall not exceed 15 percent of all assessed valuation of the district. Bonds not included in the computation of the legal debt margin, according to Section 1351(3) are: (1) refunding bonds, (2) any bond qualified under Article IX, Section 16, of the 1963 Michigan Constitution, and (3) deficit budget bonds as authorized by Section 1356.

Debt Statement as of May 14, 1998

DIRECT DEBT

8/20/92 Refunding Bonds (UTQ)	\$ 5,195,000.00
11/1/93 Building & Site & Refunding Bonds (UTQ)	<u>31,700,000.00</u>

DIRECT DEBT (date of sale)	\$36,895,000.00
PLUS 1998 School Building and Site Bonds (UTQ) (described herein)	<u>69,600,000.00</u>

NET DIRECT DEBT (date of delivery)	<u>\$106,495,000.00</u>
------------------------------------	-------------------------

SHORT-TERM NOTES@

For Capital Lease Obligations, see Appendix C, Notes to Financial Statements.

The School District expects to issue state-aid notes for cash flow purposes in August, 1998.

OVERLAPPING DEBT AS OF 6/2/98

<u>%</u>	<u>Municipality</u>	<u>TOTAL</u>	<u>SHARE</u>
100.00	Village of Dexter	\$ 5,495,000.00	\$5,495,000.00
.52	Freedom Township	7,980.00	41.00
2.21	Lodi Township	467,229.00	10,326.00
.32	Northfield Township	3,450,000.00	11,040.00
33.36	Scio Township	14,265,000.00	4,758,804.00
4.91	Hamburg Township	8,876,703.00	435,846.00
.61	Livingston County	12,890,740.00	78,634.00
5.60	Washtenaw County	35,039,464.00	1,962,210.00
6.04	Washtenaw I.S.D.	2,575,000.00	155,530.00
5.74	Washtenaw Community College	28,810,000.00	<u>1,653,694.00</u>

NET OVERLAPPING DEBT	<u>\$14,561,125.00</u>
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NET DIRECT AND OVERLAPPING DEBT	<u>\$121,056,125.00</u>
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Source: Municipal Advisory Council.

DEBT RATIOS#

Per Capita 1997 State Equalized Valuation (16,500)	\$30,286.08
Per Capita 1997 True Cash Value	\$60,572.16
Per Capita Net Direct Debt	\$6,454.24
Per Capita Net Direct and Overlapping Debt	\$7,336.73

Percent Net Direct Debt of State Equalized Valuation (\$499,720,331)	21.31%
Percent Net Direct and Overlapping Debt of State Equalized Valuation	24.23%
Percent Net Direct Debt of True Cash Value (\$999,440,662)	10.66%
Percent Net Direct and Overlapping Debt of True Cash Value	12.12%

@Not included in debt totals or debt ratios.

#Based on ad valorem State Equalized Valuation.

Debt History and Future Bonding

The School District intends to issue and sell bonds to the Michigan Municipal Bond Authority in the fall, payable solely from state revenues pursuant to section 11g of the State School Aid Act of 1979, as amended. Such bonds do not, by statute, constitute a general obligation of the School District or a debt of the School District within the meaning of any constitutional or statutory debt limitation. The School District has no record of default on its obligations and does not anticipate issuing other additional bonds in the next year.

State Aid Payments

Historically, the School District levied taxes for school operating revenues at much higher rates than currently being levied. See "School District Tax Rates (per \$1,000 of Valuation)" in this Appendix. In 1994, the State of Michigan significantly modified the mechanisms for school finance. See "SOURCES OF SCHOOL OPERATING REVENUE - SCHOOL FINANCE REFORM" in this Official Statement. Pursuant to this reform the School District receives a state aid foundation allowance per pupil, which allowance was calculated based on the 1993/94 School District's revenues. The Legislature has frozen the 1998/99 foundation allowance at the 1997/98 level. In future years, this allowance may be adjusted by an index based upon the change in revenues to the state school aid fund and the change in the total number of pupils statewide.

The following table shows a four-year history of the School District's Blended Pupil Count, Foundation Allowance per Pupil and Total State Aid Payments including categoricals, which reflects the changes in sources of school operating revenue described above.

<u>School Year</u>	<u>Blended Pupil Count</u>	<u>Foundation Allowance per Pupil</u>	<u>Total State Aid Payments</u>
1997/98	2,714	\$6,337.85	\$15,728,297.65
1996/97	2,607	6,183.85	14,317,802.51
1995/96	2,505	6,028.85	13,181,403.95
1994/95	2,356	5,875.85	12,004,116.26

ECONOMIC PROFILE

Dexter Community Schools is located mainly in Washtenaw County, in the southeastern portion of Michigan's Lower Peninsula. The School District encompasses 85.1 square miles and includes all of the Village of Dexter and portions of Dexter, Freedom, Lima, Lodi, Northfield, Scio and Webster Townships in Washtenaw County, and a portion of Hamburg Township in Livingston County. The School District is primarily suburban in nature, located close to the cities of Ann Arbor and Ypsilanti. Many of the new residents are associated with the medical or academic professions.

The School District is located approximately the following distances from these commercial and industrial areas:

10 miles north of Ann Arbor
53 miles southeast of Lansing
40 miles west of Detroit
126 miles southeast of Grand Rapids
71 miles southwest of Flint

Recreation and Events

There are three metroparks in the Dexter area: Delhi Metropark, Dexter Metropark and Hudson Mills Metropark offering picnic facilities, canoeing, nature trails, bike trails, camping, bicycling and cross-country skiing and a golf course.

One of the area's favorite summertime events is the Dexter Daze. This event began 20 years ago as a simple sidewalk sale organized by merchants in an effort to draw people into downtown. Today, it is a weekend extravaganza that draws an attendance of 30,000 people, and the original tables of merchandise have been joined by a variety of food and craft booths and entertainment.

Source: Dexter Chamber of Commerce.

Construction Trends

The following is a five-year residential building permit history for Washtenaw County.

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998*</u>
No. of Permits	1,697	1,703	1,967	1,724	371
Value (000)	\$220,028	\$244,193	\$290,391	\$288,444	\$65,907

*Latest available figures through March.

Current developments will include 1,251 new homes. There is a total of 53 developments under construction in the School District. In these development plans, 2,587 new homes in the \$100,000-\$400,000 price range are projected.

Source: Bureau of the Census, Construction Statistics Division.

Retail Sales

The data below shows estimated 1998 retail sales for the number of stores in 1992, the most recent figures available, for both Washtenaw County and Michigan.

	<u>Washtenaw County</u>		<u>Michigan</u>	
	<u>No. of Stores</u>	<u>Total Retail Sales (000)</u>	<u>No. of Stores</u>	<u>Total Retail Sales (000)</u>
1987 U. S. Census		\$1,988,679		\$56,697,319
1992 U. S. Census		2,857,974		71,523,046
E&P 1998 Estimate		3,917,565		97,843,655
Lumber & Hardware	75	\$ 240,994	2,911	\$6,544,788
General Merchandise	25	657,123	1,129	17,537,132
Food	179	382,990	7,155	14,446,488
Auto	81	1,435,401	3,299	28,389,476
Gasoline	101	224,924	3,994	7,008,875
Apparel	165	166,377	5,011	4,404,545
Furniture	133	239,972	3,566	5,615,908
Eat/Drink	518	428,557	15,648	9,586,682
Drugs	53	141,227	1,753	4,309,761

Source: 1998 Editor & Publisher Market Guide.

Employment

The following table shows the largest identifiable employers in the school district.

<u>Employer</u>	<u>Product/Service</u>	<u>Approximate Number Employed</u>
Colorbok Inc.	stationery & note pads	146
Dapco Industries	auto parts supplier	170
Dexter Community Schools	education	335
Dexter Fastener Technologies	engine fasteners	160
Industrial Tectonics Inc.	precision balls & machined parts	50
K & W Precision Products	screw machine prdts & hose fittings	70
Photo-Systems Inc.	unicolor chemicals, darkroom, etc.	60
Pilot Industries (3 Plants)	research dvlpt. & prototyping & inj. plastics	500
Sweepster Inc.	runway sweepers	175
Thetford Corp.	plastic products	200
Thomson-Shore Inc.	publishing	323

Source: School District, Dexter Chamber of Commerce, Harris 1998 Michigan Industrial Directory and Individual Employers.

Other Large Employers in Washtenaw County (1,500 or more)

<u>Employer</u>	<u>Product/Service</u>	<u>Approximate Number Employed</u>
University of Michigan	education	17,317
University of Michigan Medical Center	education, research	6,742
St. Joseph Mercy Hospital	health care	5,200
General Motors Corporation:		
Power Train Division	automobile manufacturer	2,900
United States Government	government	2,630
Ford Motor Company:		
Installments & Plastics	automotive instrument panels	2,370
Rawsonville Plant	automotive alternators, parts	2,300
Warner-Lambert/Parke-Davis	pharmaceuticals, research	2,233
Ann Arbor Public Schools	education	1,924
State of Michigan	government	1,827
Eastern Michigan University	education	1,822
Chi Group	holding company	1,749
Veteran's Administration Hospital	health care	1,578

Source: 1998 Michigan Manufacturers Directory and individual employers.

The following tables reflect the breakdown of employment by occupation, major industry groups and by family income in Washtenaw County for persons 16 years and older as of the 1990 U. S. Census.

	<u>Washtenaw County</u>	
	<u>No. of</u>	<u>% of Total</u>
<u>Occupations</u>	<u>Workers</u>	<u>Workers</u>
Managerial & professional specialty	56,310	37.12%
Technical, sales & admin. support	46,980	30.97
Service	19,955	13.16
Farming, forestry & fishing	1,697	1.12
Precision production, craft & repair	11,633	7.67
Operators, fabricators & laborers	<u>15,105</u>	<u>9.96</u>
TOTALS	151,680	100.00%

<u>Industries</u>		
Agriculture, forestry, fisheries & mining	2,143	1.41%
Construction	5,480	3.61
Manufacturing	26,647	17.57
Transportation, communications & other public utilities	5,961	3.93
Wholesale trade	3,917	2.58
Retail trade	23,335	15.39
Finance, insurance & real estate	7,216	4.76
Business & repair services	6,937	4.57
Personal, entertainment & recreation services	5,253	3.46
Professional & related services	60,739	40.05
Public administration	<u>4,052</u>	<u>2.67</u>
TOTALS	151,680	100.00%

	<u>Washtenaw County</u>	
	<u>No. of</u>	<u>% of Total</u>
<u>Family Income in 1989</u>	<u>Families</u>	<u>Families</u>
Less than \$5,000	1,651	2.56%
\$5,000 to \$9,999	2,324	3.60
\$10,000 to \$14,999	2,847	4.41
\$15,000 to \$24,999	6,647	10.30
\$25,000 to \$34,999	8,262	12.81
\$35,000 to \$49,999	12,713	19.71
\$50,000 to \$74,999	16,744	25.96
\$75,000 to \$99,999	7,114	11.03
\$100,000 or more	<u>6,208</u>	<u>9.62</u>
TOTAL	64,510	100.00%

Median Income	\$47,308
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Source: 1990 U. S. Census of Population.

Unemployment

The following table shows unemployment rates for Washtenaw County and for Michigan for the past five years and latest available rates for 1998.

	<u>Washtenaw County</u>	<u>Michigan</u>
1993	4.0%	7.0%
1994	3.4	5.9
1995	2.7	5.3
1996	2.3	4.9
1997	2.1	4.2
1998 - March	2.0	4.4

Source: Michigan Employment Security Commission.

Higher Education

School District residents desiring more than a high school diploma, have the option of attending the following Washtenaw County higher education facilities:

Cleary College	Ypsilanti
Concordia Lutheran College	Ann Arbor
Eastern Michigan University	Ypsilanti
University of Michigan	Ann Arbor
Washtenaw Community College	Ann Arbor

Health Facilities

Area residents needing health care are serviced by St. Joseph Mercy Health System a 481 bed facility, University of Michigan Hospitals with a total of 848 beds, both are full-service facilities; and Veterans Affairs Medical Center, a 238 bed facility, including 60 beds in a nursing home type unit. All three medical facilities are located in nearby Ann Arbor.

Transportation

The School District is readily accessible by three main highways. To the north, I-96 connects with Detroit to the southeast and Lansing, Grand Rapids, and Lake Michigan to the northwest. Within a short drive south, residents may travel via I-94 to Detroit and Port Huron or west to Chicago, Illinois. Nearby U.S. 23 provides a quick access to I-94 and I-96 and takes one north to the Straits of Mackinac or south to Toledo, Ohio. Detroit Metro Airport is a 40 mile drive from the School District, providing national and international airline travel.

Utilities

Residents of the School District are supplied with electricity by the Detroit Edison Company. Natural gas service is provided by Michigan Consolidated Gas Company. Telephone service is provided by the Ameritech Corporation. Many School District residents' water and sewer service is provided by the Village of Dexter and others use wells and septic systems.

Banking Facilities

The following banks have branches that serve the financial needs of the School District's residents.

<u>Bank</u>	<u>Main Office</u>	<u>Total State-wide Deposits</u>
*First of America Bank, N.A.	Kalamazoo	\$14,840,259,000
Ann Arbor Commerce Bank	Ann Arbor	98,415,000
Comerica Bank	Detroit	16,429,146,000
**NBD Bank	Detroit	16,485,135,000
Old Kent Bank	Grand Rapids	8,499,782,000
Republic Bank	Ann Arbor	735,043,000

*On March 31, 1998, National City Corporation completed a merger with First of America Bank. A name change is expected in October, 1998.

**On April 13, 1998, Banc One Corp. announced it would merge with First Chicago NBD Corp. The merger is expected to be completed during the 4th quarter of 1998 and is subject to approval by federal regulators.

Source: National City Corporation, Banc One Corp., and McFadden American Financial Directory, Spring, 1997.

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APPENDIX C

DEXTER COMMUNITY SCHOOLS COUNTIES OF WASHTENAW & LIVINGSTON STATE OF MICHIGAN

General Fund Budget Summary, Revised October 1, 1997

	<u>1997/98</u>
REVENUE:	
Local Sources	\$ 2,510,808
State Sources	15,243,707
Federal Sources	198,138
Transfers & Other	<u>867,150</u>
TOTAL REVENUES	<u>\$18,819,803</u>
EXPENDITURES:	
Instruction:	
Basic Program	\$9,083,476
Added Needs	1,661,976
Support Services:	
Pupil	987,904
Instructional Staff	1,134,667
General Administration	507,379
School Administration	834,725
Support Services	3,210,506
Business Services	507,825
Community Services	222,635
Outgoing Transfers	<u>564,765</u>
TOTAL EXPENDITURES	<u>\$18,715,858</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$103,945
Fund Balance July 1, 1997	\$1,170,295
Estimated Fund Balance June 30, 1998	\$1,274,240*

*The School District expects an increase of approximately \$950,000 in the June 30, 1998 fund balance because of the reduction in the state retirement costs and revenue increases for special education.



WILLIS & WILLIS, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

**Board of Education
Dexter Community Schools
Dexter, Michigan**

We have audited the general purpose financial statements of Dexter Community Schools, Dexter, Michigan, as of and for the year ended June 30, 1997, as listed in the table of contents. These general purpose financial statements are the responsibility of Dexter Community Schools' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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. 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.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Dexter Community Schools as of June 30, 1997, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 25, 1997, on our consideration of the District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and individual account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of Dexter Community Schools. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Willis & Willis, P.C.
Willis & Willis, P.C.

July 25, 1997

DEXTER COMMUNITY SCHOOLS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1997

	GENERAL	SPECIAL REVENUE	DEBT RETIREMENT	CONSTRUCTION	TRUST AND AGENCY	GENERAL FIXED ASSET GROUP	GENERAL LONG-TERM DEBT	Memorandum Only Current Year
ASSETS								
Cash	\$ 772,069	\$ 25,659	\$ 445,617	\$ 371,821	\$ 181,267	\$ -	\$ -	\$ 1,816,433
Short-term Investments	1,364,269	-	-	-	-	-	-	1,364,269
Taxes Receivable	282,304	-	197,938	30,015	-	-	-	510,257
Accounts Receivable	63,374	7,496	-	-	-	-	-	70,870
Due From - Other Funds	162,787	30,503	3,239	27,046	-	-	-	223,575
Inventory	125,767	7,278	-	-	-	-	-	133,045
Prepaid Expenditures	140,817	10,404	-	-	-	-	-	10,404
Land, Bldg. & Improvements	-	-	-	-	-	19,548,690	-	140,817
Equipment and Furniture	-	-	-	-	-	4,086,187	-	19,548,690
Transportation Equipment	-	-	-	-	-	1,130,441	-	4,086,187
Available in Debt Retirement	-	-	-	-	-	-	663,555	1,130,441
To Be Provided-Bonds	-	-	-	-	-	-	36,941,445	663,555
To Be Provided-Comp. Leaves	-	-	-	-	-	-	793,896	36,941,445
TOTAL ASSETS	\$ 2,911,387	\$ 81,340	\$ 666,794	\$ 428,882	\$ 181,267	\$ 24,765,318	\$ 38,398,896	\$ 67,433,884
LIABILITIES AND FUND BALANCE								
LIABILITIES								
Accounts Payable	\$ 156,828	\$ 5,832	\$ -	\$ 750	\$ -	\$ -	\$ -	\$ 163,410
Due To - Other Funds	91,091	45,000	3,239	84,245	181,267	-	-	223,575
Accrued Expenditures	295,623	-	-	-	-	-	-	181,267
Salaries Payable	1,037,998	17,489	-	-	-	-	-	295,623
Deferred Revenue	118,839	6,325	-	-	-	-	-	1,055,487
Other Liabilities	40,713	2,010	-	-	-	-	-	125,164
Bonds Payable-Serial	-	-	-	-	-	-	-	42,723
Compensated Leaves	-	-	-	-	-	-	37,605,000	37,605,000
TOTAL LIABILITIES	\$ 1,741,092	\$ 76,656	\$ 3,239	\$ 84,995	\$ 181,267	\$ -	\$ 38,398,896	\$ 793,896
FUND BALANCE								
Invest. in Gen. Fixed Assets	-	-	-	-	-	24,765,318	-	24,765,318
Reserve for Special Purposes	805,089	-	-	-	-	-	-	805,089
Reserve for Inventory	138,342	4,425	-	-	-	-	-	4,425
Reserve for Prepaids	226,664	259	663,555	-	-	-	-	138,342
Unreserved/Undesignated	1,170,295	4,684	-	343,887	-	-	-	1,234,365
TOTAL FUND BALANCE	\$ 2,911,387	\$ 81,340	\$ 666,794	\$ 428,882	\$ 181,267	\$ 24,765,318	\$ 38,398,896	\$ 67,433,884

The accompanying notes to financial statements are an integral part of this statement.

DEXTER COMMUNITY SCHOOLS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
ALL GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 1997

	GENERAL	SPECIAL REVENUE	DEBT RETIREMENT	CONSTRUCTION	Memorandum Only Current Year
REVENUES					
REVENUE FROM LOCAL SOURCES	\$ 3,047,432	\$ 708,212	\$ 2,778,072	\$ 534,509	\$ 7,068,425
REVENUE FROM STATE SOURCES	14,348,293	497	-	-	14,348,790
REVENUE FROM FEDERAL SOURCES	200,017	66,432	-	-	266,449
INCOMING TRANSFERS AND OTHER	951,520	345,403	-	27,046	1,523,969
TOTAL REVENUES	18,547,462	1,120,544	2,778,072	561,555	23,007,633
EXPENDITURES					
INSTRUCTION	10,279,585	-	-	-	10,279,585
SUPPORT SERVICES	7,576,414	-	-	-	7,576,414
ATHLETICS	-	416,017	-	-	416,017
FOOD SERVICE	-	703,337	-	-	703,337
COMMUNITY SERVICES	675,067	-	-	-	675,067
CONSORTIUM	85,744	-	-	-	85,744
OUTGOING TRANSFERS AND OTHER	533,933	-	-	27,046	560,979
DEBT SERVICE	-	-	2,632,552	-	2,632,552
CAPITAL OUTLAY	-	-	-	2,497,999	2,497,999
TOTAL EXPENDITURES	19,150,743	1,119,354	2,632,552	2,525,045	25,427,694
Excess (deficiency) of revenues over expenditures	(603,281)	1,190	145,520	(1,963,490)	(2,420,061)
Fund Balances at beginning of year	(603,281)	1,190	145,520	(1,963,490)	(2,420,061)
Fund Balances at end of year	1,773,576	3,494	518,035	2,307,377	4,602,482
	\$ 1,170,295	\$ 4,684	\$ 663,555	\$ 343,887	\$ 2,182,421

The accompanying notes to financial statements are an integral part of this statement.

DEXTER COMMUNITY SCHOOLS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES—
BUDGET AND ACTUAL — GENERAL, SPECIAL REVENUE AND DEBT SERVICE FUNDS

YEAR ENDED JUNE 30, 1997

	GENERAL			SPECIAL REVENUE			DEBT RETIREMENT		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
REVENUE FROM LOCAL SOURCES	\$ 3,352,621	\$ 3,047,632	\$ (304,989)						
REVENUE FROM STATE SOURCES	14,179,207	14,348,293	169,086						
REVENUE FROM FEDERAL SOURCES	275,667	200,017	(75,650)						
INCOMING TRANSFERS AND OTHER	855,150	951,520	96,370						
TOTAL REVENUES	18,662,645	18,547,462	(115,183)						
EXPENDITURES									
INSTRUCTION	10,390,940	10,279,585	111,355						
SUPPORT SERVICES	7,784,515	7,576,514	208,101						
ATHLETICS	-	-	-						
FOOD SERVICE	-	-	-						
COMMUNITY SERVICES	685,236	675,067	10,169						
CONSORTIUM	127,583	85,744	41,839						
OUTGOING TRANSFERS AND OTHER	561,957	533,933	28,024						
DEBT SERVICE	-	-	-						
TOTAL EXPENDITURES	19,550,231	19,150,743	399,488						
Excess (deficiency) of revenues over expenditures				1,163,020	1,119,354	43,666	2,626,783	2,632,552	(5,769)
Fund Balances at beginning of year	(887,586)	(603,281)	284,305						
Fund Balances at end of year	1,773,576	1,773,576	-	246	1,190	944	167,283	145,896	(21,387)
				3,494	3,494	-	517,659	517,659	-
	\$ 885,990	\$ 1,170,295	\$ 284,305	\$ 3,740	\$ 4,684	\$ 944	\$ 684,942	\$ 683,555	\$ (21,387)

The accompanying notes to financial statements are an integral part of this statement.

DEXTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Capital expenditures for building improvements, furniture and equipment are recorded as expenditures when incurred.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds. Conditional sales contracts for the purchase of transportation vehicles and other assets are recorded on the cash basis with each installment being charged to expenditures in the year in which the payment is made.

This treatment as it relates to school buses is in accordance with Michigan Department of Education Bulletin 1022 (revised), which requires the recording of school buses as an expenditure. The District files its Annual School District Financial Report (Form B, revised) to the Department of Education in accordance with Bulletin 1022 (revised).

The account group is not a "fund". It is concerned only with the measurement of financial position and is not involved with measurement of results of operations.

Special reporting treatments are also applied to governmental fund inventories to indicate that they do not represent "available spendable resources", even though they are a component of net current assets. Such amounts are generally offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

DEXTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Dexter Community School District was established under the provisions of the State of Michigan. The School District operates under an elected Board of Education and provides educational needs for grades K-12.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

The accompanying general purpose 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 oversight responsibility, scope of public service and special financing relationships.

Fund Accounting

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into four generic fund types and two broad fund categories as follows:

Governmental Funds

General Fund - The General fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. These include the Athletics and Food Service.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Construction Fund - The Construction Fund is used to account for resources provided and spent for future site expansion. Once the expansion is complete the fund is closed.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

DEXTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue, that are both measurable and available for use to finance operations, are recorded as revenue when earned. Other revenue is recorded when received.
- b. Properties are assessed as of December 31, and the related property taxes are levied and become a lien on December 1. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The district has 8 cities or townships within its boundaries and delinquent real property taxes are advanced by the county's revolving tax fund.
- c. Principal and interest on general long-term debt is not recorded as an expenditure until its due date.
- d. Vested sick and accumulated vacation days are reflected in the General Long-Term Debt Group.

Investments

Investments are stated at cost or amortized cost.

Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General and School Service Funds consists of expendable supplies held for consumption as well as USDA donated commodities. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Reserves and Designations

Portions of fund equity are segregated for specific future use, and are, therefore, not available for general future appropriation or expenditure. Fund balance reserves represent those amounts which are legally, contractually, or otherwise segregated for future use.

Designations of unreserved fund balances in governmental funds indicate the School District's tentative plans for use of financial resources in a future period.

DEXTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Total Columns on Combined Statements

Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Compensated Absences

The District has various contracts with teachers, support staff and administrators, that calls for accumulated personal and sick days to be paid at agreed upon rates. The total estimated liability at June 30, 1997, is \$793,896.

As of June 30, 1997, the Board of Education established a reserve of fund balance in the General Fund in the amount of \$243,825 for retirement/severance obligations.

2. CASH, CERTIFICATES OF DEPOSIT AND INVESTMENTS

Deposits are carried at cost. Deposits of the District are at three banks in the name of Dexter Community Schools. Act 217, Public Acts of 1982, authorizes the School to deposit and invest in the accounts of Federally insured banks, insured credit unions and savings and loan associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's Opinion states that public funds may not be deposited in financial institutions located in states other than Michigan. The School's deposits are in accordance with statutory authority.

The Balance Sheet caption, "Cash" includes imprest cash, demand accounts and certificates of deposit.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the School's cash deposits are as follows:

DEPOSITS	CARRYING AMOUNT
Insured (FDIC)	\$ 300,000
Uncollateralized and Uninsured	2,880,702
Total Deposits	<u>\$ 3,180,702</u>

DEXTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

DEXTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

3. BUDGETS

The School District formally adopted a General Fund, Debt Retirement Fund, and School Service Fund budget by function for the fiscal year ended June 30, 1997; expenditures at this level in excess of amounts budgeted is a violation of Michigan Law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 1997, is not known. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with generally accepted accounting principles.

The budget statements (combined statement of revenues, expenditures and changes in fund balances - budget and actual - general, special revenue and debt retirement (fund types) are presented on the same basis of accounting used in preparing the adopted budget.

4. DEFINED BENEFIT PENSION PLAN

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a multiple employer public employee retirement system. The District's payroll for employees covered by the MPERS for the year ended June 30, 1997, was approximately \$12,430,000.

Basically all District employees are eligible to participate in the MPERS. A basic plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. Until January 1, 1989, an active member may also retire if the member's combined age and service credit total 80 or more. The annual retirement benefit, payable monthly for life, is equal to 1-1/2 percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last five years of credited service. Benefits fully vest on reaching ten years of service. Vested employees may retire at or after age 55 and receive reduced retirement benefits. Benefits are established by state statute.

Districts are required by state statute to contribute a fixed rate of 15.17% of the covered payroll to the plan. No employee contributions are required. The contribution requirement for the year ended June 30, 1997, was approximately \$1,652,000.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems (PERS) and employers. The MPERS does not make separate measurements of assets and pension benefit obligation for individual districts. The pension benefit obligation at September 30, 1995 (latest reporting date available), for the MPERS as a whole, determined through actuarial valuation performed as of that date, was \$28,691,121.231. The MPERS' net assets available for benefits on that date (valued at market) were \$19,670,400.483, leaving an unfunded pension benefit obligation of \$9,020,720.748.

The District's 1997 contribution represented less than one percent of the total contributions required of all participating districts.

Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPERS' September 30, 1996, comprehensive annual financial report.

4. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Other Post-Employment Benefits

Under the MPERS' Act, all retirees have the option of continuing health, dental and vision coverage. These benefits are funded on a pay-as-you-go basis.

Changes in Actuarial Assumptions

Beginning with the 1994 valuation, an 8% smoothed market rate of return was used. For the 1993 fiscal year, the assumed rate of return on investment was 9.05% on valuation assets, graded down to 8.0% over four years.

Effective January 1, 1987, members of MPERS could irrevocably elect to contribute a percentage of their gross wages on a tax deferred basis to a "member investment plan" (MIP) which qualified them for additional benefits. If a member leaves MPERS service before a retirement benefit has vested, the member's accumulated contributions to MIP plus interest, if any, are refundable. Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

5. INTERFUND RECEIVABLES AND PAYABLES

AMOUNTS DUE TO	AMOUNTS DUE FROM					
	1988	COMMUNITY	BUILDING	GENERAL	1973-79	TOTAL
	CONSTRUCTION	EDUCATION	& SITE	CAFETERIA	FUND	
General	0	\$ 15,000	\$ 57,199	\$ 45,000	\$ 0	\$ 117,199
Athletic	0	0	0	0	4,561	4,561
Community	0	0	0	0	31,997	31,997
Education	0	0	0	0	25,942	25,942
Cafeteria	0	0	0	0	0	3,239
1993 Debt	0	0	0	0	0	0
Child Care	0	13,591	0	0	0	13,591
Building & Site	27,046	0	0	0	0	27,046
Total	\$ 27,046	\$ 28,591	\$ 57,199	\$ 45,000	\$ 62,500	\$ 223,575

DEXTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

6. FIXED ASSETS

The carrying value of fixed assets at June 30, 1997, is as follows:

	BALANCE June 30, 1997
Land, buildings and improvements	\$ 19,548,690
Furniture and equipment	4,086,187
Transportation equipment	<u>1,130,441</u>
Total	<u>\$ 24,765,318</u>

7. CONTINGENT LIABILITIES

The School District is a reimbursing employer to the Michigan Employment Security Commission and as such is responsible to pay the commission for those benefits paid and charged to its account. As of June 30, 1997 appropriate liabilities have been recorded for all claims paid by the Commission. However, no provision has been made for future payments that might result for claims in process or unfilled.

8. LONG-TERM DEBT

Bonds

The following is a summary of the bond transactions of the District for the year ended June 30, 1997:

General obligation bonds payable at July 1, 1996	\$38,185,000
Bonds retired	<u>(580,000)</u>
General obligation bonds payable at June 30, 1997	<u>\$37,605,000</u>

Long-term debt payable consists of the following:

General obligation bonds:

\$1,275,000 1973 General Obligation School Bonds, due in annual installments of \$75,000 to \$100,000 through May 1, 1998, interest at 4% to 5.6%	\$ 100,000
\$6,880,000 1992 General Obligation School Bonds, due in annual installments of \$300,000 to \$660,000 through May 1, 2005, interest at 3.4% to 5.5%	5,805,000
\$31,905,000 1994 General Obligation School Bonds, due in annual installments of \$205,000 to \$1,815,000 beginning May 1997 through May 2019, interest of 3.75% to 5.8%	<u>31,700,000</u>
Total general obligation bonds	<u>\$37,605,000</u>

DEXTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

8. LONG-TERM DEBT (CONTINUED)

Total annual requirements to amortize bonds outstanding as of June 30, 1997, including interest and principal payments of \$27,348,478 and \$38,185,000, respectively, on general obligation bonds are as follows:

YEAR ENDING JUNE 30	GENERAL OBLIGATION BONDS
1998	\$ 2,721,158
1999	2,889,708
2000	3,008,152
2001	3,162,323
2002	3,154,588
2003 and thereafter	<u>47,981,594</u>
	<u>\$62,917,523</u>

9. RESERVED FUND BALANCE

Portions of fund equity are segregated for specific future use, and are, therefore, not available for future appropriation or expenditure. Fund balance reserves represent those amounts that are segregated for future use.

General Fund

Reserved for supply	\$ 93,236
Reserved for health reserve	68,028
Reserved for instructional equipment	150,000
Reserved for pool	50,000
Reserved for facilities maintenance	200,000
Reserved for retirement severance	<u>243,825</u>
Total reserved for special purposes	<u>\$ 805,089</u>

10. RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

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

DEXTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

11. SUBSEQUENT EVENTS

During July 1997 the District borrowed \$3,100,000 on State Aid Notes. Interest accrues at 4% per annum until July 1998, the date of maturity.

12. PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the District defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 1997, \$8,800,000 of bonds outstanding are considered defeased.

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SIDNEY T. MILLER (1864-1940)
GEORGE L. CANFIELD (1866-1928)
LEWIS H. PADDOCK (1866-1935)
FERRIS D. STONE (1882-1945)

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APPENDIX D

ANN ARBOR, MICHIGAN
BLOOMFIELD HILLS, MICHIGAN
DETROIT, MICHIGAN
GRAND RAPIDS, MICHIGAN
KALAMAZOO, MICHIGAN
LANSING, MICHIGAN
MONROE, MICHIGAN

NEW YORK, N.Y.
WASHINGTON, D.C.

AFFILIATED OFFICES:
PENSACOLA, FLORIDA
GDAŃSK, POLAND
KATOWICE, POLAND
WARSAW, POLAND

FORM OF APPROVING OPINION

Dexter Community Schools
Counties of Washtenaw and Livingston
State of Michigan

We have examined the transcript of proceedings for the issue, by the Dexter Community Schools, Counties of Washtenaw and Livingston, State of Michigan (the "School District"), of bonds in the aggregate principal sum of \$69,600,000 designated 1998 School Building and Site Bonds (Unlimited Tax General Obligation) (the "Bonds"), for the purpose described in the Bonds; the Bonds are in fully registered form in the denomination of \$5,000 each or multiples thereof, bearing original issue date of _____, 1998, and payable as to principal and interest as shown on the faces of the Bonds, with the option of redemption prior to maturity in the manner, at the times and at the prices specified on the faces of the Bonds.

We have also examined one Bond only as executed.

From such examination we are of opinion that the Bonds are valid and binding obligations of the School District and that all taxable property in the School District is subject to taxation for their payment, without limitation as to rate or amount. The rights or remedies of bondholders may be affected by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those relating to equitable subordination.

The Bonds have been qualified by the State Treasurer under Article IX, Section 16 of the Michigan Constitution of 1963 and Act 108, Public Acts of Michigan, 1961, as amended. As a result of such qualification if for any reason the School District will be or is unable to pay the principal of and interest on the Bonds when due, then the School District shall borrow, and the State of Michigan shall loan to the School District, an amount sufficient to enable the School District to make the payment.

We are also of opinion that under existing law as presently interpreted, the interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

Dexter Community Schools

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_____, 1998

item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes), the interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion set forth in clause (a) above is subject to the condition that the School District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The School District has covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

Under existing law as presently interpreted, the Bonds and the interest thereon are exempt from all taxation in the State of Michigan except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

Very truly yours,

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

By _____

Amanda Van Dusen

APPENDIX E

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Undertaking") is executed and delivered by the Dexter Community Schools, Counties of Washtenaw and Livingston, State of Michigan (the "School District"), in connection with the issuance of its 1998 School Building and Site Bonds (General Obligation Unlimited Tax) (the "Bonds"). The School District covenants and agrees for the benefit of the Bondholders, as hereinafter defined, as follows:

(a) *Definitions.* The following terms used herein shall have the following meanings:

"Audited Financial Statements" means the annual audited financial statement pertaining to the School District prepared by an individual or firm of independent certified public accountants as required by Act 2, Public Acts of Michigan, 1968, as amended, which presently requires preparation in accordance with generally accepted accounting principles.

"Bondholders" shall mean the registered owner of any Bond or any person (a) with the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any person holding a Bond, through a nominee, depository or other intermediary) or (b) treated as the owner of any Bond for federal income tax purposes.

"Disclosure Representative" means the Deputy Superintendent of the School District or his or her designee, or such other officer, employee, or agent as the School District shall designate from time to time in writing.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means each nationally recognized municipal securities information repository as designated by the SEC in accordance with the Rule.

"Rule" means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

"SEC" means the United States Securities and Exchange Commission.

"SID" means the appropriate state information depository, if any, for the State of Michigan as designated by the SEC in accordance with the Rule.

(b) *Continuing Disclosure.* The School District hereby agrees, in accordance with the provisions of the Rule, to provide or cause to be provided to each NRMSIR and to the SID for the State of Michigan ("SID"), on or before the 180th day after the end of the

fiscal year of the School District, the following annual financial information and operating data, commencing with the fiscal year ended June 30, 1998:

(1) Updates of the numerical financial information and operating data included in the official statement of the School District relating to the Bonds (the "Official Statement") appearing in the Tables in the Official Statement contained in the headings as described below: [Revise headings to conform to those actually used.]

- a. Enrollment History;
- b. Labor Relations;
- c. Retirement Plan;
- d. History of State Equalized Valuations/Taxable Valuations;
- e. Tax Collection Record;
- f. School District Tax Rates (Per \$1,000 of Valuation);
- g. Largest Taxpayers;
- h. Legal Debt Margin;
- i. Debt Statement - Direct Debt;
- j. State Aid Payments; and

(2) Audited Financial Statements.

Such annual financial information and operating data described above are expected to be provided directly by the School District in the following documents to be filed with each NRMSIR and the SID: the Audited Financial Statements; materials containing the updates described in (b)(1) above; and in subsequent official statements of the School District filed with the MSRB.

If the fiscal year of the School District is changed, the School District shall send notices of such change to each NRMSIR or the MSRB, and to the SID, prior to the earlier of the ending date of the fiscal year prior to such change or the ending date of the fiscal year as changed.

(c) *Notice of Failure to Disclose.* The School District agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) the SID, notice of a failure by the School District to provide the annual financial information with respect to the School District described in subsection (b) above on or prior to the dates set forth in subsection (b) above.

(d) *Occurrence of Events.* The School District agrees to provide or cause to be provided in a timely manner to (i) each NRMSIR or the MSRB and (ii) the SID, if any, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Bonds, if applicable, if material:

- (1) principal and interest payment delinquencies
- (2) non-payment related defaults
- (3) unscheduled draws on debt service reserves reflecting financial difficulties
- (4) unscheduled draws on credit enhancements reflecting financial difficulties
- (5) substitution of credit or liquidity providers, or their failure to perform
- (6) adverse tax opinions or events affecting the tax-exempt status of the security
- (7) modifications to rights of security holders
- (8) bond calls
- (9) defeasances
- (10) release, substitution, or sale of property securing repayment of the securities
- (11) rating changes

(e) *Materiality Determined Under Federal Securities Laws.* The School District agrees that its determination of whether any event listed in subsection (d) is material shall be made in accordance with federal securities laws. The School District further agrees that any change in the general obligation bond rating of the State of Michigan shall be considered a material event under subsection (d)(11).

(f) *Termination of Reporting Obligation.* The obligation of the School District to provide annual financial information and notices of material events, as set forth above, shall be terminated if and when the School District no longer remains an "obligated person" with respect to the Bonds within the meaning of the Rule, including upon legal defeasance of all Bonds.

(g) *Benefit of Bondholders.* The School District agrees that its undertaking pursuant to the Rule set forth in this Section is intended to be for the benefit of the Bondholders and shall be enforceable by any Bondholder; provided that, the right to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the School District's obligations hereunder and any failure by the School District to comply with the provisions of this undertaking shall not constitute a default or an event of default with respect to the Bonds.

(h) *Amendments to the Undertaking.* Amendments may be made in the specific types of information provided or the format of the presentation of such information to the extent deemed necessary or appropriate in the judgment of the School District, provided that the School District agrees that any such amendment will be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretations thereof by the SEC, which, to the extent applicable, are incorporated herein by reference. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the School District or the type of activities conducted thereby, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as

any change in circumstances, and (c) the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the School District (such as independent legal counsel), but such interpretations may be changed in the future. If the accounting principles to be followed by the School District in the preparing of the Audited Financial Statements are modified, the annual financial information for the year in which the change is made shall present a comparison between the financial statements as prepared on the prior basis and the statements as prepared on the new basis, and otherwise shall comply with the requirements of the Rule, in order to provide information to investors to enable them to evaluate the ability of the School District to meet its obligations. A notice of the change in accounting principles shall be sent (i) to each NRMSIR or the MSRB and (ii) the SID.

IN WITNESS WHEREOF, the School District has caused this Undertaking to be executed by its authorized officer.

Dexter Community Schools
Counties of Washtenaw and Livingston
State of Michigan

By _____

Its _____

DEFS2\455805.1\022912-00012

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

APPENDIX F



Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number:
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to Citibank, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a

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Form 9000 (8/92)

Page 1 of 2

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest due for payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officers in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", written over a large, diagonal "SUPPLEMENT" watermark.

President

Effective Date:

Authorized Representative

Citibank, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in black ink, appearing to be "B. L. H.", written over a large, diagonal "SUPPLEMENT" watermark.

Authorized Officer

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Page 2 of 2

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number:

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officers in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
Citibank, N.A., as Fiscal Agent

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Form E-0002 (8/92)

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