

Public Schools of the City of Ann Arbor, Michigan

**Financial Report
with Supplemental Information
June 30, 2015**

Public Schools of the City of Ann Arbor, Michigan

Contents

| | |
|---|-----------------------------------|
| Independent Auditor's Report | 1-3 |
| Management's Discussion and Analysis | 4-12 |
| Basic Financial Statements | |
| District-wide Financial Statements: | |
| Statement of Net Position | 13 |
| Statement of Activities | 14 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet | 15 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position | 16 |
| Statement of Revenue, Expenditures, and Changes in Fund Balances | 17 |
| Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 18 |
| Fiduciary Funds: | |
| Statement of Fiduciary Net Position | 19 |
| Statement of Changes in Fiduciary Net Position | 20 |
| Notes to Financial Statements | 21-45 |
| Required Supplemental Information | 46 |
| Budgetary Comparison Schedule - General Fund | 47 |
| Schedule of Public Schools of the City of Ann Arbor, Michigan's Proportionate Share of the Net Pension Liability | 48 |
| Schedule of Public Schools of the City of Ann Arbor, Michigan's Contributions | 49 |
| Notes to Required Supplemental Information Schedules | 50 |
| Other Supplemental Information | 51 |
| Combining Balance Sheet - Nonmajor Governmental Funds | 52-53 |
| Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds | 54-55 |
| Schedule of Bonded Indebtedness | 56-57 |
| Federal Awards Supplemental Information | Issued Under Separate Cover |

Independent Auditor's Report

To the Board of Education
Public Schools of the City of Ann Arbor, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of the City of Ann Arbor, Michigan (the "School District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Public Schools of the City of Ann Arbor, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Education
Public Schools of the City of Ann Arbor, Michigan

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of the City of Ann Arbor, Michigan as of June 30, 2015, and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, effective July 1, 2014, the School District adopted the provision of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and No. GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The School District's unrestricted net position has been restated as of July 1, 2014 as a result of this change in accounting principle.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Combined General Fund budgetary comparison schedule, and schedule of the district's contributions and share of the net pension liability, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Schools of the City of Ann Arbor, Michigan's basic financial statements. The nonmajor governmental funds combining balance sheet, combining statement of revenue, expenditures, and changes in fund balances, and the schedule of bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The nonmajor governmental funds combining balance sheet and combining statement of revenue, expenditures, and changes in fund balance, and the schedule of bonded indebtedness are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nonmajor governmental funds combining balance sheet and combining statement of revenue, expenditures, and changes in fund balance, and the schedule of bonded indebtedness are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Education
Public Schools of the City of Ann Arbor, Michigan

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015 on our consideration of the Public Schools of the City of Ann Arbor, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Public Schools of the City of Ann Arbor, Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 19, 2015

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis

This section of the annual financial report presents a discussion and analysis of the Public Schools of the City of Ann Arbor, Michigan's (the "School District") financial performance during the year ended June 30, 2015. It is to be read in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the Public Schools of the City of Ann Arbor, Michigan financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The fund (governmental) financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements, by providing information about the School District's most significant funds - the General Fund, the 2015 Technology Bond Fund, and the 2015 Building and Site Bond Fund - with all other funds presented in one column as a nonmajor fund. The remaining statements, the statement of fiduciary net position and the statement of changes in fiduciary net position, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund (Governmental) Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Pension Plan Proportionate Share and Contribution Information

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities report information on the School District as a whole and its activities in a way that helps the reader answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

These two statements report the School District's net position - the difference between assets and deferred outflows and liabilities - and are used as one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are one indicator of whether its financial health is improving or deteriorating.

The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits, as do commercial entities. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, food services, athletic, recreation, child care, debt service, and capital projects. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund (Governmental) Financial Statements

The School District's governmental fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes individual funds to help control and manage money for particular purposes (the Food Services Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like millage funded construction funds used for voter-approved capital projects). These funds are identified in the supplemental information. The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund financial information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. A reconciliation is provided which identifies the differences between governmental financial statements and the statement of net position and the statement of activities.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity and private purpose trust funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2015 and 2014:

Table I

| | Governmental Activities | |
|---|-------------------------|---------|
| | June 30 | |
| | 2015 | 2014 |
| | (in millions) | |
| Assets | | |
| Current and other assets | \$ 92.6 | \$ 57.2 |
| Capital assets | 241.5 | 244.3 |
| Total assets | 334.1 | 301.5 |
| Deferred Outflows of Resources | | |
| Deferred charges on bond refunding | 9.7 | 8.2 |
| Deferred outflows related to pensions | 15.9 | 13.1 |
| Total assets and deferred outflows of resources | 359.7 | 322.8 |
| Liabilities | | |
| Current liabilities | 42.5 | 41.2 |
| Long-term liabilities | 480.5 | 473.0 |
| Total liabilities | 523.0 | 514.2 |
| Deferred Inflows of Resources - Deferred inflows related to pensions | 20.5 | - |
| Total liabilities and deferred inflows of resources | 543.5 | 514.2 |

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

Table I (Continued)

| | Governmental Activities | |
|----------------------------------|-------------------------|-------------------|
| | June 30 | |
| | 2015 | 2014 |
| | (in millions) | |
| Net Position | | |
| Net investment in capital assets | \$ 83.3 | \$ 83.4 |
| Restricted | 1.3 | 2.8 |
| Unrestricted | (268.4) | (277.6) |
| Total net position | <u>\$ (183.8)</u> | <u>\$ (191.4)</u> |

The above analysis focuses on the net position (Table I). The School District's net position was a deficit of (\$183.8) million at June 30, 2015, compared with (\$191.4) million at June 30, 2014. For June 30, 2015, net investment in capital assets was \$83.3 million compared to \$83.4 million from the prior year. Net investment in capital assets compares the original cost, less depreciation, of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position (reserves) for day-to-day operations. Of the remaining amount of net position, (\$268.4) million was unrestricted compared to (\$277.6) million from the prior year.

As required by the Government Accounting Standards Board (GASB), the School District adopted GASB No. 68 and No. 71. These standards required the inclusion of the School District's proportionate share of the Michigan Public School Employees' Retirement Plan within the School District's financial statements, effective July 1, 2014. The effects of the adoption were to decrease July 1, 2014 beginning net position by \$283.2 million and the inclusion of the obligation, and related deferred inflows and outflows, in the June 30, 2015 financial statements. All governments participating in the retirement plan were required to adopt these new standards.

The (\$268.4) million in unrestricted net position of governmental activities at June 30, 2015 represents the accumulated results of all past years' operations. The unrestricted net position balance is used to provide working capital and cash flow requirements as well as provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years June 30, 2015 and 2014.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

Table 2

| | Governmental Activities | |
|---|-------------------------|-------------------|
| | Year Ended June 30 | |
| | 2015 | 2014 |
| | (in millions) | |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 8.2 | \$ 7.9 |
| Operating grants and contributions | 54.8 | 35.3 |
| General revenue: | | |
| Property taxes | 104.2 | 99.4 |
| State foundation allowance | 77.8 | 83.6 |
| Other | 3.0 | 2.7 |
| Total revenue | <u>248.0</u> | <u>228.9</u> |
| Functions/Program Expenses | | |
| Instruction | 143.8 | 134.6 |
| Support services | 78.7 | 74.1 |
| Community services | 1.7 | 0.5 |
| Food services | 3.4 | 4.0 |
| Athletics | 2.7 | 2.7 |
| Recreation and child care | 3.8 | 4.7 |
| Interest on long-term debt | 6.2 | 7.5 |
| Depreciation (unallocated) | 0.1 | 0.1 |
| Total functions/program expenses | <u>240.4</u> | <u>228.2</u> |
| Increase in Net Position | 7.6 | 0.7 |
| Net Position - Beginning of year | (191.4) | 91.1 |
| Impact of GASB Statement No. 68 and No. 71 | - | (283.2) |
| Net Position - End of year | <u>\$ (183.8)</u> | <u>\$ (191.4)</u> |

As reported in the statement of activities, the cost of all governmental activities for the fiscal year ended June 30, 2015 was \$240.4 million compared to \$228.2 million from the prior year. For the year ended June 30, 2015, athletics, food service, recreation, and community education and instruction (tuition) were partially funded from those who benefited from the programs (\$8.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$54.8 million). The remaining "public benefit" portion of the governmental activities was funded with \$104.2 million in taxes, \$77.8 million in state foundation allowance, and \$3.0 million in other revenues such as interest, rentals, and general revenue.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

The School District experienced an increase in net position of \$7.6 million compared with a decrease in net position of \$0.7 million from the prior year. The increase is due primarily to revisions in the expenditures of the School District as a result of actions taken to directly reduce costs and improve operational efficiencies. Other increases occurred in certain State funding, which was then remitted directly to the retirement system, and in non-recurring county-wide funds.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$64.0 million compared with \$29.7 million from the prior year, which is an increase of \$34.3 million from the prior year. The primary reason for the increase relates to \$10.6 million in Technology Bonds proceeds, \$27.0 million in Building and Site bond proceeds, \$9.2 million decrease in the 2012 Bond Building and Site Fund as construction projects progressed, a \$2.1 million decrease in the Sinking Funds as renovations and other work took place, and a \$7.9 million increase in the General Fund.

The General Fund fund balance is necessary for cash flow needs, due to the delayed receipt of revenue. Approximately 18 percent of the State aid foundation (or approximately \$18.0 million) is received in July and August, after the School District's fiscal year end of June 30, 2015, and after the majority of the General Fund expenditures have occurred. In addition, the School District does not receive its first state aid payment for the new fiscal year until October 20, 2015. However, the School District's new fiscal operations begin July 1. An analysis of cash flow requirements indicate that the School District maintain a portion of its General Fund fund balance equal to approximately 30 days of operating expenditures to cover the operations until the School District begins to receive tax revenue in mid-August. State aid revenue represents approximately 49.0 percent of the School District's total General Fund revenue; tax revenue is approximately 38.0 percent. The fund balance is also used to fund future expenditures, which may exceed current budget, or for unforeseen increases in expenditures or reductions in revenue.

General Fund Budgetary Highlights

Over the course of the year, the School District revised its budget as new financial information was obtained. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations and available fund equity. The final amendment to the budget was adopted during the third quarter financial review. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

There were revisions made to the 2014-2015 General Fund original budget. Budgeted revenue and other financing sources increased approximately \$10.5 million. The majority of the change was due to a \$3.7 million increase in state funding for retirement, which was then remitted directly to the retirement system, a \$4.7 million one-time receipt of county-wide funds, and an additional \$2.3 million budgeted for federal grants. These increases were offset by a \$1.5 million decrease in local revenues. Total budgeted expenditures and other financing uses increased approximately \$7.1 million as a result of the corresponding expenditures to the above budget amendments for the retirement funding and federal grants.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2015, the School District had \$471.7 million invested in a broad range of capital assets, including land improvements, buildings, and equipment compared with \$471.5 million from the prior year. Net capital assets represent a net decrease (including additions and deductions) of approximately \$2.8 million, or 1.1 percent, from last year.

| | 2015 | 2014 |
|-------------------------------------|-----------------|-----------------|
| | (in millions) | |
| Land | \$ 2.5 | \$ 2.5 |
| Land improvements | 31.6 | 32.6 |
| Buildings and building improvements | 398.3 | 400.5 |
| Vehicles | 4.5 | 4.6 |
| Equipment | 34.8 | 31.3 |
| Total capital assets | 471.7 | 471.5 |
| Less accumulated depreciation | 230.2 | 227.2 |
| Net capital assets | <u>\$ 241.5</u> | <u>\$ 244.3</u> |

This year's additions of \$16.9 million included land improvements, building construction, building renovations, and equipment. Of the \$16.9 million in additions, the majority were financed from the 2012 Bond Fund and the 2010 Sinking Fund. Approximately \$3.5 million of the capital purchases for all funds were not capitalized and were expensed when received. These capital purchases meet the Michigan Department of Education's definition of a fixed asset (for account code classification); however, the purchase amount is below the School District's capitalization threshold of \$10,000. Detailed information about capital assets is presented in the notes to the financial statements.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$183.5 million in bonds outstanding versus \$165.5 million last year, or an increase of 10.9 percent. Those bonds consisted of:

| | 2015 | 2014 |
|----------------------------|-----------------|-----------------|
| | (in millions) | |
| Bonds financed by tax levy | \$ <u>183.5</u> | \$ <u>165.5</u> |

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt", that is, debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District has no outstanding unqualified general obligation debt as of June 30, 2015.

Economic Factors and Next Year's Budgets and Rates

Elected officials and administration consider many factors when setting the School District's fiscal year budgets. One of the factors affecting the budget is student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2014-2015 fiscal year is 90 percent of the October 2014 and 10 percent of the February 2015 student counts. The 2015-2016 budget was adopted in June 2015, based on an estimate of students that will be enrolled in September 2015. Based on the unaudited October 2015 count, enrollment is anticipated to be lower than the estimates used in creating the 2015-2016 budget.

The foundation allowance makes up approximately 80 percent of total General Fund revenue. Under state law, a district cannot assess additional property tax revenue, other than the current authorized millages, for general operations. As a result, School District funding is heavily dependent on the State's School Aid Fund. In the 2014-2015 budget, the School District did not anticipate an increase in the foundation allowance. The School District will amend the budget to reflect any change by the State in the foundation allowance.

State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, annually the Board of Education and administration must evaluate the needs of the School District and balance those needs with state prescribed available unrestricted resources. Once the final student count is validated and student/teacher placements are finalized, the revenue budget will be amended for the pupil count reduction and for any changes in the foundation allowance.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

The 2015-2016 original budget assumes that the School District will add approximately \$265,000 to fund equity. For the fiscal years 2004-2005 through 2014-2015, the School District utilized approximately \$20.2 million of fund equity to balance excess expenditures over revenue received. The School District's General Fund fund equity was \$36.9 million as of June 30, 2004 and is \$16.8 million as of June 30, 2015.

For the 2014-2015 school year, salary and benefits accounted for approximately 83.5 percent of the total operating expenditures. The School District spent \$145.6 million for instructional and instructional support salary and benefits, \$3.5 million for maintenance and transportation salary and benefits, and \$20.1 million for all other General Fund salary and benefits. In addition, the School District spent \$17.9 million for contracted services (maintenance, legal, consultants, and field trips), \$4.7 million for utilities and building insurance, and \$2.7 million for the School District's athletic programs. The above total costs of \$194.5 million account for over 96.1 percent of the School District's operating expenditures.

Contacting the School District's Financial Management

The financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the business department at 2555 South State Street, Ann Arbor, Michigan 48104.

Public Schools of the City of Ann Arbor, Michigan

Statement of Net Position June 30, 2015

| | Governmental Activities |
|---|--------------------------------|
| Assets | |
| Cash on hand and in interest-bearing accounts (Note 3) | \$ 20,194,063 |
| Investments (Note 3) | 2,465,559 |
| Receivables: | |
| Taxes receivable | 403,155 |
| Accounts receivable | 4,034,929 |
| Due from other governmental units | 18,035,193 |
| Inventories | 37,530 |
| Prepaid costs and other assets | 1,039,319 |
| Restricted assets (Note 12) | 46,401,911 |
| Capital assets - Net (Note 5) | 241,510,737 |
| | <hr/> |
| Total assets | 334,122,396 |
| Deferred Outflows of Resources | |
| Deferred charges on bond refunding (Note 8) | 9,758,266 |
| Deferred outflows related to pensions (Note 11) | 15,858,267 |
| | <hr/> |
| Total deferred outflows of resources | 25,616,533 |
| | <hr/> |
| Total assets and deferred outflows of resources | 359,738,929 |
| Liabilities | |
| Accounts payable and accrued expenses | 7,067,823 |
| Accrued payroll-related liabilities: | |
| Salaries payable | 16,951,640 |
| Employee fringe benefits payable | 4,038,487 |
| Due to other governmental units | 54,806 |
| Unearned revenue (Note 4) | 343,681 |
| Noncurrent liabilities (Note 8): | |
| Due within one year | 14,059,363 |
| Due in more than one year | 201,726,488 |
| Net pension liability (Note 11) | 278,734,374 |
| | <hr/> |
| Total liabilities | 522,976,662 |
| | <hr/> |
| Deferred Inflows of Resources - Deferred inflows related to pensions (Note 11) | 20,531,546 |
| | <hr/> |
| Total liabilities and deferred inflows of resources | 543,508,208 |
| Net Position | |
| Net investment in capital assets | 83,296,918 |
| Restricted: | |
| Capital projects | 628,589 |
| Food service | 676,372 |
| Unrestricted | (268,371,158) |
| | <hr/> |
| Total net position | <u><u>\$ (183,769,279)</u></u> |

Public Schools of the City of Ann Arbor, Michigan

Statement of Activities Year Ended June 30, 2015

| Functions/Programs | Expenses | Program Revenue | | Net (Expense) |
|--|-----------------------|-------------------------|--|--------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Revenue and |
| | | | | Changes in Net Position |
| | | | | Governmental Activities |
| Primary government - Governmental activities: | | | | |
| Instruction | \$ 143,819,901 | \$ 345,149 | \$ 34,011,161 | \$ (109,463,591) |
| Support services | 78,743,511 | - | 18,313,702 | (60,429,809) |
| Athletics | 2,712,923 | 964,088 | - | (1,748,835) |
| Food services | 3,442,722 | 1,610,490 | 2,457,192 | 624,960 |
| Community services | 1,710,801 | - | - | (1,710,801) |
| Recreation and child care | 3,769,535 | 5,236,351 | - | 1,466,816 |
| Interest on long-term debt | 5,761,267 | - | - | (5,761,267) |
| Debt issuance costs | 409,709 | - | - | (409,709) |
| Depreciation expense (unallocated) | 61,695 | - | - | (61,695) |
| Total primary government | <u>\$ 240,432,064</u> | <u>\$ 8,156,078</u> | <u>\$ 54,782,055</u> | (177,493,931) |
| General revenue: | | | | |
| Taxes: | | | | |
| Property taxes, levied for general purposes | | | | 77,282,046 |
| Property taxes, levied for debt service | | | | 19,294,965 |
| Property taxes, levied for sinking fund | | | | 7,646,547 |
| State aid not restricted to specific purposes | | | | 77,814,017 |
| Interest and investment earnings | | | | 61,203 |
| Other | | | | 2,990,830 |
| Total general revenue | | | | <u>185,089,608</u> |
| Change in Net Position | | | | 7,595,677 |
| Net Position - As restated - Beginning of year (Note 1) | | | | <u>(191,364,956)</u> |
| Net Position - End of year | | | | <u>\$ (183,769,279)</u> |

Public Schools of the City of Ann Arbor, Michigan

Governmental Funds Balance Sheet June 30, 2015

| | 2015 General Fund | 2015 Technology Bond Fund | 2015 Building and Site Bond Fund | Nonmajor Funds | Total Governmental Funds |
|--|----------------------|---------------------------------|--|----------------------|--------------------------------|
| Assets | | | | | |
| Cash on hand and in interest-bearing accounts (Note 3) | \$ 15,732,355 | \$ - | \$ - | \$ 4,461,708 | \$ 20,194,063 |
| Investments (Note 3) | 2,463,509 | - | - | 2,050 | 2,465,559 |
| Receivables: | | | | | |
| Taxes receivable | 403,155 | - | - | - | 403,155 |
| Accounts receivable | 3,607,593 | - | - | 427,336 | 4,034,929 |
| Due from other governmental units | 18,006,220 | - | - | 28,973 | 18,035,193 |
| Due from other funds (Note 6) | 1,644,365 | - | - | 667,563 | 2,311,928 |
| Inventories | - | - | - | 37,530 | 37,530 |
| Prepaid costs and other assets | 986,004 | - | - | 53,315 | 1,039,319 |
| Restricted assets (Note 12) | - | 10,568,061 | 26,997,425 | 8,836,425 | 46,401,911 |
| Total assets | \$ 42,843,201 | \$ 10,568,061 | \$ 26,997,425 | \$ 14,514,900 | \$ 94,923,587 |
| Liabilities, Deferred Inflows of Resources, and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable and accrued expenses | \$ 2,659,446 | \$ 1,017 | \$ 3,733 | \$ 3,546,224 | \$ 6,210,420 |
| Accrued payroll-related liabilities: | | | | | |
| Salaries payable | 16,951,640 | - | - | - | 16,951,640 |
| Payroll taxes and withholding payable | 4,038,487 | - | - | - | 4,038,487 |
| Due to other governmental units | 54,806 | - | - | - | 54,806 |
| Due to other funds (Note 6) | 667,563 | 13,484 | 33,055 | 952,761 | 1,666,863 |
| Unearned revenue (Note 4) | 4,955 | - | - | 338,726 | 343,681 |
| Total liabilities | 24,376,897 | 14,501 | 36,788 | 4,837,711 | 29,265,897 |
| Deferred Inflows of Resources - Unavailable revenue (Note 4) | 1,703,345 | - | - | - | 1,703,345 |
| Total liabilities and deferred inflows of resources | 26,080,242 | 14,501 | 36,788 | 4,837,711 | 30,969,242 |
| Fund Balances | | | | | |
| Nonspendable: | | | | | |
| Inventory | - | - | - | 37,530 | 37,530 |
| Prepaid assets | 986,004 | - | - | 53,315 | 1,039,319 |
| Restricted: | | | | | |
| Capital projects | - | 10,553,560 | 26,960,637 | 4,261,554 | 41,775,751 |
| Debt service | - | - | - | 1,411,421 | 1,411,421 |
| Food service | - | - | - | 638,842 | 638,842 |
| Committed: | | | | | |
| Capital projects | - | - | - | 460,970 | 460,970 |
| Child care | - | - | - | 294,956 | 294,956 |
| Recreation | - | - | - | 2,518,601 | 2,518,601 |
| Unassigned | 15,776,955 | - | - | - | 15,776,955 |
| Total fund balances | 16,762,959 | 10,553,560 | 26,960,637 | 9,677,189 | 63,954,345 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 42,843,201 | \$ 10,568,061 | \$ 26,997,425 | \$ 14,514,900 | \$ 94,923,587 |

Public Schools of the City of Ann Arbor, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2015

Fund Balance Reported in Governmental Funds \$ 63,954,345

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

| | | |
|--------------------------|----------------------|-------------|
| Cost of capital assets | \$ 471,731,587 | |
| Accumulated depreciation | <u>(230,220,850)</u> | 241,510,737 |

| | |
|---|------------|
| Deferred outflows related to pension payments made subsequent to the measurement date | 15,858,267 |
|---|------------|

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

| | | |
|-----------------------------------|--------------------|---------------|
| Bonds payable - Plus bond premium | (209,119,247) | |
| Compensated absences | (5,484,972) | |
| Self-insurance liability | <u>(1,181,632)</u> | (215,785,851) |

| | |
|---|-------------|
| Accrued interest payable is not included as a liability in governmental funds | (1,502,468) |
|---|-------------|

| | |
|---|-----------|
| Deferred outflows of resources (deferred charges on refunding) are not reported in the governmental funds | 9,758,266 |
|---|-----------|

| | |
|---|-----------|
| Deferred inflows of resources (unavailable revenue) not available to benefit the current period are not reported in the statement of net position | 1,703,345 |
|---|-----------|

| | |
|--|---------------|
| Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities | (278,734,374) |
|--|---------------|

| | |
|--|---------------------|
| Deferred inflows related to pension investment returns and changes in assumptions are not reported in the governmental funds | <u>(20,531,546)</u> |
|--|---------------------|

Net Position of Governmental Activities **\$ (183,769,279)**

Public Schools of the City of Ann Arbor, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2015

| | General Fund | 2015 Technology Bond | 2015 Bond Building and Site Fund | Nonmajor Funds | Total Governmental Funds |
|--|---------------------|----------------------------|--|---------------------|--------------------------------|
| Revenue | | | | | |
| Local sources | \$ 80,844,203 | \$ 39 | \$ 99 | \$ 34,419,077 | \$ 115,263,418 |
| State sources | 100,563,240 | - | - | 213,160 | 100,776,400 |
| Federal sources | 5,671,528 | - | - | 2,244,032 | 7,915,560 |
| Interdistrict sources | 23,223,175 | - | - | - | 23,223,175 |
| Total revenue | 210,302,146 | 39 | 99 | 36,876,269 | 247,178,553 |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction | 122,657,415 | - | - | - | 122,657,415 |
| Support services | 76,494,464 | - | 1,250 | 262,501 | 76,758,215 |
| Athletics | 2,694,904 | - | - | - | 2,694,904 |
| Food services | - | - | - | 3,434,270 | 3,434,270 |
| Community services | 394,072 | - | - | - | 394,072 |
| Recreation and child care | - | - | - | 5,075,894 | 5,075,894 |
| Debt service: | | | | | |
| Principal | - | - | - | 11,019,994 | 11,019,994 |
| Interest | - | - | - | 7,031,445 | 7,031,445 |
| Other | - | 37,635 | 92,048 | 280,026 | 409,709 |
| Capital outlay | 184,649 | - | - | 20,244,220 | 20,428,869 |
| Total expenditures | 202,425,504 | 37,635 | 93,298 | 47,348,350 | 249,904,787 |
| Excess of Revenue Over (Under) Expenditures | 7,876,642 | (37,596) | (93,199) | (10,472,081) | (2,726,234) |
| Other Financing Sources (Uses) | | | | | |
| Payment to escrow agent | - | - | - | (36,836,047) | (36,836,047) |
| Transfers in (Note 6) | 69,363 | - | - | 1,930 | 71,293 |
| Transfers out (Note 6) | (1,930) | - | - | (69,363) | (71,293) |
| Face value of debt issued | - | 5,200,168 | 22,183,843 | 36,180,989 | 63,565,000 |
| Premium on debt issued | - | 5,390,988 | 4,869,993 | - | 10,260,981 |
| Total other financing sources (uses) | 67,433 | 10,591,156 | 27,053,836 | (722,491) | 36,989,934 |
| Net Change in Fund Balances | 7,944,075 | 10,553,560 | 26,960,637 | (11,194,572) | 34,263,700 |
| Fund Balances - Beginning of year | 8,818,884 | - | - | 20,871,761 | 29,690,645 |
| Fund Balances - End of year | \$16,762,959 | \$10,553,560 | \$26,960,637 | \$ 9,677,189 | \$ 63,954,345 |

The Notes to Financial Statements are an Integral Part of this Statement.

Public Schools of the City of Ann Arbor, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds \$ 34,263,700

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

| | | |
|----------------------------|-------------------|-------------|
| Depreciation expense | \$ (19,757,753) | |
| Capitalized capital outlay | <u>16,947,347</u> | (2,810,406) |

| | |
|---|---------|
| Revenue is reported in the statement of activities when earned, but not reported in the funds until collected or collectible within 60 days of year end | 849,188 |
|---|---------|

| | |
|--|--------------|
| Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities | (63,565,000) |
|--|--------------|

| | |
|---|------------|
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 45,594,994 |
|---|------------|

| | |
|--|-------------|
| Underwriter's discount/premium and deferred refunding charged reported as expenditures/revenue in the funds and amortized in the statement of activities | (6,518,236) |
|--|-------------|

| | |
|--|-----------|
| Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid | (211,521) |
|--|-----------|

| | |
|---|-----------|
| Change in pension expense related to deferred items | (246,076) |
|---|-----------|

| | |
|---|----------------|
| Compensated absences, as well as self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than was earned | <u>239,034</u> |
|---|----------------|

Change in Net Position of Governmental Activities \$ 7,595,677

Public Schools of the City of Ann Arbor, Michigan

Statement of Fiduciary Net Position June 30, 2015

| | Private Purpose Trust Fund | Student Activities Agency Fund |
|---|-------------------------------|--------------------------------------|
| Assets | | |
| Cash and investments (Note 3) | \$ 242,331 | \$ 3,041,864 |
| Receivables | - | 545 |
| Total assets | 242,331 | <u>\$ 3,042,409</u> |
| Liabilities | | |
| Accounts payable | 362 | \$ 283,383 |
| Due to other funds (Note 6) | - | 645,065 |
| Due to student groups | - | 2,113,961 |
| Total liabilities | 362 | <u>\$ 3,042,409</u> |
| Net Position - Restricted for scholarships | <u>\$ 241,969</u> | |

Public Schools of the City of Ann Arbor, Michigan

Statement of Changes in Fiduciary Net Position Year Ended June 30, 2015

| | Private Purpose Trust Fund |
|--|-------------------------------|
| Additions - Private sources (contributions) | \$ 20,500 |
| Deductions - Scholarships awarded | <u>20,000</u> |
| Change in Net Position | 500 |
| Net Position - Beginning of year | <u>241,469</u> |
| Net Position - End of year | <u>\$ 241,969</u> |

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the Public Schools of the City of Ann Arbor, Michigan (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education elected at large for four-year overlapping terms. The primary responsibilities of the Board of Education include review of the School District's annual budget, approval of School District policies, and selection and evaluation of the School District's superintendent.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The district-wide financial statements include capital assets, net of accumulated depreciation, and long-term obligations.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note I - Nature of Business and Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note I - Nature of Business and Significant Accounting Policies (Continued)

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

The fund financial statements focus on major funds rather than fund types. The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, including grant programs, except those required to be accounted for in another fund.

2015 Technology Bond Fund - The 2015 Technology Bond Fund is used to account for the financial resources to be used for the acquisition of equipment.

2015 Building and Site Bond Fund - The 2015 Building and Site Bond Fund is used to account for the financial resources to be used for the construction or acquisition of buildings and equipment.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's special revenue funds include the Food Services Fund, Recreation Fund, and the Child Care Fund. Any operating deficit generated by this activity is the responsibility of the General Fund.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest, and paying agent fees.

Sinking Funds - Sinking funds are used to account for construction and repair of buildings.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition of land and construction or acquisition of buildings and equipment. The Millage and Capital Needs Fund is also used to purchase school buses, technology, and textbooks.

Student Activities Agency Fund - The Student Activities Agency Fund is used to account for assets held as agent for various student activities. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

Private Purpose (Scholarship) Trust Fund - The Trust Fund is used to account for donated assets which will be awarded to students or awarded to support student learning. Private purpose trust funds are used to account for resources legally held in trust for the benefit of individuals and organizations outside the School District.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note I - Nature of Business and Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position or Equity

Cash on Hand and in Interest-bearing Accounts and Investments - Cash on hand and in interest-bearing accounts include cash on hand, demand deposits, and short-term money market fund investments with a maturity of three months or less. Investments consist of governmental investment pools and are recorded at fair value, based on quoted market prices, or estimated fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds.”

Trade and property tax receivables are shown net of an allowance for uncollectible amounts. Property taxes are levied on July 1 and December 1 on the taxable valuation of property as of the preceding March 1. Taxes are considered delinquent on March 1 of the following year. At that time, penalties and interest are assessed and the total obligation is added to the county tax rolls. At June 30, 2015, the delinquent property taxes receivable total \$403,155, of which the entirety was considered an unavailable deferred inflow.

Inventories and Prepaid Costs - Inventories are valued at cost using the first-in, first-out method. Inventory recorded in the General Fund consists of transportation supplies for the School District. Inventories of the Food Services Fund, including United States Department of Agriculture commodities, are recorded as expenditures when consumed rather than when purchased. The inventory items are recorded as expenditures at the time of use in their respective funds.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds of the capital projects and sinking funds require amounts to be set aside for construction or bond-related purchases. In addition, cash and investments in debt service funds are required to be set aside for future bond principal and interest payments. These amounts have been classified as restricted assets. When an expense has been incurred for purposes for which both restricted and unrestricted net position is available, it is the School District's policy to first apply restricted resources.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note I - Nature of Business and Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable district-wide statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, building improvements, land improvements, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|---|----------------|
| Buildings, building improvements, and land improvements | 20 to 50 years |
| Equipment | 5 to 20 years |
| Vehicles | 5 to 10 years |

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of accrued termination benefits and earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in the governmental funds as it comes due for payment.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

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

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note I - Nature of Business and Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. The School District only has two items that qualify for reporting in this category. The first item is deferred charges on refundings. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is the deferred outflow related to the pension plan.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District only has two items that qualify for reporting in this category. The first item arises only under a modified accrual basis of accounting, and is therefore only reported in the governmental funds balance sheet. The governmental funds report unavailable receivables that are not collected during the period of availability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is the deferred inflows related to the pension plan.

Fund Balance - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note I - Nature of Business and Significant Accounting Policies (Continued)

- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

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

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS), and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Adoption of New Standard - The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB No. 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the statement, the School District has reported a net pension liability of \$296.3 million and a beginning deferred outflow for pension contributions of \$13.2 million made subsequent to the September 30, 2013 measurement date, as a change in accounting principle adjustment to unrestricted net position as of July 1, 2014.

| | |
|---|-------------------------|
| Net position at June 30, 2014 | \$ 91,796,621 |
| Net pension liability | (296,341,316) |
| Deferred outflow for pension contributions | <u>13,179,739</u> |
| Net position at June 30, 2014 - As restated | <u>\$ (191,364,956)</u> |

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end. In addition, the School District adopts a budget for the millage portion of the Capital Projects Fund on an annual basis and adopts a budget for the bond portion of the Capital Projects Fund upon receipt of the bond proceeds.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. The School District budgets and reports capital outlay expenditures within the related function in the budgetary comparison schedule - General Fund. In accordance with generally accepted accounting principles, the School District reports capital outlay separately in the statement of revenue, expenditures, and changes in fund balance. Various administrators are authorized to transfer budgeted amounts within functions with any fund. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

The policy of the Board of Education is to preserve as a minimum General Fund balance an amount which is no less than an amount equal to 15 percent of the total operating costs of the School District. As of June 30, 2015, total operating costs and unassigned fund balance of the General Fund (excluding grant programs) are \$194,753,099 and \$15,776,955, respectively. The unassigned fund balance necessary to adhere to the Board of Education policy is approximately \$29.2 million.

Cash Flow Allocation - The School District allocates a portion of the General Fund fund balance for future cash flow. The School District begins to receive a portion of their summer tax collections in mid-August. However, the School District's new fiscal year and operations begin July 1. An analysis of cash flow requirements indicates that the School District maintain a portion of its General Fund fund balance equal to approximately 45 days of operating expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restrictions, commitments, or assignments of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year. There were no encumbrances outstanding at year end.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the School District incurred expenditures in budgeted funds that were in excess of the amounts budgeted, as follows:

| | <u>Budget</u> | <u>Actual</u> |
|---|----------------|----------------|
| General Fund - Instruction | \$ 120,192,261 | \$ 122,690,052 |
| General Fund - Support Services - General Administration | 2,021,149 | 2,043,345 |
| General Fund - Support Services - Business | 2,185,661 | 2,406,583 |
| General Fund - Support Services - Pupil Transportation Services | 5,893,206 | 6,117,484 |

Capital Projects Fund Compliance - The 2012 Bond Building and Site Fund, 2015 Technology Bond Fund, and 2015 Building and Site Bond Fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Sinking Fund Compliance - The 2005 and 2010 Sinking Funds account for construction and repair of buildings. The School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Note 3 - Cash and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The Board of Education has authorized 11 financial institutions for the deposit of the School District's funds. The School District has designated four of those financial institutions for its deposits.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 3 - Cash and Investments (Continued)

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned. The School District's investment policy pre-qualifies the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. At year end, the School District's deposit balance of \$27,871,117 had \$27,371,117 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's credit risk is minimized by limiting investments to types of securities allowed by state law and by pre-qualifying the financial institutions, broker/dealers, and advisors with which the School District will do business using the criteria established in the investment policy.

Interest Rate Risk - Interest rate risk is the risk that the value for investments will decrease as a result of a rise in interest rates. The School District minimizes interest rate risk by investing funds in primarily shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the maturities of investments and the credit quality ratings of debt securities are as follows:

| <u>Investment</u> | <u>Fair Value</u> | <u>Maturities</u> | <u>Rating</u> | <u>Rating Organization</u> |
|----------------------------|----------------------|-------------------|---------------|----------------------------|
| Michigan Liquid Asset Fund | \$ 46,177,351 | Not required | AAAm | S&P |
| MBIA Class | <u>323,806</u> | Not required | AAAm | S&P |
| Total | <u>\$ 46,501,157</u> | | | |

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 3 - Cash and Investments (Continued)

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. At June 30, 2015, the School District had no investments other than pooled funds and money market funds, which are not subject to concentration of credit risk.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

Note 4 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the School District had the following unearned and unavailable revenue:

| | Governmental Funds | |
|---|-------------------------------------|-------------------------|
| | Deferred Inflow - Unavailable | Liability - Unearned |
| Grant receipts not available to liquidate liabilities of the current period | \$ 1,230,194 | \$ - |
| Delinquent personal and real property taxes not available to finance 2014-2015 operations | 473,151 | - |
| Grant, categorical aid, tuition and food services program payments received prior to meeting all eligibility requirements | - | 343,681 |
| Total | <u>\$ 1,703,345</u> | <u>\$ 343,681</u> |

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

| | Balance July 1, 2014 | Additions | Disposals and Adjustments | Balance June 30, 2015 |
|---|-------------------------|-----------------------|---------------------------------|--------------------------|
| Capital assets not being depreciated - Land | \$ 2,477,822 | \$ - | \$ - | \$ 2,477,822 |
| Capital assets being depreciated: | | | | |
| Land improvements | 32,591,583 | 46,405 | 975,520 | 31,662,468 |
| Buildings and building improvements | 400,484,756 | 6,897,743 | 9,106,661 | 398,275,838 |
| Equipment | 31,325,864 | 10,003,199 | 6,532,382 | 34,796,681 |
| Vehicles | 4,611,892 | - | 93,114 | 4,518,778 |
| Subtotal | 469,014,095 | 16,947,347 | 16,707,677 | 469,253,765 |
| Accumulated depreciation: | | | | |
| Land improvements | 14,423,565 | 1,579,642 | 975,520 | 15,027,687 |
| Buildings and building improvements | 189,190,680 | 13,241,304 | 9,106,661 | 193,325,323 |
| Equipment | 19,776,634 | 4,585,849 | 6,532,382 | 17,830,101 |
| Vehicles | 3,779,895 | 350,958 | 93,114 | 4,037,739 |
| Subtotal | 227,170,774 | 19,757,753 | 16,707,677 | 230,220,850 |
| Net capital assets being depreciated | 241,843,321 | (2,810,406) | - | 239,032,915 |
| Net capital assets | <u>\$ 244,321,143</u> | <u>\$ (2,810,406)</u> | <u>\$ -</u> | <u>\$ 241,510,737</u> |

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

Governmental activities:

| | |
|------------------|----------------------|
| Instruction | \$ 18,095,495 |
| Support services | 1,600,563 |
| Unallocated | 61,695 |
| Total | <u>\$ 19,757,753</u> |

Construction Commitments - The School District has active construction projects at year end. At June 30, 2015, the School District's commitments with contractors and vendors totaled approximately \$2,002,000.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Fund Due From | Fund Due To | | Total |
|----------------------------------|-----------------------|-----------------------------|---------------------|
| | Combined General Fund | Nonmajor Governmental Funds | |
| Combined General Fund | \$ - | \$ 667,563 | \$ 667,563 |
| 2015 Technology Bond Fund | 13,484 | - | 13,484 |
| 2015 Building and Site Bond Fund | 33,055 | - | 33,055 |
| Nonmajor governmental funds | 952,761 | - | 952,761 |
| Private Purpose Trust | 645,065 | - | 645,065 |
| Total | \$ 1,644,365 | \$ 667,563 | \$ 2,311,928 |

Interfund balances represent routine and temporary cash flow assistance from the General Fund collecting cash on behalf of other funds until amounts are transferred to the proper fund accounts.

Transfer activity for the year ended June 30, 2015 is as follows:

| Transfers To | Transfers Out | | Total |
|-----------------------------|-----------------------|-----------------------------|------------------|
| | Combined General Fund | Nonmajor Governmental Funds | |
| General Fund | \$ - | \$ 69,363 | \$ 69,363 |
| Nonmajor governmental funds | 1,930 | - | 1,930 |
| Total | \$ 1,930 | \$ 69,363 | \$ 71,293 |

Transfers to and from the General Fund are for various current year costs such as administration and overhead, recreation business services fees, return of unused budget, and tax adjustments.

Note 7 - Line of Credit

In September 2013, the School District obtained a \$10,000,000 line of credit with JPMorgan Chase with interest on any outstanding principal accruing daily at the greater of the bank's prime rate minus 1.2 percent or 2.5 percent plus the one-month LIBOR, which matured on August 30, 2015. There were no borrowings against this line of credit during the 2014-2015 fiscal year. The note and interest thereon were primarily secured by a pledge amounting to 30 percent of the School District's State Aid for the year ended June 30, 2015.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 8 - Long-term Debt

The School District issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, workers' compensation claims, and medical self-insurance.

Long-term debt activity can be summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|-----------------------|----------------------|----------------------|-----------------------|------------------------|
| Governmental Activities | | | | | |
| Bonds - Principal | \$ 165,540,000 | \$ 63,565,000 | \$ 45,594,994 | \$ 183,510,006 | \$ 11,005,000 |
| Bond premiums | 17,538,491 | 10,260,981 | 2,190,231 | 25,609,241 | 2,190,232 |
| Less deferred outflows - Deferred charges on bond refundings | (8,205,752) | (2,261,047) | (708,533) | (9,758,266) | - |
| Total bonds payable | 174,872,739 | 71,564,934 | 47,076,692 | 199,360,981 | 13,195,232 |
| Termination pay | 4,161,887 | - | 118,326 | 4,043,561 | 222,516 |
| Accumulated vacation pay | 564,291 | - | 62,676 | 501,615 | 42,052 |
| Sick leave | 1,097,628 | - | 157,832 | 939,796 | 8,747 |
| Workers' compensation | 1,081,832 | 99,800 | - | 1,181,632 | 590,816 |
| Total governmental activities | <u>\$ 181,778,377</u> | <u>\$ 71,664,734</u> | <u>\$ 47,415,526</u> | <u>\$ 206,027,585</u> | <u>\$ 14,059,363</u> |

Annual debt service requirements to maturity for the above governmental bond obligations are as follows:

| Years Ending June 30 | Governmental Activities | | |
|-------------------------|-------------------------|----------------------|-----------------------|
| | Principal | Interest | Total |
| 2016 | \$ 11,005,000 | \$ 8,751,077 | \$ 19,756,077 |
| 2017 | 12,015,000 | 8,353,713 | 20,368,713 |
| 2018 | 12,850,000 | 7,799,813 | 20,649,813 |
| 2019 | 12,720,000 | 7,236,438 | 19,956,438 |
| 2020 | 13,495,000 | 6,625,150 | 20,120,150 |
| 2021-2025 | 73,920,006 | 22,781,200 | 96,701,206 |
| 2026-2030 | 47,505,000 | 6,006,750 | 53,511,750 |
| Total | <u>\$ 183,510,006</u> | <u>\$ 67,554,141</u> | <u>\$ 251,064,147</u> |

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 8 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following at June 30, 2015:

| | |
|--|-----------------------|
| 2006 Issuance - \$60,540,000 serial bonds due in an installment of \$2,200,000 on May 1, 2016; interest from 4.0 to 5.0 percent | \$ 2,200,000 |
| 2008 Issuance - \$17,730,000 serial bonds due in installments of \$775,000 to \$1,000,000 through May 1, 2029; interest from 3.0 to 5.0 percent | 13,225,000 |
| 2012 Refunding - \$93,230,000 serial bonds due in installments of \$4,625,000 to \$8,565,000 through May 1, 2029; interest from 4.0 to 5.0 percent | 88,845,000 |
| 2012 Issuance - \$23,830,000 serial bonds due in installments of \$2,205,000 to \$3,735,000 through May 1, 2022; interest from 2.0 to 5.0 percent | 15,675,006 |
| 2015 Refunding - \$30,790,000 serial bonds due in installments of \$1,735,000 to \$3,055,000 through May 1, 2029; interest from 4.0 to 5.0 percent | 30,790,000 |
| 2015 Issuance - \$32,775,000 serial bonds due in installments of \$1,200,000 to \$4,750,000 through May 1, 2022; interest from 4.0 to 5.0 percent | <u>32,775,000</u> |
| Total bonded debt | <u>\$ 183,510,006</u> |

Advance Refundings - During the year, the School District issued \$30,790,000 in general obligation bonds with an average interest rate of 4.8 percent. The proceeds of these bonds were used to advance refund \$34,575,000 of outstanding 2006 School Building and Site Bonds with an average interest rate of 4.7 percent. The net proceeds of \$36,836,047 (after payment of \$214,942 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by \$4,250,729, which represents an economic gain of \$3,881,943. At June 30, 2015 \$34,575,000 of bonds outstanding are considered defeased.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 9 - Compensated Absences

The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated termination of employment, vacation, and sick leave balances.

Termination Pay

Certain employees are entitled to receive a lump-sum payment upon termination of employment with the School District. The amount is generally based on the employees' current wage rate and number of years of service accumulated as of June 30, 2003. Expenditures for accumulated termination pay are budgeted and paid on an annual basis. Total termination pay expense, net of salary increases, including related FICA, was \$118,326 for the year ended June 30, 2015.

Accumulated Vacation

Employees other than instructors accrue vacation based on number of days worked and seniority. Accumulated vacation days lapse at year end for School District administrators and unclassified personnel. However, such groups are permitted to carry over a maximum of 20 unused vacation days. All other non-instructor employee groups accrue vacation days during the current fiscal year.

Sick Leave

School District employees are entitled to accumulate unused sick leave days. Subject to variations among different classes of personnel, employees with 10 or more years of service who retire or terminate employment are paid a per-diem rate for a percentage (50 percent to 70 percent range) of their accumulated sick leave days, based on contract language.

Note 10 - Risk Management and Contingent Liabilities

Self-insured Workers' Compensation

The School District has a self-insurance plan for workers' compensation claims. Under the plan, the maximum claim loss of the School District is limited to the amount not covered by the School District's excess insurance carrier. Generally accepted accounting principles require an amount to be determined for claims that have been incurred but not yet been reported (IBNR) as of the date of the financial statements. The School District's workers' compensation expenditures for the General Fund were \$337,410 for the year ended June 30, 2015.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 10 - Risk Management and Contingent Liabilities (Continued)

Changes in the balances of potential claims of the School District during the past year are as follows:

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Potential claims, including IBNR, beginning of year | \$ 1,081,832 | \$ 1,363,439 |
| Increase in estimated liability - Net of claims incurred and claims paid | 99,800 | - |
| Decrease in IBNR | <u>-</u> | <u>(281,607)</u> |
| Estimated liability - End of year | <u>\$ 1,181,632</u> | <u>\$ 1,081,832</u> |

Self-insured Medical

The School District purchases commercial insurance for medical payments and, as of July 1, 2004, maintains a partially self-insured medical program for certain employees. The premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. Under this plan, the School District's maximum loss is limited to \$50,000 per family. Losses in excess of this limitation are fully insured.

Changes in the balance of potential claims of the School District for the past year are as follows:

| | <u>2015</u> | <u>2014</u> |
|--|------------------|--------------------|
| Estimated liability - Beginning of year | \$ - | \$ - |
| Estimated claims incurred, including changes in estimates | 669,890 | 1,100,862 |
| Claim payments | <u>(669,890)</u> | <u>(1,100,862)</u> |
| Estimated liability - End of year | <u>\$ -</u> | <u>\$ -</u> |

In addition, the School District is exposed to various risks of loss related to property loss, torts, and errors and omissions. The School District has purchased commercial insurance for these potential losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Legal Actions

The School District is a party to several legal actions. In the opinion of management, the School District has adequate insurance to cover most of the legal actions and does not believe that settlement of any legal actions will materially affect the School District's operations or financial position.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 10 - Risk Management and Contingent Liabilities (Continued)

Property Tax Appeals

Several appeals of property tax assessments are currently pending before the Michigan Tax Tribunal. The School District would become liable to refund any taxes collected due to overassessment, but would subsequently be reimbursed by the State for any refunded amounts related to operating levies (but not for amounts related to debt or sinking fund levies). The taxable value (TV) under appeal with the City of Ann Arbor, the School District's primary source of property tax levies, was approximately \$105 million as of June 30, 2015. Management is unable to estimate the amount in property tax revenue which could be subject to refund if the tax tribunal determines that an overassessment has occurred.

Note 11 - Michigan Public School Employees' Retirement System

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPSERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Contributions - Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each School District's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 11 - Michigan Public School Employees' Retirement System (Continued)

School districts' contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

School District

| | |
|--------------------------------------|-----------------|
| July 1, 2013 - September 30, 2013 | 12.78% - 16.25% |
| October 1, 2013 - September 30, 2014 | 15.44% - 18.34% |
| October 1, 2014 - June 30, 2015 | 18.76% - 23.07% |

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's required and actual contributions to the plan for the years ended June 30, 2015 and 2014 were approximately \$31,640,000 and \$25,748,000, respectively. Contributions include approximately \$9,434,000 and \$5,771,000 in revenue received from the State of Michigan, and remitted to the system, to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the years ended June 30, 2015 and 2014, respectively.

Benefits Provided - Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 11 - Michigan Public School Employees' Retirement System (Continued)

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2015, the School District reported a liability of \$278,734,000 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, which used updated procedures to roll forward the estimated liability to September 30, 2014. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2014 and 2013, the School District's proportion was 1.26546 percent.

For the year ended June 30, 2015, the School District recognized pension expense of \$22,578,457, exclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources Subsequent to Measurement Date | Net Deferred Inflows (Outflows) of Resources as of the Measurement Date |
|--|--|---|
| Difference between expected and actual experience | \$ - | \$ - |
| Changes of assumptions | - | (10,284,789) |
| Net difference between projected and actual earnings on pension plan assets | - | 30,814,460 |
| Changes in proportion and differences between the School District's contributions and proportionate share of contributions | - | 1,875 |
| The School District's contributions subsequent to the measurement date | <u>15,858,267</u> | <u>-</u> |
| Total | <u>\$ 15,858,267</u> | <u>\$ 20,531,546</u> |

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 11 - Michigan Public School Employees' Retirement System (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ending June 30 | Amount |
|-------------------------|----------------------|
| 2016 | \$ 5,029,742 |
| 2017 | 5,029,742 |
| 2018 | 5,029,742 |
| 2019 | 5,442,320 |
| 2020 | - |
| Thereafter | - |
| Total | <u>\$ 20,531,546</u> |

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

Actuarial Assumptions - The total pension liability as of September 30, 2014 is based on the results of an actual valuation date of September 30, 2013, and rolled forward:

| | |
|------------------------|---|
| Actuarial cost method | Entry age normal cost actuarial cost method |
| Assumed rate of return | 7.00 to 8.00 percent, net of investment and administrative expenses based on the groups |
| Rate of pay increases | 3.50 percent |
| Mortality basis | RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB |

The actuarial assumptions used for the September 30, 2015 valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 11 - Michigan Public School Employees' Retirement System (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.00 - 8.00 percent, depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Investment Category | Target Allocation | Long-term Expected Real Rate of Return |
|---|-------------------|--|
| Domestic equity pools | 28 % | 4.8 % |
| Private equity pools | 18 % | 8.5 % |
| International equity pools | 16 % | 6.1 % |
| Fixed-income pools | 10 % | 1.5 % |
| Real estate and infrastructure pools | 10 % | 5.3 % |
| Real return, opportunistic, and absolute pool | 16 % | 6.3 % |
| Short-term investment pools | 2 % | (0.2)% |
| Total | 100 % | |

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 11 - Michigan Public School Employees' Retirement System (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the School District, calculated using the discount rate of 7.00 - 8.00 percent, depending on the plan option, as well as what the School District's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (7.00 percent) or 1.00 percentage point higher (9.00 percent) than the current rate:

| 1.00 Percent Decrease (7.00 Percent) | Current Discount Rate (8.00 Percent) | 1.00 Percent Increase (9.00 Percent) |
|---|---|---|
| \$ 367,490,123 | \$ 278,736,374 | \$ 203,960,709 |

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan - At June 30, 2015, the School District reported a payable of \$3,559,859 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Postemployment Benefits Other Than Pensions (OPEB) - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 5.52 percent to 6.45 percent of covered payroll for the period from July 1, 2014 to September 30, 2014, and from 2.20 percent to 2.71 percent of covered payroll for the period from October 1, 2014 through June 30, 2015 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403b account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2015, 2014, and 2013 were \$3,709,000, \$6,986,000, and \$10,261,000, respectively.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2015

Note 12 - Restricted Assets

The balances for the restricted asset accounts are as follows:

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Unspent bond proceeds and related interest | \$ 42,333,199 |
| Unspent debt service property taxes levied | 2,044,785 |
| Unspent sinking fund property taxes levied | <u>2,023,927</u> |
| Total restricted assets | <u>\$ 46,401,911</u> |

Note 13 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The School District is currently evaluating the impact this standard will have on the financial statements when adopted, during the School District's 2015-2016 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2018.

Required Supplemental Information

Public Schools of the City of Ann Arbor, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Variance Over (Under) |
|--|---------------------|----------------------|----------------------|--------------------------|
| Revenue | | | | |
| Local sources | \$ 82,480,457 | \$ 80,923,721 | \$ 80,844,203 | \$ (79,518) |
| State sources | 92,531,238 | 97,537,321 | 100,563,240 | 3,025,919 |
| Federal sources | 5,590,305 | 7,924,845 | 5,671,528 | (2,253,317) |
| Interdistrict sources | 17,320,000 | 21,990,000 | 23,223,175 | 1,233,175 |
| Total revenue | 197,922,000 | 208,375,887 | 210,302,146 | 1,926,259 |
| Expenditures - Current | | | | |
| Instruction | 117,614,519 | 120,192,261 | 122,690,052 | 2,497,791 |
| Support services: | | | | |
| Pupil | 22,669,608 | 24,279,854 | 22,754,345 | (1,525,509) |
| Instructional staff | 12,111,238 | 11,316,164 | 9,735,444 | (1,580,720) |
| General administration | 2,015,779 | 2,021,149 | 2,043,345 | 22,196 |
| School administration | 11,756,751 | 12,900,109 | 12,553,873 | (346,236) |
| Business | 2,086,820 | 2,185,661 | 2,406,583 | 220,922 |
| Operations and maintenance | 14,128,459 | 16,730,607 | 16,193,581 | (537,026) |
| Pupil transportation services | 5,542,226 | 5,893,206 | 6,117,484 | 224,278 |
| Central | 4,052,043 | 4,443,202 | 4,204,140 | (239,062) |
| Total support services | 74,362,924 | 79,769,952 | 76,008,795 | (3,761,157) |
| Athletics | 4,540,991 | 3,425,969 | 3,332,585 | (93,384) |
| Community services | 295,683 | 528,829 | 394,072 | (134,757) |
| Total expenditures | 196,814,117 | 203,917,011 | 202,425,504 | (1,491,507) |
| Excess of Revenue Over Expenditures | 1,107,883 | 4,458,876 | 7,876,642 | 3,417,766 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 69,363 | 69,363 |
| Transfers out | (101,930) | (6,461) | (1,930) | 4,531 |
| Total other financing (uses) sources | (101,930) | (6,461) | 67,433 | 73,894 |
| Net Change in Fund Balance | 1,005,953 | 4,452,415 | 7,944,075 | 3,491,660 |
| Fund Balance - Beginning of year | 8,818,884 | 8,818,884 | 8,818,884 | - |
| Fund Balance - End of year | \$ 9,824,837 | \$ 13,271,299 | \$ 16,762,959 | \$ 3,491,660 |

Since the School District approves the budget at the function level, capital outlay is included within the function categories.

Public Schools of the City of Ann Arbor, Michigan

Required Supplemental Information Schedule of Public Schools of the City of Ann Arbor, Michigan's Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System Determined as of the Plan Year Ended September 30

| | <u>2014</u> |
|---|----------------|
| School District's proportion of the net pension liability (asset) | 1.27 % |
| School District's proportionate share of the net pension liability | \$ 278,734,374 |
| School District's covered employee payroll | 102,370,153 |
| School District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll | 272.28 % |
| Plan fiduciary net position as a % of the total pension liability | 66.20 % |

Public Schools of the City of Ann Arbor, Michigan

Required Supplemental Information Schedule of Public Schools of the City of Ann Arbor, Michigan's Contributions Michigan Public School Employees' Retirement System Determined as of the Year Ended June 30

| | <u>2015</u> |
|--|---------------|
| Statutorily required contribution | \$ 21,769,845 |
| Contributions in relation to the statutorily required contribution | 21,769,845 |
| Contribution deficiency (excess) | - |
| School District's covered employee payroll | 101,096,608 |
| Contributions as a percentage of covered employee payroll | 21.53 % |

Public Schools of the City of Ann Arbor, Michigan

Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2015

Benefit Changes - There were no changes of benefit terms in 2015.

Changes in Assumptions - There were no changes of benefit assumptions in 2015.

Other Supplemental Information

Public Schools of the City of Ann Arbor, Michigan

| | Special Revenue Funds | | | |
|---|-----------------------|--------------------|-------------------|--------------------|
| | Food Services | Recreation | Child Care | Debt Service Fund |
| Assets | | | | |
| Cash on hand and in interest-bearing accounts | \$ 707,729 | \$ 2,694,768 | \$ 623,830 | \$ - |
| Investments | - | - | - | - |
| Accounts receivable: | | | | |
| Accounts receivable | 104,953 | 276,274 | 12,390 | - |
| Due from other governmental units | 28,973 | - | - | - |
| Due from other funds | - | - | - | - |
| Inventories | 37,530 | - | - | - |
| Prepaid costs and other assets | - | 53,315 | - | - |
| Restricted assets | - | - | - | 2,044,785 |
| Total assets | \$ 879,185 | \$3,024,357 | \$ 636,220 | \$2,044,785 |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable and accrued expenses | \$ 143,492 | \$ 153,744 | \$ 6,213 | \$ 111,623 |
| Due to other funds | 8,872 | 22,240 | 335,051 | 521,741 |
| Unearned revenue | 50,449 | 276,457 | - | - |
| Total liabilities | 202,813 | 452,441 | 341,264 | 633,364 |
| Fund Balances | | | | |
| Nonspendable: | | | | |
| Inventory | 37,530 | - | - | - |
| Prepaid assets | - | 53,315 | - | - |
| Restricted: | | | | |
| Capital projects | - | - | - | - |
| Debt service | - | - | - | 1,411,421 |
| Food service | 638,842 | - | - | - |
| Committed: | | | | |
| Capital projects | - | - | - | - |
| Child care | - | - | 294,956 | - |
| Recreation | - | 2,518,601 | - | - |
| Total fund balances | 676,372 | 2,571,916 | 294,956 | 1,411,421 |
| Total liabilities and fund balances | \$ 879,185 | \$3,024,357 | \$ 636,220 | \$2,044,785 |

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015**

| Capital Projects Fund | | | | | | Total |
|---------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------|----------------------|-----------------------------------|
| Millage and Capital Needs | 2006 Bond Building and Site | 2008 Bond Building and Site | 2012 Bond Building and Site | 2005 Sinking Fund | 2010 Sinking Fund | Nonmajor Governmental Funds |
| \$ 435,381 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4,461,708 |
| 2,050 | - | - | - | - | - | 2,050 |
| 33,719 | - | - | - | - | - | 427,336 |
| - | - | - | - | - | - | 28,973 |
| 71,719 | - | - | - | - | 595,844 | 667,563 |
| - | - | - | - | - | - | 37,530 |
| - | - | - | - | - | - | 53,315 |
| - | 1,040,819 | 323,538 | 3,403,356 | 49,028 | 1,974,899 | 8,836,425 |
| \$ 542,869 | \$ 1,040,819 | \$ 323,538 | \$ 3,403,356 | \$ 49,028 | \$ 2,570,743 | \$ 14,514,900 |
| \$ 81,899 | \$ 689,383 | \$ 323,538 | \$ 45,150 | \$ 49,028 | \$ 1,942,154 | \$ 3,546,224 |
| - | - | - | 64,857 | - | - | 952,761 |
| - | - | - | 11,820 | - | - | 338,726 |
| 81,899 | 689,383 | 323,538 | 121,827 | 49,028 | 1,942,154 | 4,837,711 |
| - | - | - | - | - | - | 37,530 |
| - | - | - | - | - | - | 53,315 |
| - | 351,436 | - | 3,281,529 | - | 628,589 | 4,261,554 |
| - | - | - | - | - | - | 1,411,421 |
| - | - | - | - | - | - | 638,842 |
| 460,970 | - | - | - | - | - | 460,970 |
| - | - | - | - | - | - | 294,956 |
| - | - | - | - | - | - | 2,518,601 |
| 460,970 | 351,436 | - | 3,281,529 | - | 628,589 | 9,677,189 |
| \$ 542,869 | \$ 1,040,819 | \$ 323,538 | \$ 3,403,356 | \$ 49,028 | \$ 2,570,743 | \$ 14,514,900 |

Public Schools of the City of Ann Arbor, Michigan

| | Special Revenue Funds | | | |
|--|-----------------------|--------------------|-------------------|--------------------|
| | Food Services | Recreation | Child Care | Debt Service Funds |
| Revenue | | | | |
| Local sources | \$ 1,610,490 | \$ 3,554,020 | \$ 1,819,472 | \$19,345,771 |
| State sources | 213,160 | - | - | - |
| Federal sources | 2,244,032 | - | - | - |
| Total revenue | 4,067,682 | 3,554,020 | 1,819,472 | 19,345,771 |
| Expenditures | | | | |
| Current: | | | | |
| Support services | 28,808 | - | - | - |
| Food services | 3,434,270 | - | - | - |
| Recreation and child care | - | 3,458,476 | 1,617,418 | - |
| Debt service: | | | | |
| Principal | - | - | - | 11,019,994 |
| Interest | - | - | - | 7,031,445 |
| Other | - | - | - | 280,026 |
| Capital outlay | - | 9,579 | 337 | - |
| Total expenditures | 3,463,078 | 3,468,055 | 1,617,755 | 18,331,465 |
| Excess of Revenue Over (Under) Expenditures | 604,604 | 85,965 | 201,717 | 1,014,306 |
| Other Financing Sources (Uses) | | | | |
| Payment to escrow agent | - | - | - | 36,836,047) |
| Transfers in | - | 1,930 | - | - |
| Transfers out | - | (69,363) | - | - |
| Face value of debt issued | - | - | - | 36,180,989 |
| Total other financing uses | - | (67,433) | - | (655,058) |
| Net Change in Fund Balances | 604,604 | 18,532 | 201,717 | 359,248 |
| Fund Balances - Beginning of year | 71,768 | 2,553,384 | 93,239 | 1,052,173 |
| Fund Balances - End of year | \$ 676,372 | \$2,571,916 | \$ 294,956 | \$1,411,421 |

**Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2015**

| Capital Projects Fund | | | | | | | Total |
|---------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------|----------------------|--------------------|-----------------------------------|
| Millage and Capital Needs | 2006 Bond Building and Site | 2008 Bond Building and Site | 2012 Bond Building and Site | 2005 Sinking Fund | 2010 Sinking Fund | Total | Nonmajor Governmental Funds |
| \$ 437,479 | \$ 146 | \$ 312 | \$ 3,181 | \$ 20 | \$ 7,648,186 | \$ 8,089,324 | \$ 34,419,077 |
| - | - | - | - | - | - | - | 213,160 |
| - | - | - | - | - | - | - | 2,244,032 |
| 437,479 | 146 | 312 | 3,181 | 20 | 7,648,186 | 8,089,324 | 36,876,269 |
| 227,519 | - | - | 6,174 | - | - | 233,693 | 262,501 |
| - | - | - | - | - | - | - | 3,434,270 |
| - | - | - | - | - | - | - | 5,075,894 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | 11,019,994 |
| - | - | - | - | - | - | - | 7,031,445 |
| - | - | - | - | - | - | - | 280,026 |
| 127,945 | 778,352 | 323,537 | 9,192,362 | 75,566 | 9,736,542 | 20,234,304 | 20,244,220 |
| 355,464 | 778,352 | 323,537 | 9,198,536 | 75,566 | 9,736,542 | 20,467,997 | 47,348,350 |
| 82,015 | (778,206) | (323,225) | (9,195,355) | (75,546) | (2,088,356) | 12,378,673) | (10,472,081) |
| - | - | - | - | - | - | - | (36,836,047) |
| - | - | - | - | - | - | - | 1,930 |
| - | - | - | - | - | - | - | (69,363) |
| - | - | - | - | - | - | - | 36,180,989 |
| - | - | - | - | - | - | - | (722,491) |
| 82,015 | (778,206) | (323,225) | (9,195,355) | (75,546) | (2,088,356) | 12,378,673) | (11,194,572) |
| 378,955 | 1,129,642 | 323,225 | 12,476,884 | 75,546 | 2,716,945 | 17,101,197 | 20,871,761 |
| \$ 460,970 | \$ 351,436 | \$ - | \$3,281,529 | \$ - | \$ 628,589 | \$4,722,524 | \$ 9,677,189 |

Public Schools of the City of Ann Arbor, Michigan

| Fiscal Year Ending June 30 | 2006 Bond Debt Payment | | 2008 Bond Debt Payment | | (2012R) 2004 Bond Debt Payment | |
|-------------------------------|------------------------|-------------------|------------------------|---------------------|--------------------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2015 | \$ 2,200,000 | \$ 110,000 | \$ 775,000 | \$ 581,063 | \$ 4,625,000 | \$ 4,273,850 |
| 2016 | - | - | 800,000 | 550,063 | 4,830,000 | 4,088,850 |
| 2017 | - | - | 850,000 | 516,063 | 5,055,000 | 3,847,350 |
| 2018 | - | - | 875,000 | 484,188 | 5,275,000 | 3,645,150 |
| 2019 | - | - | 950,000 | 447,000 | 5,520,000 | 3,381,400 |
| 2020 | - | - | 975,000 | 409,000 | 5,785,000 | 3,116,350 |
| 2021 | - | - | 1,000,000 | 370,000 | 6,065,000 | 2,827,100 |
| 2022 | - | - | 1,000,000 | 320,000 | 6,305,000 | 2,584,500 |
| 2023 | - | - | 1,000,000 | 270,000 | 6,655,000 | 2,269,250 |
| 2024 | - | - | 1,000,000 | 225,000 | 7,000,000 | 1,936,500 |
| 2025 | - | - | 1,000,000 | 180,000 | 7,370,000 | 1,586,500 |
| 2026 | - | - | 1,000,000 | 135,000 | 7,715,000 | 1,218,000 |
| 2027 | - | - | 1,000,000 | 90,000 | 8,080,000 | 832,250 |
| 2028 | - | - | 1,000,000 | 45,000 | 8,565,000 | 428,250 |
| Total | \$ 2,200,000 | \$ 110,000 | \$ 13,225,000 | \$ 4,622,377 | \$ 88,845,000 | \$ 36,035,300 |
| Principal payments due | May 1 | | May 1 | | May 1 | |
| Interest rate | 4.0%-5.0% | | 3.0%-5.0% | | 4.0%-5.0% | |
| Original issue | \$ 60,540,000 | \$ - | \$ 17,730,000 | \$ - | \$ 93,230,000 | \$ - |

**Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2015**

| 2012 Bond Debt Payment | | 2015 Refunding Debt Payment | | 2015 Bond Debt Payment | | Total |
|------------------------|---------------------|-----------------------------|----------------------|------------------------|----------------------|-----------------------|
| Principal | Interest | Principal | Interest | Principal | Interest | |
| \$ 2,205,000 | \$ 761,700 | \$ - | \$ 1,630,527 | \$ 1,200,000 | \$ 1,393,937 | \$ 19,756,077 |
| 2,300,000 | 673,500 | 1,735,000 | 1,486,050 | 2,350,000 | 1,555,250 | 20,368,713 |
| 2,425,000 | 558,500 | 1,795,000 | 1,416,650 | 2,725,000 | 1,461,250 | 20,649,813 |
| 2,030,000 | 437,250 | 1,815,000 | 1,344,850 | 2,725,000 | 1,325,000 | 19,956,438 |
| 2,130,000 | 335,750 | 1,845,000 | 1,272,250 | 3,050,000 | 1,188,750 | 20,120,150 |
| 2,250,000 | 229,250 | 1,895,000 | 1,180,000 | 3,475,000 | 1,036,250 | 20,350,850 |
| 2,335,006 | 116,750 | 1,980,000 | 1,085,250 | 3,775,000 | 862,500 | 20,416,606 |
| - | - | 2,565,000 | 986,250 | 4,225,000 | 673,750 | 18,659,500 |
| - | - | 2,650,000 | 858,000 | 4,500,000 | 462,500 | 18,664,750 |
| - | - | 2,735,000 | 725,500 | 4,750,000 | 237,500 | 18,609,500 |
| - | - | 2,820,000 | 588,750 | - | - | 13,545,250 |
| - | - | 2,905,000 | 447,750 | - | - | 13,420,750 |
| - | - | 2,995,000 | 302,500 | - | - | 13,299,750 |
| - | - | 3,055,000 | 152,750 | - | - | 13,246,000 |
| \$ 15,675,006 | \$ 3,112,700 | \$ 30,790,000 | \$ 13,477,077 | \$ 32,775,000 | \$ 10,196,687 | \$ 251,064,147 |
| May 1 | | May 1 | | May 1 | | |
| 2.0%-5.0% | | 4.0%-5.0% | | 4.0%-5.0% | | |
| \$ 23,830,000 | \$ - | \$ 30,790,000 | \$ - | \$ 32,775,000 | \$ - | \$ 258,895,000 |