

**Public Schools of the City of
Ann Arbor, Michigan**

**Financial Report
with Supplemental Information
June 30, 2017**

Public Schools of the City of Ann Arbor, Michigan

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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 Public Schools of the City of Ann Arbor, Michigan (the "School District") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise 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 Public Schools of the City of Ann Arbor, Michigan as of June 30, 2017 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.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule, and schedules of the School 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 supplemental 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 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 the purpose 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 25, 2017 on our consideration of 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 Public Schools of the City of Ann Arbor, Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 25, 2017

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis

This section of the annual financial report presents our discussion and analysis of Public Schools of the City of Ann Arbor, Michigan's (the "School District") financial performance during the year ended June 30, 2017. Please read it 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 those statements. These statements are organized so the reader can understand the School District financially as a whole. The government-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 longer-term view of those finances. The fund 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 nonmajor funds. The remaining statements, the statement of fiduciary net position and 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. This report is comprised of the following elements:

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

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Schedule of Proportionate Share of the Net Pension Liability

Schedule of the School District's Pension Plan Contributions

Other Supplemental Information

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

Reporting the School District as a Whole - Government-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, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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.

These two statements report the School District's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position - 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 indicators 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 commercial entities do. 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 the 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 Financial Statements

The School District's 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 many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as millage-funded construction funds used for voter-approved capital projects). 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 statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund 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 funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities 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, 2017 and 2016:

TABLE I	Governmental Activities	
	June 30	
	2017	2016
	(in millions)	
Assets		
Current and other assets	\$ 85.6	\$ 91.9
Capital assets	221.9	232.6
Total assets	307.5	324.5
Deferred Outflows of Resources		
Deferred charges on bond refunding	8.6	9.0
Deferred outflows related to pensions	53.2	33.8
Total assets and deferred outflows of resources	369.3	367.3
Liabilities		
Current liabilities	45.6	43.7
Long-term liabilities	503.0	497.4
Total liabilities	548.6	541.1
Deferred Inflows of Resources	11.4	9.6
Total liabilities and deferred inflows of resources	560.0	550.7
Net Position		
Net investment in capital assets	77.3	79.3
Restricted	2.2	2.7
Unrestricted	(270.2)	(265.4)
Total net position	\$ (190.7)	\$ (183.4)

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net deficit was (\$190.7) million at June 30, 2017 compared with (\$183.4) million at June 30, 2016. For June 30, 2017, net investment in capital assets was \$77.3 million compared to \$79.3 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 those net position for day-to-day operations. The remaining amount of net position was unrestricted.

The (\$270.2) million in unrestricted net position of governmental activities at June 30, 2017 represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to 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 2017 and 2016.

TABLE 2

	Governmental Activities	
	2017	2016
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 8.8	\$ 8.4
Operating grants and contributions	66.7	44.8
General revenue:		
Property taxes	108.3	105.6
State foundation allowance	80.1	79.1
Other	6.8	7.1
Total revenue	270.7	245.0

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities	
	2017	2016
	(in millions)	
Functions/Program Expenses		
Instruction	\$ 166.3	\$ 146.1
Support services	89.7	78.2
Community services	0.7	0.6
Food services	4.8	3.8
Athletics	3.7	3.5
Other	5.7	5.2
Interest on long-term debt	7.1	7.2
Total functions/program expenses	278.0	244.6
Change in Net Position	(7.3)	0.4
Net Position - Beginning of year	(183.4)	(183.8)
Net Position - End of year	\$ (190.7)	\$ (183.4)

As reported in the statement of activities, the cost of all of our governmental activities for the fiscal year ended June 30, 2017 was \$278.0 million. For the year ended June 30, 2017, athletics, food service, recreation, and community education and instruction (tuition) were partially funded from those who benefited from the programs (\$8.8 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$66.7 million). The remaining "public benefit" portion of our governmental activities was funded with \$108.3 million in taxes, \$80.1 million in state foundation allowance, and \$6.8 million with our other revenue such as interest, rentals, proceeds on the disposal of assets, and general revenue.

The School District experienced a decrease in net position of \$7.3 million. Some of the key reasons for the change in net position were increased staffing levels at the District based on student needs and the expansion of academic programs and the continued expenditures of bond funds.

The School District's Funds

As we 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 \$56.1 million compared with \$63.1 million from the prior year, which is a decrease of \$7.0 million. The primary reason for the decrease relates to \$3.2 million and \$1.1 million decreases in the 2015 Bond Building and Site Fund and 2015 Technology Bond Fund as projects progressed, a \$1.6 million increase in the General Fund, and a \$1.0 million decrease in nonmajor funds.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

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 revenue (or approximately \$19.9 million) is received in July and August, after the School District's fiscal year end of June 30, 2017, 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 2017. However, the School District's new fiscal operations begin on July 1. An analysis of cash flow requirements indicates that the School District maintains 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 48.7 percent of the School District's total General Fund revenue; tax revenue is approximately 34.2 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 revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were significant revisions made to the 2016-2017 General Fund original budget. Budgeted revenue and other financing sources increased approximately \$20.3 million. The majority of the change was due to \$6.0 million increase in local revenue, a \$5.7 million increase in funding for increased enrollment and a \$8.6 million increase in county-wide funds for special education. Budgeted expenditures and other financing sources increased approximately \$20.3 as a result of the corresponding expenditures to the above amendments for staffing increases and increased operational needs.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the School District had \$471.4 million invested in a broad range of capital assets, including land improvements, buildings, and equipment compared with \$464.6 million from the prior year. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$6.8 million, or 1.5 percent, from last year.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

	2017	2016
	(in millions)	
Land	\$ 2.5	\$ 2.5
Construction in progress	1.2	1.2
Land improvements	31.7	31.6
Buildings and building improvements	394.7	389.4
Vehicles	6.3	5.6
Equipment	<u>35.0</u>	<u>34.3</u>
Total capital assets	471.4	464.6
Less accumulated depreciation	<u>249.5</u>	<u>232.0</u>
Net capital assets	<u>\$ 221.9</u>	<u>\$ 232.6</u>

This year's additions of \$8.3 included vehicles, building construction, building renovations and equipment. Of the \$8.3 million in additions, the majority were financed from the 2015 Bond Fund and the 2010 Sinking Fund. Approximately \$6.6 million of the capital purchases for all funds were not capitalized and were expensed when received. Most of these purchases consisted of routine maintenance and repair and expenditures related to Allen Elementary. 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.

Debt

At the end of this year, the School District had \$160.3 million in bonds outstanding versus \$172.5 million in the previous year - a change of 7.1 percent. Those bonds consisted of the following:

	2017	2016
	(in millions)	
Bonds financed by tax levy	<u>\$ 160.3</u>	<u>\$ 172.5</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, 2017.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2017-2018 fiscal year budget. One of the most important factors affecting the budget is our 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 2017-18 fiscal year is 10 percent and 90 percent of the February 2018 and October 2017 student counts, respectively. The 2017-2018 budget was adopted in May 2017, based on an estimate of students that will be enrolled in September 2017. Based on the unaudited October 2017 count, enrollment is anticipated to be greater than the estimates used in creating the 2017-2018 budget.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

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.

The 2017-2018 original budget assumes that the School District will add approximately \$1,157,000 to fund equity. The School District's General Fund fund equity was \$21.5 million as of June 30, 2016 and is \$19.9 million as of June 30, 2017.

For the 2016-2017 school year, salary and benefits accounted for approximately 80.7 percent of the total operating expenditures. The School District spent \$168.2 million for instructional and instructional support salary and benefits, \$1.4 million for maintenance and transportation salary and benefits, and \$20.9 million for all other General Fund salary and benefits. In addition, the School District spent \$20.6 million for contracted services (maintenance, transportation, legal, consultants, and field trips), \$10.8 million for supplies, materials, and utilities, and \$2.9 million for the School District's athletic programs. The above total costs of \$224.8 million account for over 95.2 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, 2017

	Governmental Activities
Assets	
Cash on hand and in interest-bearing accounts (Note 3)	\$ 18,704,311
Investments (Note 3)	8,728,446
Receivables:	
Taxes receivable	492,544
Accounts receivable	4,012,921
Due from other governmental units	20,079,493
Inventories	41,164
Prepaid costs and other assets	554,094
Restricted assets (Note 12)	33,049,051
Capital assets - Net (Note 6)	<u>221,870,693</u>
Total assets	307,532,717
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 8)	8,620,672
Deferred outflows related to pensions (Note 11)	<u>53,180,796</u>
Total deferred outflows of resources	<u>61,801,468</u>
Total assets and deferred outflows of resources	369,334,185
Liabilities	
Accounts payable and accrued expenses	5,116,262
Accrued payroll-related liabilities:	
Salaries payable	23,717,469
Employee fringe benefits payable	349,674
Unearned revenue (Note 5)	835,612
Noncurrent liabilities (Note 8):	
Due within one year	15,847,869
Due in more than one year	171,459,327
Net pension liability (Note 11)	<u>331,306,659</u>
Total liabilities	548,632,872
Deferred Inflows of Resources (Notes 1 and 11)	<u>11,432,433</u>
Total liabilities and deferred inflows of resources	<u>560,065,305</u>
Net Position	
Net investment in capital assets	77,275,937
Restricted:	
Debt service	255,978
Capital projects	1,908,603
Unrestricted	<u>(270,171,638)</u>
Total net position	<u><u>\$ (190,731,120)</u></u>

Public Schools of the City of Ann Arbor, Michigan

Statement of Activities Year Ended June 30, 2017

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	\$ 166,274,964	\$ 432,766	\$ 38,383,181	\$ (127,459,017)
Support services	89,659,853	-	25,518,127	(64,141,726)
Athletics	3,680,945	945,942	-	(2,735,003)
Food services	4,847,323	1,727,041	2,592,844	(527,438)
Community services	753,025	-	205,068	(547,957)
Recreation and child care	5,663,698	5,709,637	-	45,939
Interest on long-term debt	6,915,389	-	-	(6,915,389)
Debt issuance costs	155,045	-	-	(155,045)
Depreciation expense (unallocated)	24,035	-	-	(24,035)
Total primary government	<u>\$ 277,974,277</u>	<u>\$ 8,815,386</u>	<u>\$ 66,699,220</u>	(202,459,671)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				79,632,310
Property taxes, levied for debt service				20,388,369
Property taxes, levied for sinking fund				8,324,719
State aid not restricted to specific purposes				80,116,049
Interest and investment earnings				342,078
Gain on the sale of capital assets				54,200
Other				6,279,457
Total general revenue				<u>195,137,182</u>
Change in Net Position				(7,322,489)
Net Position - Beginning of year				<u>(183,408,631)</u>
Net Position - End of year				<u>\$ (190,731,120)</u>

Public Schools of the City of Ann Arbor, Michigan

Governmental Funds Balance Sheet June 30, 2017

	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)	\$ 13,329,996	\$ -	\$ -	\$ 5,374,315	\$ 18,704,311
Investments (Note 3)	8,726,380	-	-	2,066	8,728,446
Receivables:					
Taxes receivable	492,544	-	-	-	492,544
Accounts receivable	3,722,094	-	-	290,827	4,012,921
Due from other governmental units	20,079,493	-	-	-	20,079,493
Due from other funds (Note 7)	1,631,700	-	-	300,670	1,932,370
Inventories	-	-	-	41,164	41,164
Prepaid costs and other assets	531,354	-	-	22,740	554,094
Restricted assets (Note 12)	-	9,432,968	18,385,021	5,231,062	33,049,051
Total assets	\$ 48,513,561	\$ 9,432,968	\$ 18,385,021	\$ 11,262,844	\$ 87,594,394
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable and accrued expenses	\$ 2,167,893	\$ -	\$ 22,870	\$ 986,750	\$ 3,177,513
Accrued payroll-related liabilities:					
Salaries payable	23,654,493	-	-	62,976	23,717,469
Payroll taxes and withholding payable	349,674	-	-	-	349,674
Due to other funds (Note 7)	856,204	-	-	1,631,700	2,487,904
Unearned revenue (Note 5)	680,261	-	-	155,351	835,612
Total liabilities	27,708,525	-	22,870	2,836,777	30,568,172
Deferred Inflows of Resources - Unavailable revenue (Note 5)	924,284	-	-	-	924,284
Total liabilities and deferred inflows of resources	28,632,809	-	22,870	2,836,777	31,492,456
Fund Balances					
Nonspendable:					
Inventory	-	-	-	41,164	41,164
Prepaid assets	531,354	-	-	22,740	554,094
Restricted:					
Capital projects	-	9,432,968	18,362,151	2,972,975	30,768,094
Debt service	-	-	-	1,639,193	1,639,193
Committed:					
Capital projects	-	-	-	412,628	412,628
Child care	-	-	-	884,163	884,163
Recreation	-	-	-	2,494,368	2,494,368
Unassigned	19,349,398	-	-	(41,164)	19,308,234
Total fund balances	19,880,752	9,432,968	18,362,151	8,426,067	56,101,938
Total liabilities, deferred inflows of resources, and fund balances	\$ 48,513,561	\$ 9,432,968	\$ 18,385,021	\$ 11,262,844	\$ 87,594,394

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, 2017

Fund Balance Reported in Governmental Funds \$ 56,101,938

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	\$ 471,365,142	
Accumulated depreciation	<u>(249,494,449)</u>	221,870,693

Deferred outflows related to pension payments made subsequent to the measurement date		53,180,796
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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	(182,074,919)	
Compensated absences	(5,191,528)	
Self-insurance liability	<u>(40,749)</u>	(187,307,196)

Accrued interest payable is not included as a liability in governmental funds		(1,383,215)
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Deferred outflows of resources (deferred charges on refunding) are not reported in the governmental funds		8,620,672
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Deferred inflows of resources (unavailable revenue) not available to benefit the current period are not reported in the statement of net position		924,284
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Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(331,306,659)
--	--	---------------

Deferred inflows related to pension investment returns, changes in assumptions, and revenue in support of pension payments made subsequent to measurement date are not reported in the governmental funds		<u>(11,432,433)</u>
---	--	---------------------

Net Position of Governmental Activities \$ (190,731,120)

Public Schools of the City of Ann Arbor, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2017

	General Fund	2015 Technology Bond Fund	2015 Building and Site Bond Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Local sources	\$ 87,135,592	\$ 59,636	\$ 163,360	\$ 36,518,042	\$ 123,876,630
State sources	113,392,098	-	-	211,591	113,603,689
Federal sources	6,257,458	-	-	2,403,934	8,661,392
Interdistrict sources	26,216,090	-	-	-	26,216,090
Total revenue	233,001,238	59,636	163,360	39,133,567	272,357,801
Expenditures					
Current:					
Instruction	141,276,649	-	-	-	141,276,649
Support services	87,778,309	-	-	62,932	87,841,241
Athletics	3,656,929	-	-	-	3,656,929
Food services	-	-	-	4,846,824	4,846,824
Community services	748,578	-	-	-	748,578
Recreation and child care	-	-	-	5,632,859	5,632,859
Debt service:					
Principal	-	-	-	12,015,000	12,015,000
Interest	-	-	-	8,353,809	8,353,809
Other	-	-	-	284,045	284,045
Capital outlay	1,698,431	1,201,706	3,356,936	8,619,532	14,876,605
Total expenditures	235,158,896	1,201,706	3,356,936	39,815,001	279,532,539
Excess of Expenditures Over Revenue	(2,157,658)	(1,142,070)	(3,193,576)	(681,434)	(7,174,738)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	54,200	-	-	-	54,200
Payment to escrow agent	-	-	-	(9,846,415)	(9,846,415)
Transfers in (Note 7)	476,188	-	128	-	476,316
Transfers out (Note 7)	-	-	-	(476,316)	(476,316)
Face value of debt issued	-	-	-	9,485,000	9,485,000
Premium on debt issued	-	-	-	514,710	514,710
Total other financing sources (uses)	530,388	-	128	(323,021)	207,495
Net Change in Fund Balances	(1,627,270)	(1,142,070)	(3,193,448)	(1,004,455)	(6,967,243)
Fund Balances - Beginning of year	21,508,022	10,575,038	21,555,599	9,430,522	63,069,181
Fund Balances - End of year	\$19,880,752	\$ 9,432,968	\$18,362,151	\$ 8,426,067	\$ 56,101,938

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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ (6,967,243)

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	\$ (19,025,543)	
Capitalized capital outlay	<u>8,258,440</u>	(10,767,103)

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 205,347

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities (9,485,000)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 21,655,000

Underwriter's discount/premium and deferred refunding charged reported as expenditures/revenue in the funds and amortized in the statement of activities 1,250,055

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 9,070

Change in pension expense related to deferred items (1,256,829)

Compensated absences, as well as self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was earned than paid out (226)

Revenue in support of pension contributions made subsequent to the measurement date (1,965,560)

Change in Net Position of Governmental Activities \$ (7,322,489)

Public Schools of the City of Ann Arbor, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2017

	Private Purpose Trust Fund	Student Activities Agency Fund
Assets		
Cash and investments (Note 3)	\$ 237,452	\$ 1,737,387
Due from other funds (Note 7)	500	555,034
Receivables	-	150
Total assets	237,952	2,292,571
Liabilities		
Accounts payable	-	269,830
Due to student groups	-	2,022,741
Total liabilities	-	2,292,571
Net Position	\$ 237,952	\$ -

Public Schools of the City of Ann Arbor, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended June 30, 2017

	Private Purpose Trust Fund
	<u> </u>
Additions	
Private donations	\$ 20,500
Interest	<u>160</u>
Total additions	20,660
Deductions	<u>19,500</u>
Change in Net Position	1,160
Net Position - Beginning of year	<u>236,792</u>
Net Position - End of year	<u><u>\$ 237,952</u></u>

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of 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 the School District's 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 nonfiduciary 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, 2017

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 revenue to be available if it is 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, 2017

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, 2017

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.”

All 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, 2017, the delinquent property taxes receivable totaled \$492,544, which was considered an unavailable deferred inflow.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. 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 government-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 are 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, 2017

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 financial 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 if purchased or constructed. Donated capital assets are recorded at acquisition 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 earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in 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, 2017

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position reports deferred outflows of resources, which represents a consumption of net position or fund balance that applies to a future period and will not be recognized as an outflow of resources (expenditure) until then. The School District reports deferred outflows related to pensions and deferred charges relating to bond 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 reports deferred inflows of resources, which 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 has three 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. The third item relates to state funding in support of pension plan payments in the amount of \$10,416,730.

Fund Balance - 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 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, 2017

Note 1 - 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/Reclassifications - 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.

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, 2017

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 15 percent of the total operating costs of the School District. As of June 30, 2017, total operating costs and unassigned fund balance of the General Fund are \$236,206,717 and \$19,880,752, respectively. The unassigned fund balance necessary to adhere to the Board of Education policy is approximately \$35,400,000.

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 maintains 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 and 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, 2017

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:

	Budget	Actual
General Fund - Instruction	\$ 140,205,240	\$ 141,415,093
General Fund - Support services - Pupil	25,881,578	26,392,264
General Fund - Support services - General administration	2,249,937	2,560,933
General Fund - Support services - School administration	13,494,845	14,004,482
General Fund - Support services - Pupil transportation services	7,750,346	8,170,637
General Fund - Athletics	3,481,797	3,671,073
General Fund - Facilities, construction, improvements	700,000	940,654

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 2010 Sinking Fund accounts 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.

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, 2017

Note 3 - Cash and Investments (Continued)

There are no limitations or restrictions on participant withdrawals for investment pools that are recorded at amortized cost, except for a one-day minimum investment period on MILAF cash management funds and a 14-day redemption limitation on MILAF MAX Class funds.

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 \$26,346,106 had \$25,846,106 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.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

Note 3 - Cash and Investments (Continued)

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	\$ 39,030,362	Not required	AAAm	S&P
MBIA Class	<u>536,594</u>	Not required	AAAm	S&P
Total	<u>\$ 39,566,956</u>			

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, 2017, 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 - Fair Value Measurement

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

At June 30, 2017, the School District has \$536,594 invested in the MBIA Class Pool. This investment is measured at fair value using the net asset per share (or its equivalent) as a practical expedient and is not classified in the fair value hierarchy. The investment pool had no unfunded commitments. The MBIA Class Pool has no specific redemption date and no redemption fees that would apply.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

Note 4 - Fair Value Measurement (Continued)

The investment pool includes investments in pools which the School District does not control. The investment pool invests primarily in high-quality money market instruments including certificate of deposits, commercial paper, and U.S. government and agency obligations to protect the investment principal and provide liquidity. The fair value of the investment pool has been estimated using the net asset value per share of the investment pool. The School District has no other assets or liabilities measured at fair value at June 30, 2017.

Note 5 - 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	\$ 338,979	\$ -
Delinquent property taxes and other receivables not available to finance 2016-2017 operations	585,305	-
Grant, categorical aid, tuition, and food services program payments received prior to meeting all eligibility requirements	-	835,612
Total	<u>\$ 924,284</u>	<u>\$ 835,612</u>

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

Note 6 - Capital Assets

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

	Balance July 1, 2016	Additions	Disposals and Adjustments	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 2,477,822	\$ -	\$ -	\$ 2,477,822
Construction in progress	1,237,671	-	-	1,237,671
Subtotal	3,715,493	-	-	3,715,493
Capital assets being depreciated:				
Land improvements	31,592,541	89,355	-	31,681,896
Buildings and building improvements	389,372,195	5,346,381	-	394,718,576
Equipment	34,295,407	678,007	-	34,973,414
Vehicles	5,649,992	2,144,697	1,518,926	6,275,763
Subtotal	460,910,135	8,258,440	1,518,926	467,649,649
Accumulated depreciation:				
Land improvements	16,525,070	1,566,256	-	18,091,326
Buildings and building improvements	192,289,764	12,009,590	-	204,299,354
Equipment	20,307,664	4,603,158	-	24,910,822
Vehicles	2,865,334	846,539	1,518,926	2,192,947
Subtotal	231,987,832	19,025,543	1,518,926	249,494,449
Net capital assets being depreciated	228,922,303	(10,767,103)	-	218,155,200
Net capital assets	\$ 232,637,796	\$ (10,767,103)	\$ -	\$ 221,870,693

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

Governmental activities:

Instruction	\$ 17,488,885
Support services	1,512,623
Unallocated	24,035
Total	\$ 19,025,543

Construction Commitments - The School District has active construction projects at year end. At June 30, 2017, the School District's commitments with contractors and vendors totaled approximately \$9,950,000.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due From	Fund Due To			Total
	General Fund	Nonmajor Governmental Funds	Fiduciary Funds	
General Fund	\$ -	\$ 300,670	\$ 555,534	\$ 856,204
Nonmajor governmental funds	1,631,700	-	-	1,631,700
Total	\$ 1,631,700	\$ 300,670	\$ 555,534	\$ 2,487,904

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Transfer activity for the year ended June 30, 2017 is as follows:

Transfers To	Transfers Out
	Nonmajor Governmental Funds
General Fund	\$ 476,188
2015 Bond Building and Site Bond Fund	128
Total	\$ 476,316

Transfers to 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. Transfers to the 2015 Building and Site Bond Fund represent transfers made to reallocate similarly restricted capital project funds.

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.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

Note 8 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds - Principal	\$ 172,505,006	\$ 9,485,000	\$ 21,655,000	\$ 160,335,006	\$ 13,340,000
Bond premiums	23,419,009	514,710	2,193,806	21,739,913	2,233,120
Total bonds payable	195,924,015	9,999,710	23,848,806	182,074,919	15,573,120
Termination pay	3,745,353	-	153,862	3,591,491	154,000
Accumulated vacation pay	520,934	105,126	-	626,060	50,000
Sick leave	945,959	28,018	-	973,977	30,000
Workers' compensation	19,805	20,944	-	40,749	40,749
Total governmental activities	<u>\$ 201,156,066</u>	<u>\$ 10,153,798</u>	<u>\$ 24,002,668</u>	<u>\$ 187,307,196</u>	<u>\$ 15,847,869</u>

At June 30, 2017, the School District had deferred outflows of \$8,620,672 related to deferred charges on bond refundings.

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2018	\$ 13,340,000	\$ 7,590,966	\$ 20,930,966
2019	12,720,000	7,028,338	19,748,338
2020	13,540,000	6,417,050	19,957,050
2021	14,195,000	5,775,150	19,970,150
2022	14,890,006	5,089,100	19,979,106
2023 - 2027	67,045,000	15,261,750	82,306,750
2028 - 2029	24,605,000	1,801,700	26,406,700
Total	<u>\$ 160,335,006</u>	<u>\$ 48,964,054</u>	<u>\$ 209,299,060</u>

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

Note 8 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following at June 30, 2017:

2008 Issuance - \$17,730,000 serial bonds due in installments of \$285,000 to \$875,000 through May 1, 2020; interest from 3.0 to 5.0 percent	\$ 2,010,000
2012 Refunding - \$93,230,000 serial bonds due in installments of \$5,055,000 to \$8,565,000 through May 1, 2029; interest from 4.0 to 5.0 percent	79,390,000
2012 Issuance - \$23,830,000 serial bonds due in installments of \$2,030,000 to \$2,425,000 through May 1, 2022; interest from 4.0 to 5.0 percent	11,170,006
2015 Refunding - \$30,790,000 serial bonds due in installments of \$1,795,000 to \$3,055,000 through May 1, 2029; interest from 4.0 to 5.0 percent	29,055,000
2015 Issuance - \$32,775,000 serial bonds due in installments of \$2,725,000 to \$4,750,000 through May 1, 2022; interest from 4.0 to 5.0 percent	29,225,000
2017 Refunding - \$9,485,000 serial bonds due in installments of \$490,000 to \$1,000,000 through May 1, 2029; interest from 2.0 to 3.0 percent	<u>9,485,000</u>
Total bonded debt	<u>\$ 160,335,006</u>

Advance Refundings - During the year, the School District issued \$9,485,000 in general obligation bonds with an average interest rate of 2.45 percent. The proceeds of these bonds were used to advance refund \$9,640,000 of outstanding 2008 School Building and Site Bonds with an average interest rate of 4.40 percent. The net proceeds of \$9,975,415 (after payment of \$153,295 in underwriting fees and other issuance costs) plus an additional \$129,000 in a contribution from the debt fund 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 \$1,515,000, which represents an economic gain of \$1,340,000. At June 30, 2017 \$9,640,000 of bonds outstanding are considered defeased.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

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 \$153,862 for the year ended June 30, 2017.

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 noninstructor 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 \$619,298 for the year ended June 30, 2017.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

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>2017</u>	<u>2016</u>
Potential claims, including IBNR, beginning of year	\$ 19,805	\$ 1,181,632
Increase (decrease) in estimated liability - Net of claims incurred and claims paid	<u>20,944</u>	<u>(1,161,827)</u>
Estimated liability - End of year	<u>\$ 40,749</u>	<u>\$ 19,805</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.

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 over assessment, 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). Management is unable to estimate the amount in property tax revenue which could be subject to refund if the tax tribunal determines that an over assessment 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.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

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

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.

The School District's 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

October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - June 30, 2017	15.27% - 19.03%

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 contribution to the plan for the year ended June 30, 2017 was \$32,805,598. The School District required and actual contributions include an allocation of \$10,416,730 revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2017.

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.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

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

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 nonduty 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.

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, 2017, the School District reported a liability of \$331,306,659 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, which used updated procedures to roll forward the estimated liability to September 30, 2016. 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, 2016 the School District's proportion was 1.32793 percent.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

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

For the year ended June 30, 2017, the School District recognized pension expense of \$34,706,195, exclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 4,128,956	\$ (785,205)
Changes of assumptions	5,179,720	-
Net difference between projected and actual earnings on pension plan assets	5,506,314	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	11,352,253	(230,498)
The School District's contributions subsequent to the measurement date	<u>27,013,553</u>	<u>-</u>
Total	<u>\$ 53,180,796</u>	<u>\$ (1,015,703)</u>

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
2018	\$ 5,737,550
2019	5,304,604
2020	11,027,273
2021	3,082,113
2021	-
Thereafter	<u>-</u>
Total	<u>\$ 25,151,540</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.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

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

Actuarial Assumptions - The total pension liability as of September 30, 2016 is based on the results of an actuarial valuation date of September 30, 2015 and rolled forward:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 to 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost-of-living pension adjustments	3 percent annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

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.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

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

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	28.0 %	5.9 %
Private equity pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.5	0.9
Real estate and infrastructure pools	10.0	4.3
Real return, opportunistic, and absolute pool	15.5	6.0
Short-term investment pools	2.0	-
Total	100.0 %	

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent. As a result, the actuarial computed employer contributions and the net pension liability will increase for the measurement period ending on September 30, 2017.

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. The following also reflects 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 (6.0 - 7.0 percent) or 1.00 percentage point higher (8.0 - 9.0 percent) than the current rate:

1.00 Percent Decrease (6.0 - 7.0 Percent)	Current Discount Rate (7.0 - 8.0 Percent)	1.00 Percent Increase (8.0 - 9.0 Percent)
\$ 426,639,584	\$ 331,306,659	\$ 250,931,837

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

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

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

Payable to the Pension Plan - At June 30, 2017, the School District reported a payable of \$6,335,531 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

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 2.2 percent to 2.71 percent of covered payroll for the period from July 1, 2016 to September 30, 2016 and from 6.4 percent to 6.83 percent of covered payroll for the period from October 1, 2016 through June 30, 2017 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 403(b) account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were approximately \$7,023,110, \$5,945,000, and \$3,709,000, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

Note 12 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent bond proceeds and related interest	\$ 28,882,361
Unspent debt service property taxes levied	1,564,418
Unspent sinking fund property taxes levied	<u>2,602,272</u>
Total restricted assets	<u>\$ 33,049,051</u>

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

Note 13 - Tax Abatements

The School District receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) and Brownfield Redevelopment Agreements granted by cities, villages, and townships within the boundaries of the School District. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2017, the School District's property tax revenue was reduced by approximately \$790,000 under these programs.

The School District is reimbursed for lost revenue caused by tax abatements on the operating millage of nonhomestead properties from the State of Michigan under the School Aid formula. The School District received approximately \$690,000 in reimbursements from the State of Michigan. The School District is not reimbursed for lost revenue from the sinking fund or debt service millages. There are no abatements made by the School District.

Note 14 - Upcoming Accounting Pronouncements

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 supplemental 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.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. 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, 2020.

Public Schools of the City of Ann Arbor, Michigan

Notes to Financial Statements June 30, 2017

Note 14 - Upcoming Accounting Pronouncements (Continued)

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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 Districts' financial statements for the year ending June 30, 2021.

Required Supplemental Information

Public Schools of the City of Ann Arbor, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	Original Budget May 25, 2016	Final Budget May 24, 2017	Actual June 30, 2017	Variance (Under) Over
Revenue				
Local sources	\$ 81,586,058	\$ 87,641,320	\$ 87,135,592	\$ (505,728)
State sources	106,955,733	112,638,880	113,392,098	753,218
Federal sources	8,762,312	8,816,270	6,257,458	(2,558,812)
Interdistrict sources	17,737,000	26,246,600	26,216,090	(30,510)
Total revenue	215,041,103	235,343,070	233,001,238	(2,341,832)
Expenditures - Current				
Instruction	131,432,134	140,205,240	141,415,093	1,209,853
Support services:				
Pupil	24,391,822	25,881,578	26,392,264	510,686
Instructional staff	10,496,497	12,158,810	11,553,591	(605,219)
General administration	1,825,541	2,249,937	2,560,933	310,996
School administration	13,034,783	13,494,845	14,004,482	509,637
Business	2,093,664	2,119,148	1,904,891	(214,257)
Operations and maintenance	16,099,158	20,829,165	18,682,859	(2,146,306)
Pupil transportation services	6,501,988	7,750,346	8,170,637	420,291
Central	4,670,783	5,253,701	5,113,841	(139,860)
Total support services	79,114,236	89,737,530	88,383,498	(1,354,032)
Athletics	3,481,797	3,481,797	3,671,073	189,276
Facilities, construction, improvements	-	700,000	940,654	240,654
Community services	730,370	937,561	748,578	(188,983)
Total expenditures	214,758,537	235,062,128	235,158,896	96,768
Excess of Revenue Over (Under)				
Expenditures	282,566	280,942	(2,157,658)	(2,438,600)
Other Financing Sources				
Proceeds from sale of capital assets	-	-	54,200	54,200
Transfers in	70,000	-	476,188	476,188
Total other financing sources	70,000	-	530,388	530,388
Net Change in Fund Balance	352,566	280,942	(1,627,270)	(1,908,212)
Fund Balance - Beginning of year	21,508,022	21,508,022	21,508,022	-
Fund Balance - End of year	\$ 21,860,588	\$ 21,788,964	\$ 19,880,752	\$ (1,908,212)

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

	2016	2015	2014
School District's proportion of the net pension liability (asset)	1.32793 %	1.27127 %	1.26546 %
School District's proportionate share of the net pension liability (asset)	\$ 331,306,659	\$ 310,508,345	\$ 278,734,374
School District's covered employee payroll	114,252,448	104,701,750	102,370,153
School District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	289.98 %	296.56 %	272.28 %
Plan fiduciary net position as a percentage of the total pension liability	63.01 %	62.92 %	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

	2017	2016	2015
Statutorily required contribution	\$ 32,516,905	\$ 29,618,370	\$ 21,769,845
Contributions in relation to the statutorily required contribution	32,516,905	29,618,370	21,769,845
Contribution deficiency (excess)	-	-	-
School District's covered employee payroll	116,978,719	106,641,677	101,096,608
Contributions as a percentage of covered employee payroll	27.80 %	27.77 %	21.53 %

Public Schools of the City of Ann Arbor, Michigan

Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2017

Benefit Changes - There were no changes of benefit terms for the plan year ended September 30, 2016.

Changes in Assumptions - There were no changes of benefit assumptions for the plan year ended September 30, 2016.

Changes in Size or Composition of the Covered Population - There were no significant changes in size or composition of the covered population in 2016.

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	\$ 1,106,280	\$ 2,337,993	\$ 1,114,643	\$ -
Investments	-	-	-	-
Accounts receivable	124,661	136,791	10,563	-
Due from other funds	-	211,772	-	74,775
Inventories	41,164	-	-	-
Prepaid costs and other assets	-	22,740	-	-
Restricted assets	-	-	-	1,564,418
Total assets	\$ 1,272,105	\$ 2,709,296	\$ 1,125,206	\$ 1,639,193
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued expenses	\$ 166,932	\$ 82,703	\$ 10,511	\$ -
Accrued payroll-related liabilities	-	33,271	29,705	-
Due to other funds	1,026,036	-	200,827	-
Unearned revenue	79,137	76,214	-	-
Total liabilities	1,272,105	192,188	241,043	-
Fund Balances				
Nonspendable:				
Inventory	41,164	-	-	-
Prepaid assets	-	22,740	-	-
Restricted:				
Capital projects	-	-	-	-
Debt service	-	-	-	1,639,193
Committed:				
Capital projects	-	-	-	-
Child care	-	-	884,163	-
Recreation	-	2,494,368	-	-
Unassigned	(41,164)	-	-	-
Total fund balances	-	2,517,108	884,163	1,639,193
Total liabilities and fund balances	\$ 1,272,105	\$ 2,709,296	\$ 1,125,206	\$ 1,639,193

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017**

Capital Projects Fund				Total
Millage and Capital Needs	2006 Bond Building and Site	2012 Bond Building and Site	2010 Sinking Fund	Nonmajor Governmental Funds
\$ 815,399	\$ -	\$ -	\$ -	\$ 5,374,315
2,066	-	-	-	2,066
-	-	-	18,812	290,827
-	-	-	14,123	300,670
-	-	-	-	41,164
-	-	-	-	22,740
-	-	1,064,372	2,602,272	5,231,062
\$ 817,465	\$ -	\$ 1,064,372	\$ 2,635,207	\$ 11,262,844

\$ -	\$ -	\$ -	\$ 726,604	\$ 986,750
-	-	-	-	62,976
404,837	-	-	-	1,631,700
-	-	-	-	155,351
404,837	-	-	726,604	2,836,777
-	-	-	-	41,164
-	-	-	-	22,740
-	-	1,064,372	1,908,603	2,972,975
-	-	-	-	1,639,193
412,628	-	-	-	412,628
-	-	-	-	884,163
-	-	-	-	2,494,368
-	-	-	-	(41,164)
412,628	-	1,064,372	1,908,603	8,426,067
\$ 817,465	\$ -	\$ 1,064,372	\$ 2,635,207	\$ 11,262,844

Public Schools of the City of Ann Arbor, Michigan

	Special Revenue Funds			
	Food Services	Recreation	Child Care	Debt Service Funds
Revenue				
Local sources	\$ 1,727,041	\$ 3,750,400	\$ 2,120,614	\$20,425,386
State sources	211,591	-	-	-
Federal sources	2,403,934	-	-	-
Total revenue	4,342,566	3,750,400	2,120,614	20,425,386
Expenditures				
Current:				
Support services	45,042	1,849	-	-
Food services	4,846,824	-	-	-
Recreation and child care	-	3,778,576	1,854,283	-
Debt service:				
Principal	-	-	-	12,015,000
Interest	-	-	-	8,353,809
Other	-	-	-	284,045
Capital outlay	25,529	20,809	10,030	-
Total expenditures	4,917,395	3,801,234	1,864,313	20,652,854
Excess of Revenue (Under) Over Expenditures	(574,829)	(50,834)	256,301	(227,468)
Other Financing (Uses) Sources				
Payment to escrow agent	-	-	-	(9,846,415)
Transfers out	-	(76,188)	-	-
Face value of debt issued	-	-	-	9,485,000
Premium on debt issued	-	-	-	514,710
Total other financing (uses) sources	-	(76,188)	-	153,295
Net Change in Fund Balances	(574,829)	(127,022)	256,301	(74,173)
Fund Balances - Beginning of year	574,829	2,644,130	627,862	1,713,366
Fund Balances - End of year	<u>\$ -</u>	<u>\$2,517,108</u>	<u>\$ 884,163</u>	<u>\$1,639,193</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2017

Capital Projects Fund				Total
Millage and Capital Needs	2006 Bond Building and Site	2012 Bond Building and Site	2010 Sinking Fund	Nonmajor Governmental Funds
\$ 137,776	\$ -	\$ 8,842	\$ 8,347,983	\$ 36,518,042
-	-	-	-	211,591
-	-	-	-	2,403,934
<u>137,776</u>	<u>-</u>	<u>8,842</u>	<u>8,347,983</u>	<u>39,133,567</u>
				-
16,041	-	-	-	62,932
-	-	-	-	4,846,824
-	-	-	-	5,632,859
-	-	-	-	-
-	-	-	-	12,015,000
-	-	-	-	8,353,809
-	-	-	-	284,045
<u>-</u>	<u>-</u>	<u>323,336</u>	<u>8,239,828</u>	<u>8,619,532</u>
<u>16,041</u>	<u>-</u>	<u>323,336</u>	<u>8,239,828</u>	<u>39,815,001</u>
121,735	-	(314,494)	108,155	(681,434)
-	-	-	-	(9,846,415)
(400,000)	(128)	-	-	(476,316)
-	-	-	-	9,485,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>514,710</u>
<u>(400,000)</u>	<u>(128)</u>	<u>-</u>	<u>-</u>	<u>(323,021)</u>
(278,265)	(128)	(314,494)	108,155	(1,004,455)
<u>690,893</u>	<u>128</u>	<u>1,378,866</u>	<u>1,800,448</u>	<u>9,430,522</u>
<u>\$ 412,628</u>	<u>\$ -</u>	<u>\$ 1,064,372</u>	<u>\$ 1,908,603</u>	<u>\$ 8,426,067</u>

Public Schools of the City of Ann Arbor, Michigan

Fiscal Year Ending June 30	2008 Bond Debt Payment		(2012R) 2004 Bond Debt Payment		2012 Bond Debt Payment	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 850,000	\$ 80,463	\$ 5,055,000	\$ 3,847,350	\$ 2,425,000	\$ 558,500
2019	875,000	48,588	5,275,000	3,645,150	2,030,000	437,250
2020	285,000	11,400	5,520,000	3,381,400	2,130,000	335,750
2021	-	-	5,785,000	3,116,350	2,250,000	229,250
2022	-	-	6,065,000	2,827,100	2,335,006	116,750
2023	-	-	6,305,000	2,584,500	-	-
2024	-	-	6,655,000	2,269,250	-	-
2025	-	-	7,000,000	1,936,500	-	-
2026	-	-	7,370,000	1,586,500	-	-
2027	-	-	7,715,000	1,218,000	-	-
2028	-	-	8,080,000	832,250	-	-
2029	-	-	8,565,000	428,250	-	-
Total	\$ 2,010,000	\$ 140,451	\$ 79,390,000	\$ 27,672,600	\$ 11,170,006	\$ 1,677,500
Principal payments due	May 1		May 1		May 1	
Interest rate	3.0%-5.0%		4.0%-5.0%		4.0%-5.0%	
Original issue	\$ 17,730,000	\$ -	\$ 93,230,000	\$ -	\$ 23,830,000	\$ -

**Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2017**

2015 Refunding Debt Payment		2015 Bond Debt Payment		2017 Refunding		Total
Principal	Interest	Principal	Interest	Principal	Interest	
\$ 1,795,000	\$ 1,416,650	\$ 2,725,000	\$ 1,461,250	\$ 490,000	\$ 226,753	\$ 20,930,966
1,815,000	1,344,850	2,725,000	1,325,000	-	227,500	19,748,338
1,845,000	1,272,250	3,050,000	1,188,750	710,000	227,500	19,957,050
1,895,000	1,180,000	3,475,000	1,036,250	790,000	213,300	19,970,150
1,980,000	1,085,250	3,775,000	862,500	735,000	197,500	19,979,106
2,565,000	986,250	4,225,000	673,750	1,000,000	182,800	18,522,300
2,650,000	858,000	4,500,000	462,500	1,000,000	162,800	18,557,550
2,735,000	725,500	4,750,000	237,500	1,000,000	142,800	18,527,300
2,820,000	588,750	-	-	900,000	112,800	13,378,050
2,905,000	447,750	-	-	950,000	85,800	13,321,550
2,995,000	302,500	-	-	955,000	57,300	13,222,050
3,055,000	152,750	-	-	955,000	28,650	13,184,650
\$ 29,055,000	\$ 10,360,500	\$ 29,225,000	\$ 7,247,500	\$ 9,485,000	\$ 1,865,503	\$ 209,299,060
May 1		May 1		May 1		
4.0%-5.0%		4.0%-5.0%		2.0-3.0%		
\$ 30,790,000	\$ -	\$ 32,775,000	\$ -	\$ 9,485,000	\$ -	\$ 207,840,000