
Public Schools of the City of Ann Arbor, Michigan

**Financial Report
with Supplemental Information
June 30, 2018**

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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, 2018 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.

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, 2018 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.

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

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, as of July 1, 2017, the School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The School District's unrestricted net position has been restated as of July 1, 2017 as a result of this change in accounting principle. Our opinion is not modified with respect to this matter.

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 the schedules of the School District's contributions and share of the net pension and OPEB liabilities, as defined 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 an opinion on the financial statements that collectively comprise Public Schools of the City of Ann Arbor, Michigan's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates 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 other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2018 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.



October 26, 2018

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis

This section of Public Schools of the City of Ann Arbor, Michigan's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2018. 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 financial statements. These statements are organized so the reader can understand Public Schools of the City of Ann Arbor, Michigan 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 and the 2010 Sinking 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 composed 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 Financial Statements

Required Supplemental Information

Budgetary Information for the General Fund

Schedules of the School District's Proportionate Share of the Net Pension and Net OPEB Liabilities

Schedules of Pension and OPEB 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, athletics, 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 Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects).

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 determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

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 separate statements of fiduciary net position and changes in 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.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. The following table provides a summary of the School District's net position as of June 30, 2018 and 2017:

	Governmental Activities	
	2018	2017
	(in millions)	
Assets		
Current and other assets	\$ 90.8	\$ 85.6
Capital assets	219.5	221.9
Total assets	310.3	307.5
Deferred Outflows of Resources	113.0	61.8
Liabilities		
Current liabilities	35.7	30.0
Noncurrent liabilities	185.3	187.3
Net pension liability	364.9	331.3
Net OPEB obligation	124.5	-
Total liabilities	710.4	548.6
Deferred Inflows of Resources	38.6	11.4
Net Position		
Net investment in capital assets	74.5	77.3
Restricted	5.2	2.2
Unrestricted	(405.4)	(270.2)
Total net position	<u>\$ (325.7)</u>	<u>\$ (190.7)</u>

The above analysis focuses on net position. The change in net position of the School District's governmental activities is discussed below. The School District's net position was \$(325.7) million at June 30, 2018. Net investment in capital assets totaling \$74.5 million compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position (\$(405.4) million) was unrestricted.

The \$(405.4) million in unrestricted net position of governmental activities 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.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2018 and 2017:

	Governmental Activities	
	2018	2017
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 9.2	\$ 8.8
Operating grants	80.3	66.7
General revenue:		
Taxes	123.8	108.3
State aid not restricted to specific purposes	86.3	80.1
Other	7.1	6.8
Total revenue	<u>306.7</u>	<u>270.7</u>
Expenses		
Instruction	194.5	166.1
Support services	100.7	90.1
Athletics	3.0	3.4
Food services	4.2	4.8
Community services	0.9	0.7
Interest on long-term debt	6.3	7.1
Other	6.0	5.7
Total expenses	<u>315.6</u>	<u>277.9</u>
Change in Net Position	(8.9)	(7.2)
Net Position - Beginning of year, as previously reported	(190.7)	(183.4)
Cumulative Effect of Change in Accounting	<u>(126.1)</u>	<u>-</u>
Net Position - Beginning of year	<u>(316.8)</u>	<u>(183.4)</u>
Net Position - End of year	<u><u>\$ (325.7)</u></u>	<u><u>\$ (190.6)</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$315.6 million. Certain activities were partially funded from those who benefited from the programs (\$9.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$80.3 million). We paid for the remaining "public benefit" portion of our governmental activities with \$123.8 million in taxes, \$86.3 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements).

The School District experienced a decrease in net position of \$(8.9) million. A key reason for the change in net position was excess of expenditures over revenue during the current year.

As required by the Governmental Accounting Standards Board (GASB), the School District adopted GASB Statement No. 75. This standard required the inclusion of the School District's proportionate share of the Michigan Public School Employees' Retiree Health Care Plan within the School District's financial statements, effective July 1, 2017. The effect of the adoption was to decrease July 1, 2017 beginning net position by \$(126.1) million and to include the net OPEB obligation and related deferred inflows and outflows of resources in the June 30, 2018 financial statements. All governments participating in the plan were required to adopt this new standard.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

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 \$56.2 million, which is an increase of \$0.1 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$(1.5) million to \$18.4 million. The change is mainly due to increased custodial services, repairs and maintenance on aging equipment, taxi services, and professional services that are not eligible to be paid from the sinking fund.

The 2010 Sinking Fund (Capital Project Fund) balance increased \$2.7 million to \$4.6 million. Increased taxable values of approximately \$300 million combined with a millage increase of 1.5 mills attributed to increased revenue of approximately \$13.0 million. A total of \$18.7 million of expenditures were incurred during the year, with the remaining increase being restricted for use on future capital projects allowed by state law and approved by the voters.

Fund balance of our special revenue funds increased from \$3.4 million last year to \$3.5 million this year as a result of increased participation in our child care programs.

Fund balance of our debt service fund increased \$0.2 million. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt service fund balances are reserved since they can only be used to pay debt service obligations.

Combined, the fund balance of our remaining capital project funds decreased \$(1.4) million as a result of use of funds on specific capital projects allowed by state law and approved by the voters.

General 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 adopted in June 2018. 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 2017-2018 General original budget. Budgeted revenue was increased approximately \$18.2 million due to an increase in certain categorical revenue, an increase in foundation allowance, and an increase in actual student enrollment that was greater than original estimates. Other sources increased due to an increase in our ACT 18 payments from Washtenaw Intermediate School District.

Budgeted expenditures were also increased \$21.3 million to account for the increase in salaries and purchased professional services resulting from the School District's revised operating plan.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the School District had \$219.5 million invested in a broad range of capital assets, including land improvements, buildings, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$2.4 million, or 1.1 percent, from last year.

	2018	2017
Land	\$ 2,477,822	\$ 2,477,822
Construction in progress	-	1,237,671
Buildings and improvements	404,705,039	394,718,576
Furniture and equipment	36,282,370	34,973,414
Buses and other vehicles	10,564,179	6,275,763
Land improvements	34,531,526	31,681,896
Total capital assets	488,560,936	471,365,142
Less accumulated depreciation	269,076,187	249,494,449
Total capital assets - Net of accumulated depreciation	<u>\$ 219,484,749</u>	<u>\$ 221,870,693</u>

This year's additions of \$17.7 million included vehicles, building construction, building renovations, and equipment. Several major capital projects are planned for the 2018-2019 fiscal year. We anticipate capital additions will be comparable to this year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$159.8 million in bonds outstanding versus \$160.3 million in the previous year - a change of 0.4 percent. Those bonds consisted of the following:

	2018	2017
Bonds financed by tax levy	\$ 159,770,006	\$ 160,335,006

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" (i.e., 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, 2018.

Other obligations include accrued compensated absences, workers' compensation, and debt issuance premiums. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2018-2019 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 2018-2019 budget was adopted in June 2018 based on an estimate of students who will enroll in September 2018. Approximately 50 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2018-2019 budget. Once the final student count and related per pupil funding are validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to the School District. The State periodically holds a revenue-estimating conference to estimate revenue. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation, including a foundation allowance increase of \$120 per pupil.

Contacting the School District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office at 2555 South State Street, Ann Arbor, Michigan 48104.

Public Schools of the City of Ann Arbor, Michigan

Statement of Net Position

June 30, 2018

	Governmental Activities
	<u> </u>
Assets	
Cash and investments (Note 4)	\$ 21,712,174
Receivables:	
Accounts receivable	8,144,492
Due from other governments	21,420,287
Inventory	41,164
Prepaid expenses and other assets	688,664
Restricted assets (Note 4)	38,735,942
Capital assets - Net (Note 6)	<u>219,484,749</u>
Total assets	310,227,472
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 8)	7,632,607
Deferred pension costs (Note 11)	98,039,589
Deferred OPEB costs (Note 11)	<u>7,366,613</u>
Total deferred outflows of resources	113,038,809
Liabilities	
Accounts payable	7,184,925
Accrued liabilities and other	27,624,474
Unearned revenue (Note 5)	892,198
Noncurrent liabilities:	
Due within one year (Note 8)	17,099,633
Due in more than one year (Note 8)	168,307,288
Net pension liability (Note 11)	364,878,575
Net OPEB obligation (Note 11)	<u>124,451,090</u>
Total liabilities	710,438,183
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to the measurement date (Note 11)	14,796,560
Deferred pension cost reductions (Note 11)	19,548,628
Deferred OPEB cost reductions (Note 11)	<u>4,207,354</u>
Total deferred inflows of resources	<u>38,552,542</u>
Net Position	
Net investment in capital assets	74,508,134
Restricted:	
Debt service	562,076
Capital projects	4,618,637
Unrestricted	<u>(405,413,291)</u>
Total net position	<u><u>\$ (325,724,444)</u></u>

Public Schools of the City of Ann Arbor, Michigan

Statement of Activities

Year Ended June 30, 2018

	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 194,469,507	\$ 468,054	\$ 47,068,327	\$(146,933,126)
Support services	100,739,509	-	30,153,191	(70,586,318)
Athletics	2,983,186	999,087	-	(1,984,099)
Food services	4,213,277	1,778,592	2,668,613	233,928
Community services	874,313	-	384,305	(490,008)
Recreation and child care	5,971,596	5,934,397	-	(37,199)
Interest	6,194,244	-	-	(6,194,244)
Other debt costs	114,160	-	-	(114,160)
Depreciation expense (unallocated)	24,036	-	-	(24,036)
Total primary government	\$ 315,583,828	\$ 9,180,130	\$ 80,274,436	(226,129,262)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				81,367,239
Property taxes, levied for debt service				21,030,274
Property taxes, levied for sinking fund				21,369,761
State aid not restricted to specific purposes				86,286,073
Interest and investment earnings				642,598
Gain on sale of capital assets				35,900
Other				6,493,131
Total general revenue				217,224,976
Change in Net Position				(8,904,286)
Net Position - Beginning of year, as previously reported				(190,731,120)
Cumulative Effect of Change in Accounting				(126,089,038)
Net Position - Beginning of year				(316,820,158)
Net Position - End of year				<u><u>\$(325,724,444)</u></u>

Public Schools of the City of Ann Arbor, Michigan

**Governmental Funds
Balance Sheet**

June 30, 2018

	General Fund	2010 Sinking Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments (Note 4)	\$ 15,160,203	\$ -	\$ 6,551,971	\$ 21,712,174
Receivables:				
Accounts receivable	7,975,103	-	128,354	8,103,457
Due from other governments	21,420,287	-	-	21,420,287
Due from other funds (Note 7)	2,761,762	-	68,353	2,830,115
Inventory	-	-	41,164	41,164
Prepaid expenses and other assets	520,924	-	167,740	688,664
Restricted assets (Note 4)	-	8,943,717	29,792,225	38,735,942
	\$ 47,838,279	\$ 8,943,717	\$ 36,749,807	\$ 93,531,803
Total assets				
Liabilities				
Accounts payable	\$ 2,235,285	\$ 4,006,647	\$ 942,993	\$ 7,184,925
Due to other funds (Note 7)	68,353	318,433	2,402,294	2,789,080
Accrued liabilities and other	26,306,729	-	59,621	26,366,350
Unearned revenue (Note 5)	778,301	-	113,897	892,198
	29,388,668	4,325,080	3,518,805	37,232,553
Total liabilities				
Deferred Inflows of Resources - Unavailable revenue (Note 5)				
	89,360	-	-	89,360
	29,478,028	4,325,080	3,518,805	37,321,913
Total liabilities and deferred inflows of resources				
Fund Balances				
Nonspendable:				
Inventory	-	-	41,164	41,164
Prepays	520,924	-	167,740	688,664
Restricted:				
Debt service	-	-	1,820,200	1,820,200
Capital projects	-	4,618,637	27,903,315	32,521,952
Committed:				
Child care	-	-	1,028,789	1,028,789
Recreation	-	-	2,310,958	2,310,958
Assigned - Subsequent year's budget	2,428,080	-	-	2,428,080
Unassigned	15,411,247	-	(41,164)	15,370,083
	18,360,251	4,618,637	33,231,002	56,209,890
Total fund balances				
Total liabilities, deferred inflows of resources, and fund balances	\$ 47,838,279	\$ 8,943,717	\$ 36,749,807	\$ 93,531,803

Public Schools of the City of Ann Arbor, Michigan

Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2018

Fund Balances Reported in Governmental Funds	\$ 56,209,890
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	488,560,936
Accumulated depreciation	<u>(269,076,187)</u>
Net capital assets used in governmental activities	219,484,749
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	89,360
Deferred inflows and outflows related to bond refundings are not reported in the funds	7,632,607
Bonds payable plus bond premium are not due and payable in the current period and are not reported in the funds	(180,512,537)
Accrued interest is not due and payable in the current period and is not reported in the funds	(1,258,124)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Employee compensated absences	(4,812,327)
Self-insurance liability	(82,057)
Net pension liability and related deferred inflows and outflows	(286,387,614)
Net OPEB liability and related deferred inflows and outflows	(121,291,831)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds	<u>(14,796,560)</u>
Net Position of Governmental Activities	<u><u>\$ (325,724,444)</u></u>

Public Schools of the City of Ann Arbor, Michigan

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2018

	General Fund	2010 Sinking Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 89,990,222	\$ 21,381,289	\$ 29,296,927	\$ 140,668,438
State sources	126,205,854	-	256,608	126,462,462
Federal sources	8,324,675	-	2,450,685	10,775,360
Interdistrict sources	30,075,877	-	-	30,075,877
Total revenue	254,596,628	21,381,289	32,004,220	307,982,137
Expenditures				
Current:				
Instruction	155,190,107	-	-	155,190,107
Support services	97,069,517	-	320,374	97,389,891
Athletics	2,933,481	-	-	2,933,481
Food services	-	-	4,210,857	4,210,857
Community services	850,605	-	-	850,605
Recreation and child care	-	-	5,971,596	5,971,596
Debt service:				
Principal	-	-	13,340,000	13,340,000
Interest	-	-	7,590,966	7,590,966
Other debt costs	-	-	114,160	114,160
Capital outlay	166,017	18,671,255	15,518,464	34,355,736
Total expenditures	256,209,727	18,671,255	47,066,417	321,947,399
Excess of Revenue (Under) Over Expenditures	(1,613,099)	2,710,034	(15,062,197)	(13,965,262)
Other Financing Sources (Uses)				
Face value of debt issued (Note 8)	-	-	12,775,000	12,775,000
Proceeds from sale of capital assets	35,900	-	-	35,900
Premium on debt issued (Note 8)	-	-	1,262,314	1,262,314
Transfers in (Note 7)	94,748	-	38,050	132,798
Transfers out (Note 7)	(38,050)	-	(94,748)	(132,798)
Total other financing sources	92,598	-	13,980,616	14,073,214
Net Change in Fund Balances	(1,520,501)	2,710,034	(1,081,581)	107,952
Fund Balances - Beginning of year	19,880,752	1,908,603	34,312,583	56,101,938
Fund Balances - End of year	<u>\$ 18,360,251</u>	<u>\$ 4,618,637</u>	<u>\$ 33,231,002</u>	<u>\$ 56,209,890</u>

Public Schools of the City of Ann Arbor, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2018

Net Change in Fund Balances Reported in Governmental Funds	\$ 107,952
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:	
Capitalized capital outlay	17,718,949
Depreciation expense	<u>(20,104,893)</u>
Total	(2,385,944)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	(834,924)
Revenue in support of pension contributions made subsequent to the measurement date	(3,364,127)
Issuing debt, net of premiums and discounts, provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position	(14,037,314)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt); amortization of premium/discounts and inflows/outflows related to bond refundings are not expenses in the governmental funds	14,611,631
Interest expense is recognized in the government-wide statements as it accrues	125,091
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	<u>(3,126,651)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (8,904,286)</u></u>

Public Schools of the City of Ann Arbor, Michigan

**Fiduciary Funds
Statement of Fiduciary Net Position**

June 30, 2018

	Private Purpose Trust Fund	Student Activities Agency Fund
Assets		
Cash and investments (Note 4)	\$ 437,693	\$ 1,515,108
Receivables	26,100	62,428
Total assets	463,793	\$ 1,577,536
Liabilities		
Accounts payable	27,500	\$ 92,213
Due to other funds (Note 7)	200	40,835
Due to student activities	-	1,444,488
Total liabilities	27,700	\$ 1,577,536
Net Position	\$ 436,093	

Public Schools of the City of Ann Arbor, Michigan

**Fiduciary Funds
Statement of Changes in Fiduciary Net Position**

Year Ended June 30, 2018

	<u>Private Purpose Trust Fund</u>
Additions	
Interest	\$ 201
Private donations	<u> 235,474</u>
Total additions	235,675
Deductions	<u> 37,534</u>
Change in Net Position	198,141
Net Position - Beginning of year	<u> 237,952</u>
Net Position - End of year	<u><u> \$ 436,093</u></u>

Note 1 - Nature of Business

Public Schools of the City of Ann Arbor, Michigan (the "School District") is a school district in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The School District follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). 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. In accordance with government accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-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 government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

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 or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

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

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the School District has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Note 2 - Significant Accounting Policies (Continued)

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the School District considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Fiduciary funds use the economic resources measurement focus and the full 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.

Fund Accounting

The School District accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the School District to show the particular expenditures for which specific revenue is used. The various funds are aggregated into two broad fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service fund, and capital project funds. The School District reports the following funds as "major" governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The Sinking Fund is used to account for construction and repair of buildings.

Additionally, the School District reports the following nonmajor governmental fund types:

- 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 Service Fund, Recreation Fund, and the Child Care Fund. Any operating deficit generated by these activities is the responsibility of the General Fund.
- Capital projects funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for the acquisition of land and construction or acquisition of buildings and equipment. The funds operate until the purpose for which they were created is accomplished. The Millage and Capital Needs Fund is also used to purchase school buses, technology, and textbooks.
- The debt service fund is used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on long-term debt.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the School District's programs. Activities that are reported as fiduciary include the following:

- 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.
- The Private Purpose (Scholarship) Trust Fund is used to account for donated assets that 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.

Note 2 - Significant Accounting Policies (Continued)

Interfund Activity

During the course of operations, the School District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Specific Balances and Transactions

Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term money market fund investments with a maturity of three months or less when acquired. Investments are stated at fair value, except for investments in external investment pools, which are at amortized cost.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements, when applicable.

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 the debt service fund are required to be set aside for future bond principal and interest payments. These amounts have been classified as restricted assets.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the government-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 estimated 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.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Buildings, building improvements, and land improvements	20 to 50
Equipment	5 to 20
Vehicles	5 to 10

Note 2 - Significant Accounting Policies (Continued)

Long-term Obligations

In the government-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 expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as an "other financing source" and bond discounts as "other financing uses." The debt service funds are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expenditure) until then. The School District reports deferred outflows related to deferred charges on bond refunding and deferred pension and OPEB costs.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The School District reports deferred inflows related to unavailable revenue, revenue in support of pension contributions made subsequent to the measurement date, and deferred pension and OPEB plan costs.

Net Position

Net position of the School District is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The School District will sometimes fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

The School District will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

Note 2 - Significant Accounting Policies (Continued)

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. The School District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the School District that can, by passing a resolution prior to the end of the fiscal year, commit fund balance. Once passed, the limitation imposed by the resolution remains in place until a similar action is taken (the passing of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes, but do not meet the criteria to be classified as committed. The School District has, by resolution, authorized the Board of Education to assign fund balance, as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. 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.

Grants and Contributions

The School District receives federal, state, and local grants, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Pension and Other Postemployment Benefit (OPEB) Plans

For the purpose of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from the 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 expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Note 2 - Significant Accounting Policies (Continued)

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated annual sick leave and vacation benefits, as well as accumulated termination pay. A liability for these amounts is reported in governmental funds as it comes due for payment.

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.

Adoption of New Accounting Pronouncement

As of July 1, 2017, the School District adopted GASB 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 Michigan Public School Employees' Retirement System (MPSERS). The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

In accordance with the statement, the School District has reported a net OPEB liability of \$131,268,329, deferred outflows of financial resources for OPEB contributions of \$9,055,550 made subsequent to the September 30, 2017 measurement date, and deferred inflows of financial resources for revenue received from State Aid in support of OPEB contributions of \$3,876,259 that was received subsequent to the September 30, 2017 measurement date, as the effects of these changes in accounting principles on the School District's net position as of July 1, 2017.

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement 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.

In June 2017, the GASB issued 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 previously were 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 District's financial statements for the year ending June 30, 2021.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles 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. 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 School District amended budgeted amounts during the year in response to changes in budgeted expectations.

The policy of the Board of Education is to preserve as a minimum General Fund balance an amount that is no less than 15 percent of the total operating costs of the School District. As of June 30, 2018, total operating costs and unassigned fund balance of the General Fund are \$256,043,710 and \$15,411,247, respectively. The unassigned fund balance necessary to adhere to the Board of Education policy is approximately \$38,400,000.

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 its 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, 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.

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 - Support services - Operations and maintenance	\$ 16,371,022	\$ 17,929,682
General Fund - Support services - Pupil transportation services	8,500,346	9,727,684
Total	\$ 24,871,368	\$ 27,657,366

Note 3 - Stewardship, Compliance, and Accountability (Continued)

Capital Projects Fund Compliance

The 2012 Bond Building and Site Fund, 2015 Technology Bond Fund, 2015 Building and Site Bond Fund Series I and II, and the 2012 Technology Bond - Series III 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.

The 2010 Sinking Fund accounts for construction and repair of the buildings. For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code.

Note 4 - Deposits 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, certificates of deposit, 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 its funds. The School District has designated four of those financial institutions for its deposits.

There are no limitations or restrictions on participant withdrawals for the 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 to it. The School District's investment policy prequalifies 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 had \$26,122,565 of bank deposits (certificates of deposit and 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 prequalifying the financial institutions, brokers/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 of 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 funds, or similar investment pools and limiting the average maturity in accordance with the School District's requirements.

Note 4 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Michigan Liquid Asset Fund	\$ 40,251,707	AAAm	Standard & Poor's
MBIA CLASS	544,684	AAAm	Standard & Poor's
Total	<u>\$ 40,796,391</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 investment 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. The School District does not have any investments 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 investment policy prohibit investments in foreign currency.

Fair Value Measurements

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.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The School District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

At June 30, 2018, the School District has \$544,684 invested in the MBIA CLASS Pool. This investment is measured at fair value using 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.

The investment pool includes investments in pools that the School District does not control. The investment pool invests primarily in high-quality money market instruments including certificates of deposit, 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, 2018.

June 30, 2018

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 June 30, 2018, the various components of unearned and unavailable revenue were as follows:

	Governmental Funds	
	Deferred Inflow - Unavailable	Liability - Unearned
Grant receipts not available to liquidate liabilities of the current period	\$ 89,360	\$ -
Grant, categorical aid, tuition, and food services program payments received prior to meeting all eligibility requirements	-	892,198

Note 6 - Capital Assets

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

	Balance July 1, 2017	Additions and Transfers	Disposals and Adjustments	Balance June 30, 2018
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	(1,237,671)	-	2,477,822
Capital assets being depreciated:				
Buildings and improvements	394,718,576	9,986,463	-	404,705,039
Furniture and equipment	34,973,414	1,308,956	-	36,282,370
Buses and other vehicles	6,275,763	4,811,571	(523,155)	10,564,179
Land improvements	31,681,896	2,849,630	-	34,531,526
Subtotal	467,649,649	18,956,620	(523,155)	486,083,114
Accumulated depreciation:				
Buildings and improvements	204,299,354	12,254,619	-	216,553,973
Furniture and equipment	24,910,822	4,693,551	-	29,604,373
Buses and other vehicles	2,192,947	1,447,985	(523,155)	3,117,777
Land improvements	18,091,326	1,708,738	-	19,800,064
Subtotal	249,494,449	20,104,893	(523,155)	269,076,187
Net capital assets being depreciated	218,155,200	(1,148,273)	-	217,006,927
Net governmental activities capital assets	\$ 221,870,693	\$ (2,385,944)	\$ -	\$ 219,484,749

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
Instruction	\$ 18,533,384
Support services	1,547,473
Unallocated	24,036
Total governmental activities	\$ 20,104,893

Note 6 - Capital Assets (Continued)

Construction Commitments

The School District has active construction projects at year end. At June 30, 2018, the School District's commitments with contractors and vendors totaled approximately \$8,337,000.

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From				
	General Fund	Sinking Fund	Nonmajor Funds	Fiduciary	Total
General Fund	\$ -	\$ 318,433	\$ 2,402,294	\$ 41,035	\$ 2,761,762
Nonmajor funds	68,353	-	-	-	68,353
Total	<u>\$ 68,353</u>	<u>\$ 318,433</u>	<u>\$ 2,402,294</u>	<u>\$ 41,035</u>	<u>\$ 2,830,115</u>

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.

Interfund transfers reported in the fund financial statements are composed of the following:

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
General Fund	Nonmajor funds	\$ 38,050
Nonmajor funds	General Fund	94,748
	Total	<u>\$ 132,798</u>

Transfers represent nonreciprocal activity between the funds and primarily represent reimbursement for indirect costs incurred by the funds.

Note 8 - Long-term Debt

Long-term debt activity for the year ended June 30, 2018 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
General obligations	\$ 160,335,006	\$ 12,775,000	\$(13,340,000)	\$ 159,770,006	\$ 14,315,000
Unamortized bond premiums	21,739,913	1,262,314	(2,259,696)	20,742,531	2,392,576
Total bonds payable	182,074,919	14,037,314	(15,599,696)	180,512,537	16,707,576
Termination pay, accumulated vacation, and sick leave	5,191,528	-	(379,201)	4,812,327	310,000
Workers' compensation	40,749	41,308	-	82,057	82,057
Total governmental activities long-term debt	<u>\$ 187,307,196</u>	<u>\$ 14,078,622</u>	<u>\$(15,978,897)</u>	<u>\$ 185,406,921</u>	<u>\$ 17,099,633</u>

The School District had deferred outflows of \$7,632,607 related to deferred charges on bond refundings at June 30, 2018.

Note 8 - Long-term Debt (Continued)

General Obligation Bonds and Contracts

The School District issues general obligation bonds 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. General obligations outstanding at June 30, 2018 are as follows:

Purpose	Remaining Annual Installments	Interest Rates (Percent)	Maturing May 1	Outstanding at June 30, 2018
\$17,730,000 2008 issuance serial bonds	\$285,000 - \$875,000	3.75 - 4.25	2020	\$ 1,160,000
\$93,230,000 2012 refunding serial bonds	\$5,275,000 - \$8,565,000	4.00 - 5.00	2029	74,335,000
\$23,830,000 2012 issuance serial bonds	\$2,030,000 - \$2,335,006	5.00	2022	8,745,006
\$30,790,000 2015 refunding serial bonds	\$1,815,000 - \$3,055,000	4.00 - 5.00	2029	27,260,000
\$32,775,000 2015 issuance serial bonds	\$2,725,000 - \$4,750,000	5.00	2025	26,500,000
\$9,485,000 2017 refunding serial bonds	\$710,000 - \$1,000,000	2.00 - 3.00	2029	8,995,000
\$12,775,000 2018 issuance serial bonds	\$1,350,000 - \$2,735,000	3.00 - 5.00	2026	12,775,000
Total				<u>\$ 159,770,006</u>

Annual debt service requirements to maturity for the above bonds are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2019	\$ 14,315,000	\$ 7,548,744	\$ 21,863,744
2020	16,275,000	6,935,200	23,210,200
2021	15,545,000	6,183,900	21,728,900
2022	16,260,006	5,443,850	21,703,856
2023	15,485,000	4,713,550	20,198,550
2024-2028	69,315,000	12,462,500	81,777,500
2029	12,575,000	609,650	13,184,650
Total	<u>\$ 159,770,006</u>	<u>\$ 43,897,394</u>	<u>\$ 203,667,400</u>

Other Long-term Liabilities

Compensated absences attributable to the governmental activities consist 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 \$379,201 for the year ended June 30, 2018.

Note 8 - Long-term Debt (Continued)

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 9 - Self-insurance

The School District has a self-insurance plan for workers' compensation. 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 \$416,047 for the year ended June 30, 2018.

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

	2018	2017
Potential claims, including IBNR - Beginning of year	\$ 40,749	\$ 19,805
Increase in estimated liability - Net of claims incurred and claims paid	41,308	20,944
Estimated liability - End of year	\$ 82,057	\$ 40,749

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.

Note 10 - Contingent Liabilities

Legal Actions

The School District is subject to various legal proceedings and claims that arise in the ordinary course of its business. The School District believes that the amount, if any, of ultimate liability with respect to legal actions will be insignificant or will be covered by insurance.

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 that could be subject to refund if the tax tribunal determines that an overassessment has occurred.

Note 11 - Michigan Public School Employees' Retirement System

Plan Description

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

The System is administered by the Office of Retirement Services (ORS). 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.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and the postemployment healthcare 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 pension plan and the postemployment healthcare plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services 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.

Depending on the member's date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

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. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of each retiree healthcare recipient. Depending on the member's date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

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

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.

Under the OPEB plan, 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. Participating employers are required to contribute at that rate.

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to the retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

The School District's contributions are determined based on employee elections. There are multiple different pension and healthcare benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

	Pension	OPEB
October 1, 2017 - January 31, 2018	13.54% - 17.89%	7.42% - 7.67%
February 1, 2018 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The School District's required and actual pension contributions to the plan for the year ended June 30, 2018 were \$64,162,482, which include the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual pension contributions include an allocation of \$14,796,560 in 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, 2018. For the year ended June 30, 2018, the contributions also include a one-time payment to the School District received under Section 147c(2) of the State Aid Act, which the School District then remitted as a contribution to the plan.

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2018 were \$18,671,102, which include the School District's contributions required for those members with a defined contribution benefit.

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

Net Pension Liability

At June 30, 2018, the School District reported a liability of \$364,878,575 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. 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, 2017 and 2016, the School District's proportion was 1.408023 percent and 1.327930 percent, respectively.

Net OPEB Liability

At June 30, 2018, the School District reported a liability of \$124,451,090 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2018 was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 1.405358 percent.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the School District recognized pension expense of \$44,986,813, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2018, 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	\$ 3,171,044	\$ (1,790,383)
Changes in assumptions	39,975,347	-
Net difference between projected and actual earnings on pension plan investments	-	(17,443,596)
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	23,051,604	(314,649)
The School District's contributions to the plan subsequent to the measurement date	31,841,594	-
Total	<u>\$ 98,039,589</u>	<u>\$ (19,548,628)</u>

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

The \$14,796,560 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ending June 30, 2019. 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	Amount
2019	\$ 13,813,961
2020	19,886,029
2021	11,537,102
2022	1,412,275
Total	<u>\$ 46,649,367</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.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the School District recognized OPEB expense of \$8,326,998.

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (1,325,038)
Net difference between projected and actual earnings on OPEB plan investments	-	(2,882,316)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	12,376	-
Employer contributions to the plan subsequent to the measurement date	<u>7,354,237</u>	<u>-</u>
Total	<u>\$ 7,366,613</u>	<u>\$ (4,207,354)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending	Amount
2019	\$ (1,013,951)
2020	(1,013,951)
2021	(1,013,951)
2022	(1,013,951)
2023	(139,174)
Total	<u>\$ (4,194,978)</u>

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

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2017 are based on the results of an actuarial valuation as of September 30, 2016 and rolled forward. The total pension and OPEB liabilities were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal cost actuarial cost method
Investment rate of return - Pension	7.00% - 7.50%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.50%	Net of investment expenses based on the groups
Salary increases	3.50% - 12.30%	Including wage inflation of 3.50 percent
Healthcare cost trend rate	7.50%	Year 1 graded to 3.5 percent year 12
Mortality basis		RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2007 to 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 - 7.50 percent as of September 30, 2017 depending on the plan option. The discount rate used to measure the total OPEB liability was 7.50 percent as of September 30, 2017. 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 district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

The long-term expected rate of return on pension plan and OPEB 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 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.60 %
Private equity pools	18.00	8.70
International equity pools	16.00	7.20
Fixed-income pools	10.50	(0.10)
Real estate and infrastructure pools	10.00	4.20
Real return, opportunistic, and absolute pool	15.50	5.00
Short-term investment pools	2.00	(0.90)
Total	100.00 %	

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

MPSERS approved a decrease in the discount rate for the September 30, 2017 annual actuarial valuation for the pension plan and the OPEB plan to 7.05 percent and 7.15 percent, respectively. As a result, the actuarial computed employer contributions, the net pension liability, and net OPEB liability will increase for the measurement period ended September 30, 2018.

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 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 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.00 - 6.50%)	Current Discount Rate (7.00 - 7.50%)	1 Percent Increase (8.00 - 8.50%)
Net pension liability of the School District	\$ 475,315,420	\$ 364,878,575	\$ 271,897,784

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the School District, calculated using the current discount rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 145,768,196	\$ 124,451,090	\$ 106,359,542

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the School District, calculated using the current healthcare cost trend rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 105,393,345	\$ 124,451,090	\$ 146,089,832

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2018, the School District reported a payable of \$8,103,142 and \$1,754,590 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2018.

June 30, 2018

Note 12 - 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, 2018, the School District's property tax revenue was reduced by approximately \$996,000 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 \$844,400 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.

Required Supplemental Information

Public Schools of the City of Ann Arbor, Michigan

**Required Supplemental Information
Budgetary Comparison Schedule - General Fund**

Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	(Under) Over <u>Final Budget</u>
Revenue				
Local sources	\$ 84,341,320	\$ 90,224,296	\$ 89,990,222	\$ (234,074)
State sources	116,045,030	125,221,661	126,205,854	984,193
Federal sources	8,816,270	8,882,586	8,324,675	(557,911)
Interdistrict sources	26,246,600	29,346,600	30,075,877	729,277
Total revenue	235,449,220	253,675,143	254,596,628	921,485
Expenditures				
Current:				
Instruction:				
Basic programs	111,547,139	119,788,714	119,737,176	(51,538)
Added needs	29,808,228	35,275,585	35,130,940	(144,645)
Adult/Continuing education	339,873	403,642	331,305	(72,337)
Support services:				
Pupil	26,376,578	30,977,926	31,133,887	155,961
Instructional staff	12,653,810	13,252,797	12,567,976	(684,821)
General administration	2,249,937	2,738,688	2,957,894	219,206
School administration	13,494,845	15,871,253	15,780,478	(90,775)
Business	2,119,148	2,052,942	1,738,292	(314,650)
Operations and maintenance	17,829,165	16,371,022	17,929,258	1,558,236
Pupil transportation services	8,200,346	8,500,346	9,727,684	1,227,338
Central	5,253,701	5,188,387	5,379,577	191,190
Athletics	3,481,797	3,755,979	2,944,655	(811,324)
Community services	937,561	1,390,898	850,605	(540,293)
Total expenditures	234,292,128	255,568,179	256,209,727	641,548
Excess of Revenue Over (Under) Expenditures	1,157,092	(1,893,036)	(1,613,099)	279,937
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	35,900	35,900
Transfers in	-	-	94,748	94,748
Transfers out	-	-	(38,050)	(38,050)
Total	-	-	92,598	92,598
Net Change in Fund Balance	1,157,092	(1,893,036)	(1,520,501)	372,535
Fund Balance - Beginning of year	19,880,752	19,880,752	19,880,752	-
Fund Balance - End of year	<u>\$ 21,037,844</u>	<u>\$ 17,987,716</u>	<u>\$ 18,360,251</u>	<u>\$ 372,535</u>

Public Schools of the City of Ann Arbor, Michigan

Required Supplemental Information
Schedule of the School District's Proportionate Share of the Net Pension
Liability
Michigan Public School Employees' Retirement System

	Last Four Plan Years			
	Plan Years Ended September 30			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability	1.40802 %	1.32793 %	1.27127 %	1.26546 %
School District's proportionate share of the net pension liability	\$ 364,878,575	\$ 331,306,659	\$ 310,508,345	\$ 278,734,374
School District's covered employee payroll	\$ 120,309,307	\$ 114,252,448	\$ 104,701,750	\$ 102,370,153
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	303.28 %	289.98 %	296.56 %	272.28 %
Plan fiduciary net position as a percentage of total pension liability	63.96 %	63.01 %	62.92 %	66.20 %

Public Schools of the City of Ann Arbor, Michigan

Required Supplemental Information Schedule of Pension Contributions Michigan Public School Employees' Retirement System

	Last Four Fiscal Years Years Ended June 30			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 37,893,647	\$ 32,516,905	\$ 29,618,370	\$ 21,769,845
Contributions in relation to the statutorily required contribution	<u>37,893,647</u>	<u>32,516,905</u>	<u>29,618,370</u>	<u>21,769,845</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Employee Payroll	\$ 127,969,324	\$ 116,978,719	\$ 106,641,677	\$ 101,096,608
Contributions as a Percentage of Covered Employee Payroll	29.61 %	27.80 %	27.77 %	21.53 %

Public Schools of the City of Ann Arbor, Michigan

Required Supplemental Information
Schedule of the School District's Proportionate Share of the Net OPEB
Liability
Michigan Public School Employees' Retirement System

	Last Plan Year
	Plan Year Ended September 30
	<u>2017</u>
School District's proportion of the net OPEB liability	1.40536 %
School District's proportionate share of the net OPEB liability	\$ 124,451,090
School District's covered employee payroll	\$ 120,309,307
School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	103.44 %
Plan fiduciary net position as a percentage of total OPEB liability	36.53 %

Public Schools of the City of Ann Arbor, Michigan

Required Supplemental Information
Schedule of OPEB Contributions
Michigan Public School Employees' Retirement System

	Last Fiscal Year
	Year Ended June 30
	<u>2018</u>
Statutorily required contribution	\$ 9,242,872
Contributions in relation to the statutorily required contribution	<u>9,242,872</u>
Contribution Deficiency	<u>\$ -</u>
School District's Covered Employee Payroll	\$ 127,969,324
Contributions as a Percentage of Covered Employee Payroll	7.22 %

Pension Information

Ultimately, 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

On February 23, 2017, MPERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent to 7.00-7.50 percent based on the group.

Covered Payroll

The employers' covered payroll to be reported in the required supplemental information is defined by GASB 82, *Pension Issues - An Amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based and by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For the School District, covered payroll represents payroll on which contributions to both plans are based.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

There were no changes of benefit assumptions in 2017.

Covered Payroll

The employers' covered payroll to be reported in the required supplemental information is defined by GASB 82, *Pension Issues - An Amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based and by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For the School District, covered payroll represents payroll on which contributions to both plans are based.

Other Supplemental Information

Public Schools of the City of Ann Arbor, Michigan

	Special Revenue Funds			
	Food Service Fund	Recreation Fund	Child Care Fund	Debt Service Fund
Assets				
Cash and investments	\$ 862,501	\$ 2,514,365	\$ 1,145,822	\$ -
Receivables	122,419	5,926	9	-
Due from other funds	-	-	-	57,593
Inventory	41,164	-	-	-
Prepaid expenses and other assets	-	167,740	-	-
Restricted assets	-	-	-	1,763,007
Total assets	\$ 1,026,084	\$ 2,688,031	\$ 1,145,831	\$ 1,820,600
Liabilities				
Accounts payable	\$ 532,753	\$ 107,207	\$ 10,257	\$ 400
Due to other funds	444,761	505	83,458	-
Accrued liabilities and other	-	36,294	23,327	-
Unearned revenue	48,570	65,327	-	-
Total liabilities	1,026,084	209,333	117,042	400
Fund Balances				
Nonspendable:				
Inventory	41,164	-	-	-
Prepays	-	167,740	-	-
Restricted:				
Debt service	-	-	-	1,820,200
Capital projects	-	-	-	-
Committed:				
Child care	-	-	1,028,789	-
Recreation	-	2,310,958	-	-
Unassigned	(41,164)	-	-	-
Total fund balances	-	2,478,698	1,028,789	1,820,200
Total liabilities and fund balances	\$ 1,026,084	\$ 2,688,031	\$ 1,145,831	\$ 1,820,600

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2018

Capital Project Funds						
Millage and Capital Needs	2015 Building and Site Bond - Series II	2012 Bond Building and Site	2012 Technology Bond - Series III	2015 Technology Bond Fund	2015 Building and Site Bond Fund	Total
\$ 2,029,283	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,551,971
-	-	-	-	-	-	128,354
-	-	-	-	-	10,760	68,353
-	-	-	-	-	-	41,164
-	-	-	-	-	-	167,740
-	6,010,397	1,079,147	8,025,255	6,681,130	6,233,289	29,792,225
\$ 2,029,283	\$ 6,010,397	\$ 1,079,147	\$ 8,025,255	\$ 6,681,130	\$ 6,244,049	\$ 36,749,807
\$ 217,045	\$ 9,864	\$ -	\$ 13,386	\$ 32,725	\$ 19,356	\$ 942,993
1,812,238	25,681	-	35,651	-	-	2,402,294
-	-	-	-	-	-	59,621
-	-	-	-	-	-	113,897
2,029,283	35,545	-	49,037	32,725	19,356	3,518,805
-	-	-	-	-	-	41,164
-	-	-	-	-	-	167,740
-	-	-	-	-	-	1,820,200
-	5,974,852	1,079,147	7,976,218	6,648,405	6,224,693	27,903,315
-	-	-	-	-	-	1,028,789
-	-	-	-	-	-	2,310,958
-	-	-	-	-	-	(41,164)
-	5,974,852	1,079,147	7,976,218	6,648,405	6,224,693	33,231,002
\$ 2,029,283	\$ 6,010,397	\$ 1,079,147	\$ 8,025,255	\$ 6,681,130	\$ 6,244,049	\$ 36,749,807

Public Schools of the City of Ann Arbor, Michigan

	Special Revenue Funds			
	Food Service Fund	Recreation Fund	Child Care Fund	Debt Service Fund
Revenue				
Local sources	\$ 1,778,592	\$ 3,939,888	\$ 2,165,675	\$ 21,115,023
State sources	256,608	-	-	-
Federal sources	2,450,685	-	-	-
Total revenue	4,485,885	3,939,888	2,165,675	21,115,023
Expenditures				
Current:				
Support services	309,356	-	-	-
Food services	4,210,857	-	-	-
Recreation and child care	-	3,978,298	1,993,298	-
Debt service:				
Principal	-	-	-	13,340,000
Interest	-	-	-	7,590,966
Other debt costs	-	-	-	3,050
Capital outlay	3,722	-	27,751	-
Total expenditures	4,523,935	3,978,298	2,021,049	20,934,016
Excess of Revenue (Under) Over Expenditures	(38,050)	(38,410)	144,626	181,007
Other Financing Sources (Uses)				
Face value of debt issued	-	-	-	-
Premium on debt issued	-	-	-	-
Transfers in	38,050	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	38,050	-	-	-
Net Change in Fund Balances	-	(38,410)	144,626	181,007
Fund Balances - Beginning of year	-	2,517,108	884,163	1,639,193
Fund Balances - End of year	\$ -	\$ 2,478,698	\$ 1,028,789	\$ 1,820,200

Other Supplemental Information
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds

Year Ended June 30, 2018

Capital Project Funds						
Millage and Capital Needs	2015 Building and Site Bond - Series II	2012 Bond Building and Site	2012 Technology Bond - Series III	2015 Technology Bond Fund	2015 Building and Site Bond Fund	Total
\$ -	\$ 9,364	\$ 14,775	\$ 12,502	\$ 111,897	\$ 149,211	\$ 29,296,927
-	-	-	-	-	-	256,608
-	-	-	-	-	-	2,450,685
-	9,364	14,775	12,502	111,897	149,211	32,004,220
11,018	-	-	-	-	-	320,374
-	-	-	-	-	-	4,210,857
-	-	-	-	-	-	5,971,596
-	-	-	-	-	-	13,340,000
-	-	-	-	-	-	7,590,966
-	48,868	-	62,242	-	-	114,160
306,862	(3,000)	-	-	2,896,460	12,286,669	15,518,464
317,880	45,868	-	62,242	2,896,460	12,286,669	47,066,417
(317,880)	(36,504)	14,775	(49,740)	(2,784,563)	(12,137,458)	(15,062,197)
-	5,420,000	-	7,355,000	-	-	12,775,000
-	591,356	-	670,958	-	-	1,262,314
-	-	-	-	-	-	38,050
(94,748)	-	-	-	-	-	(94,748)
(94,748)	6,011,356	-	8,025,958	-	-	13,980,616
(412,628)	5,974,852	14,775	7,976,218	(2,784,563)	(12,137,458)	(1,081,581)
412,628	-	1,064,372	-	9,432,968	18,362,151	34,312,583
\$ -	\$ 5,974,852	\$ 1,079,147	\$ 7,976,218	\$ 6,648,405	\$ 6,224,693	\$ 33,231,002

Public Schools of the City of Ann Arbor, Michigan

**Other Supplemental Information
Schedule of Bonded Indebtedness**

June 30, 2018

Years Ending June 30	2008 Bond Debt Payment		(2012R) 2004 Bond Debt Payment		2012 Bond Debt Payment		2015 Refunding Debt Payment	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 875,000	\$ 48,588	\$ 5,275,000	\$ 3,645,150	\$ 2,030,000	\$ 437,250	\$ 1,815,000	\$ 1,344,850
2020	285,000	11,400	5,520,000	3,381,400	2,130,000	335,750	1,845,000	1,272,250
2021	-	-	5,785,000	3,116,350	2,250,000	229,250	1,895,000	1,180,000
2022	-	-	6,065,000	2,827,100	2,335,006	116,750	1,980,000	1,085,250
2023	-	-	6,305,000	2,584,500	-	-	2,565,000	986,250
2024	-	-	6,655,000	2,269,250	-	-	2,650,000	858,000
2025	-	-	7,000,000	1,936,500	-	-	2,735,000	725,500
2026	-	-	7,370,000	1,586,500	-	-	2,820,000	588,750
2027	-	-	7,715,000	1,218,000	-	-	2,905,000	447,750
2028	-	-	8,080,000	832,250	-	-	2,995,000	302,500
2029	-	-	8,565,000	428,250	-	-	3,055,000	152,750
Total remaining payments	\$ 1,160,000	\$ 59,988	\$ 74,335,000	\$ 23,825,250	\$ 8,745,006	\$ 1,119,000	\$ 27,260,000	\$ 8,943,850
Principal payments due	May 1		May 1		May 1		May 1	
Interest payments due	May 1 & November 1		May 1 & November 1		May 1 & November 1		May 1 & November 1	
Interest rate	3.75 - 4.25%		4.0 - 5.0%		5.0%		4.0 - 5.0%	
Original issue	\$ 17,730,000		\$ 93,230,000		\$ 23,830,000		\$ 30,790,000	

Public Schools of the City of Ann Arbor, Michigan

Other Supplemental Information
Schedule of Bonded Indebtedness (Continued)

June 30, 2018

Years Ending June 30	2015 Bond Debt Payment		2017 Refunding Debt Payment		2018 Bond Debt Payment		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2019	\$ 2,725,000	\$ 1,325,000	\$ -	\$ 227,500	\$ 1,595,000	\$ -	\$ 21,343,338
2020	3,050,000	1,188,750	710,000	227,500	2,735,000	520,406	23,212,456
2021	3,475,000	1,036,250	790,000	213,300	1,350,000	518,150	21,838,300
2022	3,775,000	862,500	735,000	197,500	1,370,000	408,750	21,757,856
2023	4,225,000	673,750	1,000,000	182,800	1,390,000	354,750	20,267,050
2024	4,500,000	462,500	1,000,000	162,800	1,420,000	286,250	20,263,800
2025	4,750,000	237,500	1,000,000	142,800	1,445,000	216,750	20,189,050
2026	-	-	900,000	112,800	1,470,000	145,750	14,993,800
2027	-	-	950,000	85,800	-	73,500	13,395,050
2028	-	-	955,000	57,300	-	-	13,222,050
2029	-	-	955,000	28,650	-	-	13,184,650
Total remaining payments	\$ 26,500,000	\$ 5,786,250	\$ 8,995,000	\$ 1,638,750	\$ 12,775,000	\$ 2,524,306	\$ 203,667,400
Principal payments due	May 1		May 1		May 1		
Interest payments due	May 1 & November 1		May 1 & November 1		May 1 & November 1		
Interest rate	5.0%		2.0 - 3.0%		3.0 - 5.0%		
Original issue	\$ 32,775,000		\$ 9,485,000		\$ 12,772,000		