
Public Schools of the City of Ann Arbor, Michigan

**Financial Report
with Supplemental Information
June 30, 2021**

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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, 2021 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, 2021 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

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 opinions 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 21, 2021 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 21, 2021

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, 2021. 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 and what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund, the Debt Service Fund, and the 2019 Bond Fund - with all other funds presented in one column as nonmajor funds. The remaining statements, the statements 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 donor-sponsored scholarships. 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 Proportionate Share of the Net Pension and Net OPEB Liabilities

Schedules of Pension and OPEB Contributions

Other Supplemental Information

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.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

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 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.

Fiduciary Funds

The School District has certain fiduciary responsibility for its custodial funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position and statement of 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, 2021 and 2020:

	Governmental Activities	
	2021	2020
	(in millions)	
Assets		
Current and other assets	\$ 235.2	\$ 237.1
Capital assets	221.2	215.8
Total assets	456.4	452.9
Deferred Outflows of Resources	151.6	191.5
Liabilities		
Current liabilities	48.6	36.8
Noncurrent liabilities	261.7	295.8
Net pension liability	493.3	492.6
Net OPEB liability	76.0	106.0
Total liabilities	879.6	931.2
Deferred Inflows of Resources	95.2	80.0
Net Position (Deficit)		
Net investment in capital assets	106.1	87.7
Restricted	20.7	14.4
Unrestricted	(493.6)	(468.9)
Total net position (deficit)	\$ (366.8)	\$ (366.8)

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 \$(366.8) million at June 30, 2021. Net investment in capital assets totaling \$106.1 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, a deficit of \$493.6 million, was unrestricted.

The \$(493.6) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations and the impact from adoption of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 75 (recording the School District's share of the net pension and OPEB liabilities from the state-managed retirement system), which is driving the substantial negative net position. The operating results of the General Fund and the change in the net pension/OPEB liabilities will have significant impacts on the change in unrestricted net position from year to year. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements and to provide for future uncertainties.

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, 2021 and 2020:

	Governmental Activities	
	2021	2020
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.8	\$ 5.8
Operating grants	99.3	89.7
General revenue:		
Taxes	160.0	136.8
State aid not restricted to specific purposes	80.1	78.6
Other	2.9	7.4
Total revenue	344.1	318.3
Expenses		
Instruction	216.4	217.7
Support services	109.8	113.6
Athletics	3.1	3.2
Food services	3.8	4.3
Community services	1.3	1.4
Debt service	6.7	5.6
Other	3.0	5.5
Total expenses	344.1	351.3
Change in Net Position	-	(33.0)
Net Position (Deficit) - Beginning of year	(366.8)	(333.8)
Net Position (Deficit) - End of year	\$ (366.8)	\$ (366.8)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$344.1 million. Certain activities were partially funded from those who benefited from the programs (\$1.8 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$99.3 million). We paid for the remaining public benefit portion of our governmental activities with \$160.0 million in taxes, \$80.1 million in state foundation allowance, and other revenue (e.g., interest and general entitlements).

The School District experienced a slight increase in net position of approximately \$23.1 thousand. Key reasons that impact the change in net position include additional technology and instructional investments to provide services related to virtual instruction and other support services during the COVID-19 pandemic, capital outlay, and an increase in the School District's share of the MPERS and OPEB liabilities.

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.

The School District's Funds

As we noted earlier, the School District uses funds to 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 entrust 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 \$187.9 million, which is a decrease of \$13.0 million from last year. The primary reason for the decrease is due to the approximately \$16.7 million decrease in the 2019 bond fund as a result of capital outlay expenditures.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

In the General Fund, our principal operating fund, the fund balance increased from \$19.7 million to \$22.2 million. The change is mainly due to an unanticipated one-time increase in state school aid.

The total fund balance of our special revenue funds decreased by \$1.3 million. Due to the COVID-19 pandemic, the School District experienced a substantial decrease in revenue related to our community services programs.

The fund balance of our Debt Service Fund increased by \$0.9 million. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. The Debt Service Fund fund balance is reserved since it can be used only to pay debt service obligations.

Combined, the fund balance of our remaining capital projects funds (excluding the 2019 Bond Fund) increased by \$1.6 million as a result of use of lower than expected expenditures in our sinking fund, as the majority of the School District's buildings were not being heavily used during the year.

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 2021. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information section of these financial statements.

There were significant revisions made to the 2020-2021 General Fund original budget. Budgeted revenue was increased by approximately \$24.5 million due to CARES Act grants and increases in tax revenue. Other sources increased due to an increase in our county-wide special education millage tax collections.

Budgeted expenditures were also increased by approximately \$16.6 million to account for the increase in salaries and benefits and the anticipated increased operating costs for COVID-informed instruction and personal protective equipment resulting from the School District's revised operating plan.

Variances between the final budgeted and actual revenue amounts are due to an unanticipated increase in state school aid and the receipt of unexpected federal COVID-19 relief grant funds.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2021, the School District had \$221.2 million invested in a broad range of capital assets, including land improvements, buildings, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$5.4 million, or 2.5 percent, from last year.

	2021	2020
Land	\$ 4,693,116	\$ 4,056,933
Construction in progress	12,863,813	-
Buildings and improvements	419,070,351	418,531,786
Furniture and equipment	44,409,254	44,189,085
Buses and other vehicles	11,937,610	10,019,969
Land improvements	43,350,382	39,229,730
Total capital assets	536,324,526	516,027,503
Less accumulated depreciation	315,122,109	300,208,777
Total capital assets - Net of accumulated depreciation	<u>\$ 221,202,417</u>	<u>\$ 215,818,726</u>

This year's additions of \$22.4 million included land, vehicles, building construction, building renovations, and equipment. Several major capital projects are planned for the 2021-2022 fiscal year. The School District adopted a capital investment plan in coordination with the 2020 sale of the building and site bonds. We anticipate capital additions will exceed this year's investments. We present more detailed information about our capital assets in the notes to the financial statements.

Public Schools of the City of Ann Arbor, Michigan

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$241.3 million in bonds outstanding versus \$273.0 million in the previous year - a change of 11.6 percent. Those bonds consisted of the following:

	2021	2020
General obligation bonds	\$ 241,330,006	\$ 272,990,006

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's outstanding unqualified general obligation debt is significantly below this statutorily imposed limit.

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.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2021-2022 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 2021-2022 budget was adopted in June 2021 based on an estimate of students who will enroll in September 2021. Approximately 62 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 2021-2022 school year, we anticipate that the fall student count will be in line with the estimates used in creating the 2021-2022 budget but that the per pupil foundation allowance will be greater. 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 \$171 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 illustrate 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, MI 48104.

Public Schools of the City of Ann Arbor, Michigan

Statement of Net Position

	June 30, 2021
	<u>Governmental Activities</u>
Assets	
Cash and investments (Note 4)	\$ 34,915,915
Receivables:	
Accounts receivable	2,296,579
Due from other governments	22,779,548
Inventory	51,799
Prepaid expenses and other assets	412,639
Restricted assets (Note 4)	174,729,807
Capital assets - Net (Note 6)	<u>221,202,417</u>
Total assets	456,388,704
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 8)	1,130,546
Deferred pension costs (Note 11)	111,721,811
Deferred OPEB costs (Note 11)	<u>38,782,680</u>
Total deferred outflows of resources	151,635,037
Liabilities	
Accounts payable	13,701,237
Accrued liabilities and other	34,043,761
Unearned revenue (Note 5)	829,972
Noncurrent liabilities:	
Due within one year (Note 8)	37,750,909
Due in more than one year (Note 8)	223,969,400
Net pension liability (Note 11)	493,306,120
Net OPEB liability (Note 11)	<u>76,022,083</u>
Total liabilities	879,623,482
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to the measurement date (Note 11)	18,485,967
Deferred pension cost reductions (Note 11)	13,264,638
Deferred OPEB cost reductions (Note 11)	<u>63,447,063</u>
Total deferred inflows of resources	<u>95,197,668</u>
Net Position (Deficit)	
Net investment in capital assets	106,079,394
Restricted:	
Debt service	1,527,005
Capital projects	19,217,108
Unrestricted	<u>(493,620,916)</u>
Total net position (deficit)	<u>\$ (366,797,409)</u>

Public Schools of the City of Ann Arbor, Michigan

Statement of Activities

Year Ended June 30, 2021

	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 216,410,214	\$ -	\$ 58,352,379	\$ (158,057,835)
Support services	109,822,179	-	36,350,662	(73,471,517)
Athletics	3,062,012	270,601	-	(2,791,411)
Food services	3,848,865	135,859	3,681,972	(31,034)
Community services	1,268,655	-	956,597	(312,058)
Recreation and child care	2,957,062	1,427,320	-	(1,529,742)
Interest	6,680,097	-	-	(6,680,097)
Other debt costs	674	-	-	(674)
Depreciation expense (unallocated)	33,015	-	-	(33,015)
Total primary government	\$ 344,082,773	\$ 1,833,780	\$ 99,341,610	(242,907,383)
General revenue:				
Taxes:				
Property taxes levied for general purposes				94,254,794
Property taxes levied for debt service				41,220,056
Property taxes levied for sinking fund				24,487,942
State aid not restricted to specific purposes				80,090,727
Federal grants and contributions not restricted to specific purposes				526,861
Interest and investment earnings				259,470
Gain on sale of capital assets				61,000
Other				2,029,610
Total general revenue				242,930,460
Change in Net Position				23,077
Net Position (Deficit) - Beginning of year				(366,820,486)
Net Position (Deficit) - End of year				\$ (366,797,409)

Public Schools of the City of Ann Arbor, Michigan

Governmental Funds Balance Sheet

June 30, 2021

	General Fund	2019 Bond Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments (Note 4)	\$ 32,368,381	\$ -	\$ -	\$ 2,547,534	\$ 34,915,915
Receivables:					
Accounts receivable	2,061,290	-	-	235,289	2,296,579
Due from other governments	22,739,580	-	-	39,968	22,779,548
Inventory	-	-	-	51,799	51,799
Prepaid expenses and other assets	401,911	-	-	10,728	412,639
Restricted assets (Note 4)	-	143,068,397	2,843,268	28,818,142	174,729,807
Total assets	\$ 57,571,162	\$ 143,068,397	\$ 2,843,268	\$ 31,703,460	\$ 235,186,287
Liabilities					
Accounts payable	\$ 2,127,340	\$ 8,749,156	\$ 3,822	\$ 2,820,919	\$ 13,701,237
Accrued liabilities and other	32,731,320	-	-	-	32,731,320
Unearned revenue (Note 5)	480,374	-	-	349,598	829,972
Deferred Inflows of Resources -					
Unavailable revenue (Note 5)	5,636	-	-	-	5,636
Total liabilities and deferred inflows of resources	35,344,670	8,749,156	3,822	3,170,517	47,268,165
Fund Balances					
Nonspendable:					
Inventory	-	-	-	51,799	51,799
Prepays	401,911	-	-	10,728	412,639
Restricted:					
Debt service	-	-	2,839,446	-	2,839,446
Capital projects	-	134,319,241	-	26,335,845	160,655,086
Food service	-	-	-	2,420	2,420
Committed:					
Student/School activities	-	-	-	1,220,218	1,220,218
Community services	-	-	-	911,933	911,933
Assigned - Subsequent year's budget shortfall	6,718,241	-	-	-	6,718,241
Unassigned	15,106,340	-	-	-	15,106,340
Total fund balances	22,226,492	134,319,241	2,839,446	28,532,943	187,918,122
Total liabilities, deferred inflows of resources, and fund balances	\$ 57,571,162	\$ 143,068,397	\$ 2,843,268	\$ 31,703,460	\$ 235,186,287

Public Schools of the City of Ann Arbor, Michigan

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

June 30, 2021

Fund Balances Reported in Governmental Funds	\$ 187,918,122
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	536,324,526
Accumulated depreciation	<u>(315,122,109)</u>
Net capital assets used in governmental activities	221,202,417
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	5,636
Deferred inflows and outflows related to bond refundings are not reported in the funds	1,130,546
Bonds payable plus bond premiums are not due and payable in the current period and are not reported in the funds	(257,691,547)
Accrued interest is not due and payable in the current period and is not reported in the funds	(1,312,441)
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	(3,853,987)
Self-insurance liability	(174,775)
Net pension liability and related deferred inflows and outflows	(394,848,947)
Net OPEB liability and related deferred inflows and outflows	(100,686,466)
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>(18,485,967)</u>
Net Position (Deficit) of Governmental Activities	<u><u>\$ (366,797,409)</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, 2021

	General Fund	2019 Bond Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Local sources	\$ 96,091,929	\$ 220,846	\$ 41,220,151	\$ 26,552,726	\$ 164,085,652
State sources	126,489,573	-	6,730	261,785	126,758,088
Federal sources	19,943,763	-	-	3,753,167	23,696,930
Interdistrict sources	32,464,405	-	-	-	32,464,405
Total revenue	274,989,670	220,846	41,226,881	30,567,678	347,005,075
Expenditures					
Current:					
Instruction	160,717,169	-	-	-	160,717,169
Support services	100,670,085	201,121	38,701	292,690	101,202,597
Athletics	2,935,786	-	-	-	2,935,786
Food services	-	-	-	3,839,589	3,839,589
Community services	1,142,739	-	-	-	1,142,739
Recreation and child care	-	-	-	2,957,062	2,957,062
Debt service:					
Principal	-	-	31,660,000	-	31,660,000
Interest	-	-	8,645,137	-	8,645,137
Other debt costs	-	-	674	-	674
Capital outlay	7,022,097	16,732,246	-	23,244,094	46,998,437
Total expenditures	272,487,876	16,933,367	40,344,512	30,333,435	360,099,190
Excess of Revenue Over (Under) Expenditures	2,501,794	(16,712,521)	882,369	234,243	(13,094,115)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	61,000	-	-	-	61,000
Transfers in (Note 7)	85,005	-	-	150,568	235,573
Transfers out (Note 7)	(150,568)	-	-	(85,005)	(235,573)
Total other financing (uses) sources	(4,563)	-	-	65,563	61,000
Net Change in Fund Balances	2,497,231	(16,712,521)	882,369	299,806	(13,033,115)
Fund Balances - Beginning of year	19,729,261	151,031,762	1,957,077	28,233,137	200,951,237
Fund Balances - End of year	\$ 22,226,492	\$ 134,319,241	\$ 2,839,446	\$ 28,532,943	\$ 187,918,122

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, 2021

Net Change in Fund Balances Reported in Governmental Funds	\$ (13,033,115)
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	22,421,670
Depreciation expense	(17,037,979)
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	(764,120)
Revenue in support of pension contributions made subsequent to the measurement date	(2,196,105)
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	33,496,625
Interest expense is recognized in the government-wide statements as it accrues	128,415
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	(22,992,314)
Change in Net Position of Governmental Activities	<u>\$ 23,077</u>

Public Schools of the City of Ann Arbor, Michigan

Fiduciary Fund Statement of Fiduciary Net Position

June 30, 2021

Custodial Fund

Assets - Cash and investments (Note 4)

\$ 400,452

Liabilities

-

Net Position - Restricted for individuals, organizations, and other governments

\$ 400,452

Public Schools of the City of Ann Arbor, Michigan

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

Year Ended June 30, 2021

	<u>Custodial Fund</u>
Additions	
Interest	\$ 118
Contributions and fundraising	<u>104,284</u>
Total additions	104,402
Deductions	<u>88,479</u>
Net Increase in Fiduciary Net Position	15,923
Net Position - Beginning of year	<u>384,529</u>
Net Position - End of year	<u><u>\$ 400,452</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 health care-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 the following 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, the Debt Service Fund, and capital projects 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 2019 Bond Fund is used to record bond proceeds and the disbursement of invoices specifically designated for upgrading school facilities, enhancing building security, and upgrading learning environments throughout the School District. The fund operates until the purpose for which it was created is accomplished.
- 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.

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 or committed to expenditure for specified purposes. The School District's special revenue funds include the Food Service Fund, the Community Services Fund, and the School/Student Activity Fund. Any operating deficit generated by these activities is the responsibility of the General Fund.
- Capital projects funds are used to record bond proceeds, sinking fund millage tax revenue, or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, and equipment; technology upgrades; and remodeling and repairs. The funds operate until the purpose for which they were created is accomplished.

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. The School District maintains a custodial fund to record the transactions of scholarship funds.

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.

Note 2 - Significant Accounting Policies (Continued)

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 and commercial paper with a maturity of less than 270 days, which are valued 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 and improvements, furniture, 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:

	<u>Depreciable Life - Years</u>
Buildings, building improvements, and land improvements	20 to 50
Furniture and equipment	5 to 20
Vehicles	5 to 10

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 other financing sources and bond discounts as other financing uses. The Debt Service Fund is generally used to liquidate governmental long-term debt.

Note 2 - Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet 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 refundings and deferred pension and OPEB costs.

In addition to liabilities, the statement of net position and/or balance sheet 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.

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).

Note 2 - Significant Accounting Policies (Continued)

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 exist only 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 either to 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 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 each plan, 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.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

Upcoming Accounting Pronouncement

In June 2017, the Governmental Accounting Standards Board 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, 2022.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 21, 2021, which is the date the financial statements were available to be issued.

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. In addition, the School District adopts a budget for the bond portion of the capital projects funds upon receipt of the bond proceeds.

All annual appropriations lapse at fiscal year end. 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 balances. 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 within a range of 6 to 15 percent of the total operating costs of the School District. As of June 30, 2021, total operating costs and unassigned fund balance of the General Fund are \$265,465,779 and \$15,106,340, respectively. The unassigned fund balance necessary to adhere to the Board of Education's policy ranges from approximately \$15,928,000 to \$39,820,000.

June 30, 2021

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

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or 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 - Instruction - Basic programs	\$ 119,122,093	\$ 124,040,279
General Fund - Support services - Instructional staff	18,906,804	19,482,415
General Fund - Support services - Operations and maintenance	19,093,399	19,621,596

Capital Projects Fund Compliance

The 2015 Bond Building and Site Fund - Series II, 2012 Technology Bond Fund - Series III, and 2019 Bond Fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

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 of the State of Michigan Revised 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 no 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 3 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 1-day minimum investment period on MILAF cash management funds and a 14-day redemption limitation on MILAF MAX Class funds.

Note 4 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned 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 bank deposits of \$37,074,894 (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.

At year end, the School District had the following investments:

Investment	Carrying Value	Weighted-average Maturity (Years)
Primary Government		
U.S. Treasury	\$ 30,343,962	0.88 - 2.25
MILAF Term Series	10,000,000	0.05 - 0.13
Commercial paper	<u>10,997,612</u>	0.13 - 0.14
Total	<u>\$ 51,341,574</u>	

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	Carrying Value	Rating	Rating Organization
MILAF Term Series	\$ 10,000,000	AAAm	Standard & Poor's
MILAF bank investment pool	124,686,366	AAAm	Standard & Poor's
Commercial paper	<u>10,997,612</u>	P-1/A-1	Standard & Poor's
Total	<u>\$ 145,683,978</u>		

Note 4 - Deposits and Investments (Continued)

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer. The School District's 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, and 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 where 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.

The School District has the following recurring fair value measurements as of June 30, 2021:

	Assets Measured at Carrying Value on a Recurring Basis at June 30, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2021
U.S. Treasury securities	\$ -	\$ 30,343,962	\$ -	\$ 30,343,962

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is discussed below.

Investments in Entities that Calculate Net Asset Value per Share

The School District holds shares in the Michigan Liquid Asset Fund (MILAF) Term Series where the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment pool as a practical expedient.

As of June 30, 2021, the net asset value of the School District's investment in the MILAF Term Series was \$10,000,000. The investment pool had no unfunded commitments. The MILAF Term Series allows for the School District to set a specific redemption date set upon initiation of investment. Early redemptions are permitted; however, an early redemption fee would apply.

The MILAF Term Series includes investments 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.

June 30, 2021

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, 2021, 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	\$ 5,636	\$ -
Grant, categorical aid, tuition, and food services program payments received prior to meeting all eligibility requirements	-	829,972

Note 6 - Capital Assets

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

	Balance July 1, 2020	Additions and Transfers	Disposals and Adjustments	Balance June 30, 2021
Capital assets not being depreciated				
Land	\$ 4,056,933	\$ 636,183	\$ -	\$ 4,693,116
Construction in progress	-	12,863,813	-	12,863,813
Subtotal	4,056,933	13,499,996	-	17,556,929
Capital assets being depreciated:				
Buildings and improvements	418,531,786	538,565	-	419,070,351
Furniture and equipment	44,189,085	220,169	-	44,409,254
Buses and other vehicles	10,019,969	4,042,288	(2,124,647)	11,937,610
Land improvements	39,229,730	4,120,652	-	43,350,382
Subtotal	511,970,570	8,921,674	(2,124,647)	518,767,597
Accumulated depreciation:				
Buildings and improvements	239,260,414	11,600,884	-	250,861,298
Furniture and equipment	33,638,599	1,661,933	-	35,300,532
Buses and other vehicles	3,956,646	1,911,012	(2,124,647)	3,743,011
Land improvements	23,353,118	1,864,150	-	25,217,268
Subtotal	300,208,777	17,037,979	(2,124,647)	315,122,109
Net capital assets being depreciated	211,761,793	(8,116,305)	-	203,645,488
Net governmental activities capital assets	\$ 215,818,726	\$ 5,383,691	\$ -	\$ 221,202,417

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

Governmental activities:	
Instruction	\$ 15,573,693
Support services	1,431,271
Unallocated	33,015
Total governmental activities	\$ 17,037,979

Note 6 - Capital Assets (Continued)

Construction Commitments

The School District has active construction projects at year end. At June 30, 2021, the School District's commitments with contractors and vendors totaled approximately \$8,104,000. In addition, the School District has executed construction management contracts with several companies in connection with the first phase of the 2019 Bond Program and Sinking Fund projects.

Note 7 - Interfund Receivables, Payables, and Transfers

Interfund receivables and payables 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. There were no interfund balances at June 30, 2021.

During the year ended June 30, 2021, the Community Services Fund transferred \$45,472 to the General Fund to cover various current year administrative and overhead costs. The General Fund transferred funds of \$150,568 to the Food Service Fund to prevent the Food Service Fund from operating at a deficit for the year due to the unanticipated closure affecting incoming revenue. Additionally, the Food Service Fund transferred \$39,533 to the General Fund as a reimbursement for indirect operating costs.

Note 8 - Long-term Debt

Long-term debt activity for the year ended June 30, 2021 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:					
General obligations	\$ 272,990,006	\$ -	\$ (31,660,000)	\$ 241,330,006	\$ 34,915,006
Unamortized bond premiums	18,359,669	-	(1,998,128)	16,361,541	1,998,128
Total bonds payable	291,349,675	-	(33,658,128)	257,691,547	36,913,134
Termination pay, accumulated vacation, and sick leave	4,278,979	-	(424,992)	3,853,987	663,000
Self-insurance	161,914	12,861	-	174,775	174,775
Total governmental activities long-term debt	<u>\$ 295,790,568</u>	<u>\$ 12,861</u>	<u>\$ (34,083,120)</u>	<u>\$ 261,720,309</u>	<u>\$ 37,750,909</u>

The School District had deferred outflows of \$1,130,546 related to deferred charges on bond refundings at June 30, 2021.

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. The School District's qualified bonds are fully guaranteed by the State of Michigan. The primary source of any required repayment is from the School District's property tax levy; however, the State of Michigan may withhold the School District's state aid funding in order to recover amounts it has paid on behalf of the School District. Other long-term obligations include compensated absences, workers' compensation claims, and medical self-insurance.

Note 8 - Long-term Debt (Continued)

General obligations outstanding at June 30, 2021 are as follows:

Purpose	Remaining Annual Installments	Interest Rates (Percent)	Maturing May 1	Outstanding at June 30, 2021
\$93,230,000 2012 refunding serial bonds	\$6,065,000	4% - 5%	2022	\$ 6,065,000
\$23,830,000 2012 issuance serial bonds	\$2,335,006	4% - 5%	2022	2,335,006
\$30,790,000 2015 refunding serial bonds	\$1,980,000 - \$3,055,000	4% - 5%	2029	21,705,000
\$32,775,000 2015 issuance serial bonds	\$3,775,000 - \$4,750,000	4% - 5%	2025	17,250,000
\$9,485,000 2017 refunding serial bonds	\$735,000 - \$1,000,000	2% - 3%	2029	7,495,000
\$12,775,000 2018 issuance serial bonds	\$1,370,000 - \$1,470,000	3% - 5%	2026	7,095,000
\$140,000,000 2019 issuance serial bonds	\$4,550,000 - \$17,825,000	3%	2040	124,700,000
\$55,500,000 2019 refunding serial bonds	\$830,000 - \$8,305,000	1% - 3%	2029	54,685,000
Total governmental activities				<u>\$ 241,330,006</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.

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 8 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2022	\$ 34,915,006	\$ 7,874,644	\$ 42,789,650
2023	20,885,000	6,593,509	27,478,509
2024	21,600,000	5,883,764	27,483,764
2025	22,255,000	5,139,161	27,394,161
2026	17,855,000	4,347,361	22,202,361
2027-2031	63,270,000	13,886,839	77,156,839
2032-2036	31,700,000	7,236,750	38,936,750
2037-2040	28,850,000	2,192,250	31,042,250
Total	<u>\$ 241,330,006</u>	<u>\$ 53,154,278</u>	<u>\$ 294,484,284</u>

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 \$175,014 for the year ended June 30, 2021.

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

	2021	2020
Potential claims, including IBNR - Beginning of year	\$ 161,914	\$ 300,908
Increase (decrease) in estimated liability - Net of claims incurred and claims paid	<u>12,861</u>	<u>(138,994)</u>
Estimated liability - End of year	<u>\$ 174,775</u>	<u>\$ 161,914</u>

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

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.

Note 10 - Contingent Liabilities (Continued)

Property Tax Appeals

Several appeals of property tax assessments are currently pending before the Michigan Tax Tribunal. The School District would become liable to refund any taxes collected due to overassessment but would subsequently be reimbursed by the State for any refunded amounts related to operating levies (but not for amounts related to debt or sinking fund levies). Management is unable to estimate the amount of 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 (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 health care benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment health care 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 health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>.

Benefits Provided

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

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

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 health care recipient. Depending on the member's date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

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 retiree health care 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 health care expenses in retirement. Participants in the PHF are automatically enrolled in a 2 percent employee contribution into their 457 accounts as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stopped paying the 3 percent contribution to retiree health care as of the day before their transition date, and their prior contributions were deposited into their 401(k) accounts.

The School District's contributions are determined based on employee elections. There are multiple different pension and health care 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, 2019 - September 30, 2020	13.39% - 19.59%	7.57% - 8.09%
October 1, 2020 - September 30, 2021	13.39% - 19.78%	7.57% - 8.43%

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, 2021 were \$45,107,553, which includes 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 \$18,485,967 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, 2021.

June 30, 2021

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

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2021 were \$11,607,613, which includes the School District's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2021, the School District reported a liability of \$493,306,120 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019, which used update procedures to roll forward the estimated liability to September 30, 2020. 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, 2020 and 2019, the School District's proportion was 1.44 and 1.48 percent, respectively, representing a change of (3.46) percent.

Net OPEB Liability

At June 30, 2021, the School District reported a liability of \$76,022,083 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2021 was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019, which used update procedures to roll forward the estimated liability to September 30, 2020. 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, 2020 and 2019, the School District's proportion was 1.42 and 1.48 percent, respectively, representing a change of (3.92) percent.

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

For 2021, the School District recognized pension expense of \$78,725,635, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2021, 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	\$ 7,537,313	\$ (1,052,890)
Changes in assumptions	54,663,074	-
Net difference between projected and actual earnings on pension plan investments	2,072,652	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	9,719,216	(12,211,748)
The School District's contributions to the plan subsequent to the measurement date	37,729,556	-
Total	<u>\$ 111,721,811</u>	<u>\$ (13,264,638)</u>

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

The \$18,485,967 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, 2022. 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
2022	\$ 31,660,096
2023	19,430,932
2024	7,870,832
2025	1,765,757
Total	<u>\$ 60,727,617</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, 2021, the School District recognized OPEB recovery of \$1,845,827.

At June 30, 2021, 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	\$ -	\$ (56,643,558)
Changes in assumptions	25,065,991	-
Net difference between projected and actual earnings on OPEB plan investments	634,489	-
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	4,825,896	(6,803,505)
Employer contributions to the plan subsequent to the measurement date	8,256,304	-
Total	<u>\$ 38,782,680</u>	<u>\$ (63,447,063)</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
2022	\$ (8,146,686)
2023	(7,263,377)
2024	(6,579,340)
2025	(6,184,665)
2026	(4,746,619)
Total	<u>\$ (32,920,687)</u>

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

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2020 are based on the results of an actuarial valuation as of September 30, 2019 and rolled forward. The total pension liability and OPEB liability were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal
Investment rate of return - Pension	6.00% - 6.80%	Net of investment expenses on the groups
Investment rate of return - OPEB	6.95%	Net of investment expenses on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75%
Health care cost trend rate - OPEB	7.0%	Year 1, graded to 3.5% in year 15, 3.0% in year 120
Mortality basis		RP-2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% for males and 78% for females) and adjusted for mortality improvements using projection scale MP-2017 from 2006
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 2012 to 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation.

Significant assumption changes since the prior measurement date, September 30, 2019, for the OPEB plan include a reduction in the health care cost trend rate of 0.50 percentage points and the actual per person health benefit costs being lower than projected. There were no significant changes in assumptions for the pension actuarial valuation. There were no significant benefit terms changes for the pension or OPEB plans since the prior measurement date of September 30, 2019.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 to 6.80 percent as of September 30, 2020 depending on the plan option. The discount rate used to measure the total OPEB liability was 6.95 percent as of September 30, 2020. 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.

June 30, 2021

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

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	25.00 %	5.60 %
Private equity pools	16.00	9.30
International equity pools	15.00	7.40
Fixed-income pools	10.50	0.50
Real estate and infrastructure pools	10.00	4.90
Absolute return pools	9.00	3.20
Real return/opportunistic pools	12.50	6.60
Short-term investment pools	2.00	(0.10)
Total	100.00 %	

Long-term rates of return are net of administrative expense and inflation of 2.1 percent.

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 Percentage Point Decrease (5.00 - 5.80%)	Current Discount Rate (6.00 - 6.80%)	1 Percentage Point Increase (7.00 - 7.80%)
Net pension liability of the School District	\$ 638,501,090	\$ 493,306,120	\$ 372,971,853

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 Percentage Point Decrease (5.95%)	Current Discount Rate (6.95%)	1 Percentage Point Increase (7.95%)
Net OPEB liability of the School District	\$ 97,659,006	\$ 76,022,083	\$ 57,805,608

June 30, 2021

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

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

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

	1 Percentage Point Decrease (6.00%)	Current Rate (7.0%)	1 Percentage Point Increase (8.0%)
Net OPEB liability of the School District	\$ 57,108,132	\$ 76,022,083	\$ 97,534,368

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, 2021, the School District reported a payable of \$8,797,477 and \$2,331,798 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2021.

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, 2021, the School District's property tax revenue was reduced by approximately \$238,000 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 \$174,000 in reimbursements from the State of Michigan. The School District is not reimbursed for lost revenue from the sinking fund or debt service millages. There are no abatements made by the School District.

Required Supplemental Information

Public Schools of the City of Ann Arbor, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 99,881,260	\$ 98,898,226	\$ 96,091,929	\$ (2,806,297)
State sources	106,909,147	123,765,934	126,489,573	2,723,639
Federal sources	7,494,869	18,110,318	19,943,763	1,833,445
Interdistrict sources	34,425,720	32,458,200	32,464,405	6,205
Total revenue	248,710,996	273,232,678	274,989,670	1,756,992
Expenditures				
Current:				
Instruction:				
Basic programs	116,290,189	119,122,093	124,040,279	4,918,186
Added needs	37,120,708	38,276,773	36,418,747	(1,858,026)
Adult/Continuing education	254,415	371,323	259,203	(112,120)
Support services:				
Pupil	32,283,953	34,238,564	33,255,906	(982,658)
Instructional staff	12,552,713	18,906,804	19,482,309	575,505
General administration	2,600,022	2,742,128	2,574,340	(167,788)
School administration	16,012,565	17,249,370	15,726,956	(1,522,414)
Business	2,713,896	2,961,165	2,654,299	(306,866)
Operations and maintenance	17,026,638	19,093,399	19,621,596	528,197
Pupil transportation services	9,260,396	8,260,396	7,757,207	(503,189)
Central	6,265,412	6,988,211	6,614,489	(373,722)
Athletics	2,816,464	3,140,825	2,939,806	(201,019)
Community services	990,634	1,186,664	1,142,739	(43,925)
Total expenditures	256,188,005	272,537,715	272,487,876	(49,839)
Excess of Revenue (Under) Over Expenditures	(7,477,009)	694,963	2,501,794	1,806,831
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	61,000	61,000
Transfers in	-	-	85,005	85,005
Transfers out	-	(245,240)	(150,568)	94,672
Total other financing uses	-	(245,240)	(4,563)	240,677
Net Change in Fund Balance	(7,477,009)	449,723	2,497,231	2,047,508
Fund Balance - Beginning of year	19,729,261	19,729,261	19,729,261	-
Fund Balance - End of year	<u>\$ 12,252,252</u>	<u>\$ 20,178,984</u>	<u>\$ 22,226,492</u>	<u>\$ 2,047,508</u>

Public Schools of the City of Ann Arbor, Michigan

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

	Last Seven Plan Years						
	Plan Years Ended September 30						
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability	1.43607 %	1.48754 %	1.47009 %	1.40802 %	1.32793 %	1.27127 %	1.26546 %
School District's proportionate share of the net pension liability	\$ 493,306,120	\$ 492,622,188	\$ 441,935,887	\$ 364,878,575	\$ 331,306,659	\$ 310,508,345	\$ 278,734,374
School District's covered payroll	\$ 126,016,404	\$ 129,262,694	\$ 129,172,261	\$ 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 payroll	391.46 %	381.10 %	342.13 %	303.28 %	289.98 %	296.56 %	272.28 %
Plan fiduciary net position as a percentage of total pension liability	59.49 %	60.08 %	62.12 %	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 Seven Fiscal Years						
	Years Ended June 30						
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 44,026,557	\$ 40,068,888	\$ 40,073,251	\$ 37,893,647	\$ 32,516,905	\$ 29,618,370	\$ 21,769,845
Contributions in relation to the statutorily required contribution	<u>44,026,557</u>	<u>40,068,888</u>	<u>40,073,251</u>	<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>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 130,986,956	\$ 125,495,569	\$ 129,370,099	\$ 127,969,324	\$ 116,978,719	\$ 106,641,677	\$ 101,096,608
Contributions as a Percentage of Covered Payroll	33.61 %	31.93 %	30.98 %	29.61 %	27.80 %	27.77 %	21.53 %

Public Schools of the City of Ann Arbor, Michigan

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

	Last Four Plan Years Plan Years Ended September 30			
	2020	2019	2018	2017
School District's proportion of the net OPEB liability	1.41905 %	1.47691 %	1.51567 %	1.40536 %
School District's proportionate share of the net OPEB liability	\$ 76,022,083	\$ 106,009,015	\$ 120,480,255	\$ 124,451,090
School District's covered payroll	\$ 126,016,404	\$ 129,262,694	\$ 129,172,261	\$ 120,309,307
School District's proportionate share of the net OPEB liability as a percentage of its covered payroll	60.33 %	82.01 %	93.27 %	103.44 %
Plan fiduciary net position as a percentage of total OPEB liability	59.76 %	48.67 %	43.10 %	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 Four Fiscal Years Years Ended June 30			
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 10,900,407	\$ 10,084,322	\$ 10,162,054	\$ 9,242,872
Contributions in relation to the statutorily required contribution	<u>10,900,407</u>	<u>10,084,322</u>	<u>10,162,054</u>	<u>9,242,872</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 130,986,956	\$ 125,495,569	\$ 129,370,099	\$ 127,969,324
Contributions as a Percentage of Covered Payroll	8.32 %	8.04 %	7.86 %	7.22 %

June 30, 2021

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 for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30 except for the following:

- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25 percentage points.
- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017.
- 2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percentage points.

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 in benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30 except for the following:

- 2020 - The health care cost trend rate used in the September 30, 2019 actuarial valuation decreased by 0.50 percentage points. This, in addition to actual per person health benefit costs being lower than projected, reduced the plan's total OPEB liability by an additional \$1.8 billion in 2020.
- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.20 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. This resulted in a lower than projected per person health benefit cost to reduce the plan's total OPEB liability by an additional \$1.4 billion in 2019.
- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. This resulted in a lower than projected per person health benefit cost to reduce the plan's total OPEB liability by \$1.4 billion in 2018.

Other Supplemental Information

Public Schools of the City of Ann Arbor, Michigan

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2021

	Special Revenue Funds			Capital Projects Funds				Total
	Food Service Fund	Community Services Fund	School/Student Activity Fund	2015 Building and Site Bond Fund - Series II	2012 Technology Bond Fund - Series III	2015 Technology Bond Fund	2010 Sinking Fund	
Assets								
Cash and investments	\$ 349,506	\$ 967,836	\$ 1,229,368	\$ -	\$ 824	\$ -	\$ -	\$ 2,547,534
Receivables:								
Accounts receivable	233,644	1,645	-	-	-	-	-	235,289
Due from other governments	39,968	-	-	-	-	-	-	39,968
Inventory	51,799	-	-	-	-	-	-	51,799
Prepaid expenses and other assets	-	10,728	-	-	-	-	-	10,728
Restricted assets	-	-	-	2,641,641	6,045,077	337,868	19,793,556	28,818,142
Total assets	\$ 674,917	\$ 980,209	\$ 1,229,368	\$ 2,641,641	\$ 6,045,901	\$ 337,868	\$ 19,793,556	\$ 31,703,460
Liabilities								
Accounts payable	\$ 271,100	\$ 57,548	\$ 9,150	\$ -	\$ 606,606	\$ 67,213	\$ 1,809,302	\$ 2,820,919
Unearned revenue	349,598	-	-	-	-	-	-	349,598
Total liabilities	620,698	57,548	9,150	-	606,606	67,213	1,809,302	3,170,517
Fund Balances								
Nonspendable:								
Inventory	51,799	-	-	-	-	-	-	51,799
Prepays	-	10,728	-	-	-	-	-	10,728
Restricted:								
Capital projects	-	-	-	2,641,641	5,439,295	270,655	17,984,254	26,335,845
Food service	2,420	-	-	-	-	-	-	2,420
Committed:								
Student/School activities	-	-	1,220,218	-	-	-	-	1,220,218
Community services	-	911,933	-	-	-	-	-	911,933
Total fund balances	54,219	922,661	1,220,218	2,641,641	5,439,295	270,655	17,984,254	28,532,943
Total liabilities and fund balances	\$ 674,917	\$ 980,209	\$ 1,229,368	\$ 2,641,641	\$ 6,045,901	\$ 337,868	\$ 19,793,556	\$ 31,703,460

Public Schools of the City of Ann Arbor, Michigan

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

Year Ended June 30, 2021

	Special Revenue Funds			Capital Projects Funds				Total
	Food Service Fund	Community Services Fund	School/Student Activity Fund	2015 Building and Site Bond - Series II	2012 Technology Bond - Series III	2015 Technology Bond Fund	2010 Sinking Fund	
Revenue								
Local sources	\$ 135,859	\$ 1,444,072	\$ 235,832	\$ 22,683	\$ 2,407	\$ 1,551	\$ 24,710,322	\$ 26,552,726
State sources	260,140	1,645	-	-	-	-	-	261,785
Federal sources	3,526,367	226,800	-	-	-	-	-	3,753,167
Total revenue	3,922,366	1,672,517	235,832	22,683	2,407	1,551	24,710,322	30,567,678
Expenditures								
Current:								
Support services	12,589	3,923	244,771	-	-	-	31,407	292,690
Food services	3,839,589	-	-	-	-	-	-	3,839,589
Recreation and child care	-	2,957,062	-	-	-	-	-	2,957,062
Capital outlay	127,004	-	-	569,128	2,837,791	173,133	19,537,038	23,244,094
Total expenditures	3,979,182	2,960,985	244,771	569,128	2,837,791	173,133	19,568,445	30,333,435
Excess of Revenue (Under) Over Expenditures	(56,816)	(1,288,468)	(8,939)	(546,445)	(2,835,384)	(171,582)	5,141,877	234,243
Other Financing Sources (Uses)								
Transfers in	150,568	-	-	-	-	-	-	150,568
Transfers out	(39,533)	(45,472)	-	-	-	-	-	(85,005)
Total other financing sources (uses)	111,035	(45,472)	-	-	-	-	-	65,563
Net Change in Fund Balances	54,219	(1,333,940)	(8,939)	(546,445)	(2,835,384)	(171,582)	5,141,877	299,806
Fund Balances - Beginning of year	-	2,256,601	1,229,157	3,188,086	8,274,679	442,237	12,842,377	28,233,137
Fund Balances - End of year	\$ 54,219	\$ 922,661	\$ 1,220,218	\$ 2,641,641	\$ 5,439,295	\$ 270,655	\$ 17,984,254	\$ 28,532,943

Public Schools of the City of Ann Arbor, Michigan

Other Supplemental Information Schedule of Bonded Indebtedness

June 30, 2021

Years Ending June 30	2012 Refunding Debt Payment		2012 Bond Debt Payment		2015 Refunding Debt Payment		2015 Bond Debt Payment	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 6,065,000	\$ 242,600	\$ 2,335,006	\$ 116,750	\$ 1,980,000	\$ 1,085,250	\$ 3,775,000	\$ 862,500
2023	-	-	-	-	2,565,000	986,250	4,225,000	673,750
2024	-	-	-	-	2,650,000	858,000	4,500,000	462,500
2025	-	-	-	-	2,735,000	725,500	4,750,000	237,500
2026	-	-	-	-	2,820,000	588,750	-	-
2027	-	-	-	-	2,905,000	447,750	-	-
2028	-	-	-	-	2,995,000	302,500	-	-
2029	-	-	-	-	3,055,000	152,750	-	-
2030	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-
Total remaining payments	<u>\$ 6,065,000</u>	<u>\$ 242,600</u>	<u>\$ 2,335,006</u>	<u>\$ 116,750</u>	<u>\$ 21,705,000</u>	<u>\$ 5,146,750</u>	<u>\$ 17,250,000</u>	<u>\$ 2,236,250</u>
Principal payments due	May 1		May 1		May 1		May 1	
Interest payments due	May 1 and November 1		May 1 and November 1		May 1 and November 1		May 1 and November 1	
Interest rate	4.00 - 5.00%		2.00 - 5.00%		4.00 - 5.00%		4.00 - 5.00%	
Original issue	<u>\$ 93,230,000</u>		<u>\$ 23,830,000</u>		<u>\$ 30,790,000</u>		<u>\$ 32,775,000</u>	

Public Schools of the City of Ann Arbor, Michigan

**Other Supplemental Information
Schedule of Bonded Indebtedness (Continued)**

June 30, 2021

Years Ending June 30	2017 Refunding Debt Payment		2018 Bond Debt Payment		2019 Bond Debt Payment		2020 Refunding Debt Payment		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2022	\$ 735,000	\$ 197,500	\$ 1,370,000	\$ 354,750	\$ 17,825,000	\$ 3,741,000	\$ 830,000	\$ 1,274,294	\$ 42,789,650
2023	1,000,000	182,800	1,390,000	286,250	4,550,000	3,206,250	7,155,000	1,258,209	27,478,509
2024	1,000,000	162,800	1,420,000	216,750	4,700,000	3,069,750	7,330,000	1,113,964	27,483,764
2025	1,000,000	142,800	1,445,000	145,750	4,825,000	2,928,750	7,500,000	958,861	27,394,161
2026	900,000	112,800	1,470,000	73,500	4,975,000	2,784,000	7,690,000	788,311	22,202,361
2027	950,000	85,800	-	-	5,125,000	2,634,750	7,850,000	604,213	20,602,513
2028	955,000	57,300	-	-	5,275,000	2,481,000	8,025,000	409,925	20,500,725
2029	955,000	28,650	-	-	5,450,000	2,322,750	8,305,000	209,701	20,478,851
2030	-	-	-	-	5,625,000	2,159,250	-	-	7,784,250
2031	-	-	-	-	5,800,000	1,990,500	-	-	7,790,500
2032	-	-	-	-	5,975,000	1,816,500	-	-	7,791,500
2033	-	-	-	-	6,150,000	1,637,250	-	-	7,787,250
2034	-	-	-	-	6,325,000	1,452,750	-	-	7,777,750
2035	-	-	-	-	6,525,000	1,263,000	-	-	7,788,000
2036	-	-	-	-	6,725,000	1,067,250	-	-	7,792,250
2037	-	-	-	-	6,925,000	865,500	-	-	7,790,500
2038	-	-	-	-	7,125,000	657,750	-	-	7,782,750
2039	-	-	-	-	7,300,000	444,000	-	-	7,744,000
2040	-	-	-	-	7,500,000	225,000	-	-	7,725,000
Total remaining payments	\$ 7,495,000	\$ 970,450	\$ 7,095,000	\$ 1,077,000	\$ 124,700,000	\$ 36,747,000	\$ 54,685,000	\$ 6,617,478	\$ 294,484,284
Principal payments due	May 1		May 1		May 1		May 1		
Interest payments due	May 1 and November 1		May 1 and November 1		May 1 and November 1		May 1 and November 1		
Interest rate	2.00 - 3.00%		3.00 - 5.00%		3.00%		1.00 - 3.00%		
Original issue	\$ 9,485,000		\$ 12,775,000		\$ 140,000,000		\$ 55,500,000		