

# **School District, City of Flint**

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

# School District, City of Flint

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## Independent Auditor's Report

To the Board of Education  
School District, City of Flint

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the School District, City of Flint, as of and for the year ended June 30, 2017, and the related notes to the financial statements.

### ***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 an opinion 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 opinion.

### ***Opinions***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the School District, City of Flint as of June 30, 2017, and the changes in its financial position and its cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Education  
School District, City of Flint

***Emphasis of Matter***

The accompanying basic financial statements have been prepared assuming that the School District, City of Flint will continue as a going concern. During the year ended June 30, 2017, the School District has recorded proceeds from long-term borrowings totaling approximately \$22,700,000. The structuring of these obligations has enabled the School District to report a positive General Fund fund balance of \$7,617,705 as of June 30, 2017. The General Fund will be required to make payments toward these long-term obligations as they come due. If revenue generated from School District operations is not sufficient to make these future payments, it is likely that the General Fund will return to a deficit position. Management represents that the School District anticipates a further loss of students for fiscal year 2018 and ongoing significant cash flow shortages. These issues raise substantial doubt about the School District's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

***Required Supplemental Information***

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

***Other Information***

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

To the Board of Education  
School District, City of Flint

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2017 on our consideration of the School District, City of Flint's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District, City of Flint's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 24, 2017

# School District, City of Flint

## Management's Discussion and Analysis

This section of the 2017 annual financial report of the School District, City of Flint (the "School District") presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2017. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### Using this Annual Report

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

The annual report includes the following:

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

#### Basic Financial Statements

Government-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

#### Required Supplemental Information

Budgetary Information for General Fund

Schedule of School District, City of Flint's Proportionate Share of the Net Pension Liability

Schedule of School District, City of Flint's Pension 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 prepared these statements to include all assets, deferred outflows, liabilities, and deferred inflows 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.

# School District, City of Flint

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## Management's Discussion and Analysis (Continued)

These two statements report the School District's net position - the difference between assets and deferred outflows, compared to liabilities and deferred inflows, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

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

### ***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Cafeteria Fund, for example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as the Sinking Fund used for voter-approved capital expenditures).

The governmental funds of the School District use the following accounting approach:

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

# School District, City of Flint

## 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. Below is a summary of the School District's net position as of June 30, 2017 and 2016:

#### Statement of Net Position

	June 30	
	2017	2016
<b>Assets</b>		
Current assets	\$ 22,274,468	\$ 16,584,961
Restricted assets	2,219,592	6,163,027
Capital assets net of depreciation	23,239,810	24,068,517
Total assets	47,733,870	46,816,505
<b>Deferred Outflows of Resources</b>	10,732,547	10,234,657
Total assets and deferred outflows of resources	58,466,417	57,051,162
<b>Liabilities</b>		
Current liabilities	11,867,968	14,213,970
Current portion of long-term liabilities	4,081,062	15,756,348
Long-term liabilities	115,013,823	105,485,121
Total liabilities	130,962,853	135,455,439
<b>Deferred Inflows of Resources</b>	34,978,301	38,870,167
Total liabilities and deferred inflows of resources	165,941,154	174,325,606
<b>Net Position</b>		
Net investment in capital assets	17,239,810	16,568,517
Restricted:		
Debt service	79,836	-
Capital projects	1,837,412	1,096,924
Food services	885,849	490,707
Unrestricted	(127,517,644)	(135,430,592)
Total net position	<b>\$ (107,474,737)</b>	<b>\$ (117,274,444)</b>

The above analysis focuses on the School District's net position. The change in net position of the School District's governmental activities is discussed below. The School District's net position was a deficit of \$107.5 million at June 30, 2017 and a deficit of \$117.3 million at June 30, 2016. 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 the net position for day-to-day operations. The School District's net position is comprised of a \$17.2 million net investment in capital assets and \$2.8 million restricted for debt service, capital projects, and food services, with a total deficit net position of \$107.5 million.

# School District, City of Flint

## Management's Discussion and Analysis (Continued)

The \$127.5 million unrestricted deficit net position of governmental activities represents the School District's obligations that are greater than its assets available to pay them with available school district resources. Total net position deficit decreased by \$9.8 million during the fiscal year ended June 30, 2017.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Below is a summary of the government-wide results of operation for the years ended June 30, 2017 and 2016:

	Operating Results	
	Year Ended June 30	
	2017	2016
<b>General Revenue</b>		
Property taxes	\$ 10,099,860	\$ 9,993,780
Unrestricted state aid	35,886,713	27,402,630
Other	3,012,301	5,731,649
Total general revenue	48,998,874	43,128,059
<b>Program Revenue</b>		
Charges for services	75,044	69,646
Operating grants and contributions	31,700,011	40,667,054
Total program revenue	31,775,055	40,736,700
Total revenue	80,773,929	83,864,759
<b>Expenses</b>		
Instruction	27,668,267	30,902,797
Support services	35,319,963	30,504,119
Athletics	420,752	351,703
Food services	4,527,205	4,294,468
Community services	1,266,598	913,891
Interest	1,236,612	2,037,055
Debt issuance costs	534,825	-
Total expenses	70,974,222	69,004,033
<b>Change in Net Position</b>	9,799,707	14,860,726
<b>Net Position - Beginning of year</b>	(117,274,444)	(132,135,170)
<b>Net Position - End of year</b>	<b>\$ (107,474,737)</b>	<b>\$ (117,274,444)</b>

# School District, City of Flint

## Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities was \$71.0 million in 2017 and \$69.0 million in 2016. Certain activities were partially funded from those who benefited from the programs (\$0.1 million in 2017 and 2016) or by other governments and organizations that subsidized certain programs with grants and contributions (\$31.7 million in 2017 and \$40.7 million in 2016). We paid for the remaining "public benefit" portion of our governmental activities with \$10.1 million and \$10.0 million in taxes in 2017 and 2016, respectively, \$35.9 million in unrestricted state aid in 2017 and \$27.4 million in 2016, and with our other revenue (i.e., interest and general entitlements).

The School District experienced an improvement in net position of \$9.8 million in 2017, primarily related to an increase in general revenue.

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$10.4 million, which is an increase of \$8.7 million from the previous year. The primary reasons for the increase are as follows:

- In the General Fund, our principal operating fund, the fund balance increased from \$112,000 to \$7.6 million. The change is mainly due to recognition of proceeds related to long-term financing.

The School District maintains a fund to segregate the voter-approved Sinking Fund millage. The balance of this fund is available to fund specific capital projects allowed by state law and approved by the voters. The fund balance at June 30, 2017 for the Capital Projects Sinking Fund was approximately \$1.8 million.

During the year, the School District settled its lawsuit with the Genesee ISD for \$2.25 million. The settlement is payable over 20 years and is noninterest bearing.

# School District, City of Flint

## Management's Discussion and Analysis (Continued)

### General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information in these financial statements.

There were significant revisions made to the 2016-2017 General Fund original budget. Budgeted revenue was increased by \$6.9 million, primarily due to timing of recognition of previously unavailable state aid revenue. Budgeted expenditures were also increased by \$18.2 million, primarily as a result of the School District's conversion of short-term obligations into long-term debt.

There were significant variances between the final amended budget and actual results for the year ended June 30, 2017. The most significant variances include expenditures and other financing sources related to the School District's dispute resolution agreement with the Genesee ISD.

The School District ended the June 30, 2017 fiscal year with a \$7.6 positive General Fund balance. This positive fund balance position eliminated the School District's requirement to submit a deficit elimination plan (DEP) to the State of Michigan. The primary factor resulting in the positive fund balance was the School District's ability to utilize long-term obligations to finance its current and accumulated operating expenses utilizing a long-term financing plan.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2017, the School District had \$23.2 million invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, furniture, and equipment. This amount represents a net decrease of approximately \$0.8 million from last year.

	Capital Assets at Year End (Net of Depreciation)	
	2017	2016
Land	\$ 2,823,396	\$ 2,823,396
Construction in progress	288,255	189,534
Buildings and improvements	19,870,346	20,695,378
Furniture and equipment	226,783	312,482
Buses and other vehicles	31,030	47,727
Total	<u>\$ 23,239,810</u>	<u>\$ 24,068,517</u>

# **School District, City of Flint**

## **Management's Discussion and Analysis (Continued)**

### ***Debt***

At June 30, 2017, the School District had \$6.0 million in general obligation bonds outstanding for capital projects. Debt service is paid from Sinking Fund revenue and a federal subsidy.

The School District also had \$19.3 million in revenue bonds outstanding. Debt service is paid from state aid revenue.

Other long-term obligations, including compensated absences earned but not used and payable, workers' compensation claim liabilities, and liabilities for remediation and dispute resolution agreements amounted to \$9.4 million at June 30, 2017.

### **Economic Factors and Next Year's Budgets and Rates**

The School District's Board of Education and administration begin reviewing revenue and expenditure projections for the 2017-2018 fiscal year early in the 2017 school year for the budget to be adopted by July 1. The budget is developed to support programs and services designed to achieve the goals and objectives of the School District as outlined in the School District's strategic plan. Resources for funding the budget include current year revenue.

Under state law, the School District cannot assess additional property tax revenue for General Fund operations. As a result, School District funding is heavily dependent on the State's ability to collect revenue to fund its appropriation to school districts. Once the final student count is validated, state law requires the School District to amend the budget if actual school district resources are not sufficient to fund original appropriations.

The School District's preliminary blended pupil count for the 2017-2018 school year is close to projection assumptions utilized to develop the original General Fund budget for the fiscal year ended June 30, 2018, which reflects a use of fund balance of approximately \$550,000. The School District continues to closely monitor student counts and to make strides to stabilize enrollment. As the School District moves forward, budgets will be closely monitored and adjustments will be made as necessary in an effort to achieve long-term financial stability, continuing the progress that was made during the year ended June 30, 2017 resulting from the establishment of long-term financing.

### **Contacting the School District's Management**

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. Questions concerning this report or requests for additional information should be addressed to the Business Office, Flint Community Schools, 923 E. Kearsley Street, Flint, Michigan 48503; telephone number (810) 760-1000.

# School District, City of Flint

## Statement of Net Position June 30, 2017

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 6,743,178
Receivables:	
Accounts receivable	462,897
Due from other governmental units	14,747,822
Prepaid costs and deposits	320,571
Restricted assets (Note 4)	2,219,592
Capital assets - Net (Note 6)	<u>23,239,810</u>
Total assets	47,733,870
<b>Deferred Outflows of Resources -</b>	
Deferred outflows related to pensions (Note 10)	<u>10,732,547</u>
Total assets and deferred outflows of resources	58,466,417
<b>Liabilities</b>	
Accounts payable	6,840,796
Accrued payroll-related liabilities	4,167,213
Accrued interest	56,063
Due to other governmental units	621,844
Unearned revenue (Note 5)	182,052
Long-term obligations:	
Due within one year (Note 8)	4,081,062
Due in more than one year (Note 8)	30,667,575
Net pension liability (Note 10)	<u>84,346,248</u>
Total liabilities	130,962,853
<b>Deferred Inflows of Resources</b>	
Revenue in support of pension contributions made subsequent to the measurement date (Note 10)	2,498,321
Deferred inflows of resources related to pensions (Note 1)	<u>32,479,980</u>
Total deferred inflows of resources	<u>34,978,301</u>
Total liabilities and deferred inflows of resources	<u>165,941,154</u>
<b>Net Position</b>	
Net investment in capital assets	17,239,810
Restricted:	
Debt service	79,836
Capital projects	1,837,412
Food services	885,849
Unrestricted	<u>(127,517,644)</u>
Total net position	<u><b>\$ (107,474,737)</b></u>

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

# School District, City of Flint

## Statement of Activities Year Ended June 30, 2017

Functions/Programs	Program Revenue			Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Primary government - Governmental activities:				Governmental Activities - Net (Expense) Revenue and Changes in Net Position
Instruction	\$ 27,668,267	\$ -	\$ 17,513,303	\$ (10,154,964)
Support services	35,319,963	-	9,430,240	(25,889,723)
Athletics	420,752	42,047	-	(378,705)
Food services	4,527,205	32,997	4,756,468	262,260
Community services	1,266,598	-	-	(1,266,598)
Interest	1,236,612	-	-	(1,236,612)
Debt issuance costs	534,825	-	-	(534,825)
<b>Total primary government</b>	<b>\$ 70,974,222</b>	<b>\$ 75,044</b>	<b>\$ 31,700,011</b>	<b>(39,199,167)</b>
General revenue:				
Taxes:				
Property taxes, levied for general purposes				7,430,531
Property taxes, levied for capital projects				2,669,329
State aid not restricted to specific purposes				35,886,713
Federal sources - Unrestricted				304,086
Interest and investment earnings				19,841
Gain on the sale of capital assets and insurance recoveries				372,769
Other				2,315,605
<b>Total general revenue</b>				<b>48,998,874</b>
<b>Change in Net Position</b>				<b>9,799,707</b>
<b>Net Position - Beginning of year</b>				<b>(117,274,444)</b>
<b>Net Position - End of year</b>				<b>\$ (107,474,737)</b>

# School District, City of Flint

## Governmental Funds Balance Sheet June 30, 2017

<b>Assets</b>	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Cash and investments (Note 3)	\$ 5,185,444	\$ 1,364,265	\$ 6,549,709
Receivables:			
Accounts receivable	462,897	-	462,897
Due from other governmental units	14,556,531	191,291	14,747,822
Due from other funds (Note 7)	69,061	-	69,061
Prepaid costs	194,529	-	194,529
Restricted assets (Note 4)	<u>232,000</u>	<u>1,987,592</u>	<u>2,219,592</u>
Total assets	<u><b>\$ 20,700,462</b></u>	<u><b>\$ 3,543,148</b></u>	<u><b>\$ 24,243,610</b></u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 6,144,361	\$ 696,435	\$ 6,840,796
Accrued payroll-related liabilities	4,167,213	-	4,167,213
Due to other governmental units	621,844	-	621,844
Due to other funds (Note 7)	-	69,061	69,061
Unearned revenue (Note 5)	<u>182,052</u>	<u>-</u>	<u>182,052</u>
Total liabilities	11,115,470	765,496	11,880,966
<b>Deferred Inflows of Resources -</b>			
Unavailable revenue (Note 5)	<u>1,967,287</u>	<u>-</u>	<u>1,967,287</u>
Total liabilities and deferred inflows of resources	13,082,757	765,496	13,848,253
<b>Fund Balances</b>			
Nonspendable - Prepaid costs	194,529	-	194,529
Restricted:			
Debt service	-	135,899	135,899
Food services	-	885,849	885,849
Capital projects	-	1,837,412	1,837,412
Unassigned	<u>7,423,176</u>	<u>(81,508)</u>	<u>7,341,668</u>
Total fund balances	<u>7,617,705</u>	<u>2,777,652</u>	<u>10,395,357</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><b>\$ 20,700,462</b></u>	<u><b>\$ 3,543,148</b></u>	<u><b>\$ 24,243,610</b></u>

# School District, City of Flint

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2017

<b>Fund Balance Reported in Governmental Funds</b>	\$	10,395,357
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	\$ 60,519,349	
Accumulated depreciation	<u>(37,279,539)</u>	23,239,810
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds		1,967,287
Deferred outflows related to pensions are not reported in the funds		10,732,547
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds		(34,485,970)
Accrued interest payable is not included as a liability in governmental funds		(56,063)
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position		56,844
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(84,346,248)
Deferred inflows related to revenue in support of pension contributions made subsequent to the measurement date are not reported in the governmental funds		(2,498,321)
Deferred inflows related to pension investment returns and changes in assumptions are not reported in the governmental funds		<u>(32,479,980)</u>
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(107,474,737)</u></b>

# School District, City of Flint

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

	General Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>			
Local sources	\$ 10,357,430	\$ 2,802,290	\$ 13,159,720
State sources	49,822,997	74,219	49,897,216
Federal sources	16,601,284	5,060,554	21,661,838
Interdistrict and other sources	1,170,107	-	1,170,107
Total revenue	77,951,818	7,937,063	85,888,881
<b>Expenditures</b>			
Current:			
Instruction	35,142,215	-	35,142,215
Support services	37,090,398	290,070	37,380,468
Athletics	372,084	-	372,084
Food services	765	4,479,661	4,480,426
Community services	1,150,817	104,928	1,255,745
Debt service:			
Principal	17,512,189	1,500,000	19,012,189
Interest	1,357,824	375,000	1,732,824
Other	534,825	-	534,825
Capital outlay	51,942	387	52,329
Total expenditures	93,213,059	6,750,046	99,963,105
<b>Excess of Revenue (Under) Over Expenditures</b>	(15,261,241)	1,187,017	(14,074,224)
<b>Other Financing Sources (Uses)</b>			
Proceeds from sale of capital assets	32,007	-	32,007
Transfers in (Note 7)	-	1,706,813	1,706,813
Transfers out (Note 7)	-	(1,706,813)	(1,706,813)
Proceeds from long-term debt (Note 8)	22,734,842	-	22,734,842
Total other financing sources	22,766,849	-	22,766,849
<b>Net Change in Fund Balances</b>	7,505,608	1,187,017	8,692,625
<b>Fund Balances - Beginning of year</b>	112,097	1,590,635	1,702,732
<b>Fund Balances - End of year</b>	<b>\$ 7,617,705</b>	<b>\$ 2,777,652</b>	<b>\$ 10,395,357</b>

# School District, City of Flint

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2017

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 8,692,625
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation - Depreciation expense	(1,169,469)
Revenue is reported in the statement of activities when earned; revenue is not reported in the funds until collected or collectible and available to pay current obligations	(5,416,274)
Proceeds from long-term debt financing provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities	(22,734,842)
Governmental funds do not report gains or losses on impairments or disposals; in the statement of activities, these are recorded net of proceeds, insurance recoveries, and carrying value of the impaired or disposed assets	340,762
Repayment of bond principal and other long-term obligations is an expenditure in the governmental funds, but not in the statement of activities	19,012,189
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	496,212
Deferred inflows related to revenue in support of pension contributions made subsequent to measurement date are not recorded in the governmental funds	(71,447)
Changes in pension expense related to the net pension liability and deferred items are not reported in the governmental funds	10,120,360
Compensated absences and self-insured workers' compensation liability claims are recorded when earned or incurred in the statement of activities; these are not reported in the governmental funds until paid	472,747
The Internal Service Fund is included as part of governmental activities	56,844
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 9,799,707</b>

# School District, City of Flint

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## Proprietary Fund Statement of Net Position June 30, 2017

	<u>Internal Service Fund</u>
<b>Assets - Current assets</b>	
Cash and investments (Note 3)	\$ 193,469
Deposits	<u>126,042</u>
Total assets	319,511
<b>Liabilities - Noncurrent liabilities - Employee medical benefits, due within one year</b>	<u>262,667</u>
<b>Net Position - Unrestricted</b>	<u><u>\$ 56,844</u></u>

# School District, City of Flint

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## Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2017

	Internal Service Fund
<b>Operating Revenue</b> - Charges for services	\$ 2,226,572
<b>Operating Expenses</b> - Medical and dental benefits expense	<u>2,169,728</u>
<b>Change in Net Position</b> - Operating income	56,844
<b>Net Position</b> - Beginning of year	<u>-</u>
<b>Net Position</b> - End of year	<u><u>\$ 56,844</u></u>

# School District, City of Flint

## Proprietary Fund Statement of Cash Flows Year Ended June 30, 2017

	Internal Service Fund
<b>Cash Flows from Operating Activities</b>	
Charges for services	\$ 2,100,530
Payments for services	<u>(1,907,061)</u>
Net cash provided by operating activities	<u>193,469</u>
<b>Net Increase in Cash</b>	193,469
<b>Cash - Beginning of year</b>	<u>-</u>
<b>Cash - End of year</b>	<u><u>\$ 193,469</u></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 56,844
Adjustments to reconcile operating income to net cash from operating activities -	
Changes in assets and liabilities:	
Deposits	(126,042)
Accrued liabilities	<u>262,667</u>
Net cash provided by operating activities	<u><u>\$ 193,469</u></u>

# School District, City of Flint

## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2017

	Private Purpose Trust Fund	Student Activities Agency Fund
<b>Assets</b>		
Cash and investments (Note 3)	\$ 1,112,645	\$ 286,884
Accounts receivable	417,011	-
Total assets	1,529,656	<u>\$ 286,884</u>
<b>Liabilities</b>		
Accounts payable	5,429	\$ 11,036
Due to student activities	-	275,848
Total liabilities	5,429	<u>\$ 286,884</u>
<b>Net Position - Restricted for endowments</b>	<u>\$ 1,524,227</u>	

# School District, City of Flint

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

	Private Purpose Trust Fund
<b>Additions</b>	
Private donations	\$ 2,250
Interest	2,948
Total additions	5,198
<b>Deductions - Service fees</b>	9,142
<b>Change in Net Position</b>	(3,944)
<b>Net Position - Beginning of year</b>	1,528,171
<b>Net Position - End of year</b>	<b>\$ 1,524,227</b>

# School District, City of Flint

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## Notes to Financial Statements June 30, 2017

### **Note I - Nature of Business and Significant Accounting Policies**

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

#### **Reporting Entity**

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

#### **Government-wide and Fund Financial Statements**

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. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

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

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

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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

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

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

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

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

Proprietary fund and fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Internal Service Fund includes charges to other funds for services. Operating expenses of the Internal Service Fund include the cost of medical benefit claims and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

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

Additionally, the School District reports the following fund types:

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's nonmajor special revenue funds include the Cafeteria and Olympian Games Funds. The Cafeteria Fund accounts for the operations of the School District's meal programs and is funded primarily from food sales and state and federal grants. The Olympian Games Fund includes the operations of an annual athletic competition for students, which is primarily funded by participant fees and donations. Any operating deficits generated by these activities are the responsibility of the General Fund.

**Debt Service Fund** - The 2011 Debt Service Fund is used to record interest and other revenue for payment of interest, principal, and other expenditures on long-term debt.

**Capital Projects Fund** - The Sinking Fund is used to record proceeds from sinking fund property tax levies and the disbursement of invoices or transfers specifically designated for acquiring new schools sites, buildings, equipment, and for remodeling and repairs.

**Internal Service Fund** - The Internal Service Fund was established to finance services provided to other funds on a cost-reimbursement basis. The Internal Service Fund records activity related to employees' medical and dental benefits. The Internal Service Fund charges the governmental funds for the normal estimated medical and dental benefits expected to be incurred and receives contributions from employees for their share of medical and dental benefit costs.

# School District, City of Flint

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## Notes to Financial Statements June 30, 2017

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

**Fiduciary Funds** - Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Private Purpose Trust Fund is used to account for resources legally held in trust, including contributions received by the School District to be used for the benefit of Freeman Elementary School. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation. This fund is used to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

#### **Assets, Liabilities, and Net Position or Equity**

**Cash and Investments** - Cash and investments include cash on hand and short-term investments with a maturity of three months or less when acquired, and certificates of deposit. Investments are stated at fair value.

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. Tax collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the county and the proceeds remitted to the School District by June 30.

**Prepaid Costs and Deposits** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

**Restricted Assets** - The unspent property taxes levied and held in the Sinking Fund are required to be set aside for construction or allowable purchases. Additionally, a specified amount of state aid receivable is required to be set aside in the General Fund for repayment of long-term revenue bonds. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include land, buildings, land improvements, furniture and equipment, and vehicles, are reported in the applicable governmental financial 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 \$5,000 and a useful life in excess of one year. Such assets are initially recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

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

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

Buildings and improvements	20 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and equipment	5 to 10 years

**Impairment or Disposal of Capital Assets** - The School District reviews the recoverability of long-lived assets, including buildings, equipment, vehicles, and other assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the School District's ability to recover the carrying value of the asset. An impairment loss is recognized on the government-wide financial statements for the difference between the estimated fair value and carrying value. The measurement of impairment requires management to make estimates of the fair value determinations. There were no impairment charges recorded during the year ended June 30, 2017.

**Compensated Absences** - The liability for compensated absences reported in the government-wide financial statements consists of earned but unused accumulated sick benefits. A liability for these amounts is reported in the governmental funds as they come due for payment.

**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, as well as deferred charges on refundings, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position reports deferred outflows of resources, which represents consumptions of net position or fund balance that apply to future periods, and will not be recognized as outflows of resources (expenses) until then. At June 30, 2017, the School District had deferred outflows of resources related to deferred pension plan expenses totaling \$10,732,547.

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

In addition to liabilities, the statement of net position reports deferred inflows of resources, which represents acquisitions of net position that apply to future periods and will not be recognized as inflows of resources (revenue) until then. At June 30, 2017, the School District had deferred inflows of resources related to its pension plan and to revenue in support of pension payments made subsequent to the measurement date totaling \$32,479,980 and \$2,498,321, respectively.

In addition, the governmental funds report unavailable revenue that is not collected during the period of availability and is not available to pay obligations of the current period. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

**Fund Balance** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education or the chief financial officer, who is authorized by policy approved by the Board of Education to make assignments
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

The Board of Education has adopted a fund balance policy. The fund balance policy prescribes the fund balance goal as 8 percent of annual expenditures in the General Fund. This is deemed to be the prudent amount to maintain the School District's ability to meet obligations as they come due throughout the year.

### **Note 1 - Nature of Business and 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.

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

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets were adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and special revenue funds. 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. 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. There were significant budget amendments during the year that are further discussed in the management's discussion and analysis.

Encumbrance accounting is employed in governmental funds for certain purchases. Amounts encumbered for purchase orders, contracts, etc. are not recorded during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

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

**Significant General Fund Budget Variances** - Proceeds of \$2,250,000 related to long-term borrowing for payment of a litigation settlement obligation were not reflected in the final adopted budget. During the year, the School District had the following significant unfavorable General Fund expenditure budget variances:

	Budget	Actual
Instruction - Basic programs	\$ 20,760,134	\$ 23,355,741
Instruction - Added needs	10,048,768	11,240,904
Instruction - Adult and continuing education	407,629	545,570
Support services - Business	1,791,520	3,914,500
Support services - School administration	2,024,128	2,227,934
Support services - Pupil transportation services	2,937,164	3,468,376
Support services - Central	1,981,125	2,301,732
Support services - Other	127,814	218,277
Capital outlay	30,526	51,942

**Management's Plans** - As required by state law, the School District had been operating under a deficit elimination plan triggered by a fund balance deficit in the General Fund that was eliminated during the year ended June 30, 2016. In September 2017, notification was received from the State of Michigan that the School District is no longer subject to Michigan Department of Treasury oversight as its General Fund deficit had been eliminated.

The School District's originally adopted budget for the year ended June 30, 2017 reported a budgeted deficit, which was in violation of the Uniform Budgeting and Accounting Act. However, a positive fund balance is reported for the General Fund in both the final adopted budget and the basic financial statements of the School District as of June 30, 2017.

The following elements of management's plans have contributed to the School District's elimination of the General Fund fund balance deficit as of June 30, 2017:

During the years ended June 30, 2016 and 2015, the School District recorded proceeds from long-term borrowings totaling approximately \$9,000,000 and \$15,000,000, respectively, related to a state aid anticipation note and remediation agreements with the Office of Retirement Services and the Unemployment Insurance Agency. The structuring of these obligations enabled the School District to report a positive General Fund fund balance of \$112,097 as of June 30, 2016.

# School District, City of Flint

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## Notes to Financial Statements June 30, 2017

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

During the year ended June 30, 2017, as further discussed in Note 8, the School District recorded proceeds from long-term borrowings totaling approximately \$20,500,000 related to local government loan program revenue bonds and a remediation agreement with the Michigan Unemployment Insurance Agency. The proceeds of the revenue bonds were used to repay existing state aid anticipation notes. The structuring of these obligations has enabled the School District to report a positive General Fund fund balance of \$7,617,705 as of June 30, 2017.

Other contributing factors include the closure of several school buildings, disposals of unoccupied buildings, reorganization and consolidation of non-teaching professional staff, and other operational changes.

The School District's preliminary blended pupil count for the 2017-2018 school year is close to projection assumptions utilized to develop the original General Fund budget for the fiscal year ending June 30, 2018, which reflects a use of fund balance of approximately \$550,000. The School District continues to closely monitor student counts and to make strides to stabilize enrollment. As the School District moves forward, budgets will be closely monitored and adjustments will be made as necessary in an effort to achieve long-term financial stability, continuing the progress that was made during the year ended June 30, 2017 resulting from the establishment of long-term financing.

**Sinking Fund Compliance** - The Sinking Fund accounts for expenditures related to the construction and repair of buildings. The School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code.

**Olympian Games Fund** - At June 30, 2017, the Olympian Games Fund reported a fund deficit. The General Fund is responsible for covering any shortfalls resulting from operating this fund.

**Priority Schools** - One of the School District's school buildings has been identified by the State of Michigan as a priority school, which subjects the School District to additional oversight by the State. Should the School District not meet certain regulatory requirements, the State may impose additional actions, up to and including the closure of the school building.

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 3 - Deposits and Investments

A reconciliation of cash and investments as shown on the statement of net position and statement of fiduciary net position as of June 30, 2017 is as follows:

#### Statement of Net Position

Cash and cash investments	\$ 6,743,178
Cash portion of restricted assets (Note 4)	1,987,592

#### Statement of Fiduciary Net Position

Private-purpose trust fund	1,112,645
Agency fund	286,884
Total	<u>\$ 10,130,299</u>

#### Deposits

Bank deposits	\$ 9,126,918
Certificates of deposit	1,003,381
Total	<u>\$ 10,130,299</u>

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

The School District has designated four financial institutions for the deposit of its funds.

The School District's cash and investments are subject to custodial credit risk, which is discussed in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk of bank deposits 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 does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of approximately \$12,200,000 included approximately \$11,500,000 of bank deposits (money market and checking and savings accounts) that was 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.

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 4 - Restricted Assets

At June 30, 2017, restricted assets are comprised of the following:

	<u>Governmental Activities</u>
Cash and investments related to unspent property taxes levied in the Sinking Fund	\$ 1,851,693
Amounts due from other governmental units related to funds required to be set aside for future principal payments	232,000
Cash and investments in the 2011 Debt Service Fund restricted to use for debt service	<u>135,899</u>
Total restricted assets	<u>\$ 2,219,592</u>

### 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 in connection with resources that have been received or are receivable, but are not yet earned.

At June 30, 2017, the various components of unearned and unavailable revenue are as follows:

	<u>Governmental Funds</u>	
	<u>Deferred Inflows - Unavailable</u>	<u>Liability - Unearned Revenue</u>
Grants receivable that are unavailable for use in the current period	\$ 1,967,287	\$ -
Grants and categorical aid payments received prior to meeting all eligibility requirements	-	<u>182,052</u>
Total	<u>\$ 1,967,287</u>	<u>\$ 182,052</u>

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 6 - Capital Assets

Capital asset activity of the School District was as follows:

	Balance July 1, 2016	Additions	Transfers	Balance June 30, 2017
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 2,823,396	\$ -	\$ -	\$ 2,823,396
Construction in progress	189,534	340,762	(242,041)	288,255
Subtotal	3,012,930	340,762	(242,041)	3,111,651
Capital assets being depreciated:				
Buildings and improvements	43,079,866	-	242,041	43,321,907
Furniture and equipment	12,217,704	-	-	12,217,704
Buses and other vehicles	1,868,087	-	-	1,868,087
Subtotal	57,165,657	-	242,041	57,407,698
Accumulated depreciation:				
Buildings and improvements	22,384,488	1,067,073	-	23,451,561
Furniture and equipment	11,905,222	85,699	-	11,990,921
Buses and other vehicles	1,820,360	16,697	-	1,837,057
Subtotal	36,110,070	1,169,469	-	37,279,539
Net capital assets being depreciated	21,055,587	(1,169,469)	242,041	20,128,159
Net capital assets	\$ 24,068,517	\$ (828,707)	\$ -	\$ 23,239,810

Additions during the year related to building renovations made to restore previously impaired assets to intended use. Insurance proceeds, paid directly to contractors, were used to fund these renovations. As a result, there is no capital outlay reflected in the governmental funds of the School District related to these additions.

Depreciation expense was charged to activities as follows:

Governmental activities:

Instruction	\$ 584,734
Support services	467,788
Food services	46,779
Athletics	35,084
Community services	35,084
Total governmental activities	\$ 1,169,469

### Note 7 - Interfund Receivables, Payables, and Transfers

**Interfund Receivables** - At June 30, 2017, the Olympian Games Fund owes \$69,061 to the General Fund for utilizing cash from the General Fund to subsidize expenditures in excess of available revenue.

**Interfund Transfers** - Interfund transfers during the year ended June 30, 2017 included \$1,706,813 transferred from the Sinking Fund to the 2011 Debt Service Fund to service principal requirements from property tax proceeds.

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 8 - Long-term Obligations

The School District issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment, and to finance operations when necessary. General obligation bonds are direct obligations and pledge the full faith and credit of the School District and qualified bonds are fully guaranteed by the State of Michigan. Revenue bonds involve a pledge of specific income to pay debt service. Other long-term obligations include compensated absences, self-insured workers' compensation claims, self-insured employee medical and dental claims recorded in the Internal Service Fund, remediation agreement liabilities, and dispute resolution agreement liabilities.

Long-term debt activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 7,500,000	\$ -	\$ 1,500,000	\$ 6,000,000	\$ 1,500,000
State aid anticipation note (Note 11)	9,000,000	-	9,000,000	-	-
Revenue bonds	-	19,300,000	-	19,300,000	742,000
Dispute resolution agreement liability - State of Michigan	1,085,905	-	155,461	930,444	155,461
ORS delinquent contributions remediation agreement liability	7,846,367	-	7,846,367	-	-
UIA delinquent benefit payments remediation agreements liability	472,861	1,184,842	472,861	1,184,842	822,616
Dispute resolution agreement liability - Genesee ISD	-	2,250,000	37,500	2,212,500	112,500
Subtotal	25,905,133	22,734,842	19,012,189	29,627,786	3,332,577
Workers' compensation claims (Note 9)	4,845,457	-	442,787	4,402,670	440,267
Medical and dental claims (Note 9)	-	262,667	-	262,667	262,667
Compensated absences	485,474	-	29,960	455,514	45,551
Total governmental activities	<u>\$ 31,236,064</u>	<u>\$ 22,997,509</u>	<u>\$ 19,484,936</u>	<u>\$ 34,748,637</u>	<u>\$ 4,081,062</u>

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 8 - Long-term Obligations (Continued)

Annual debt service requirements to maturity for the above bonds, dispute resolution agreements, and remediation agreements are as follows:

Years Ending June 30	Principal	Interest	Maximum Interest Subsidy	Net Interest	Total - Net
2018	\$ 3,332,577	\$ 1,235,622	\$ (284,213)	\$ 951,409	\$ 4,283,986
2019	3,232,187	1,011,526	(203,250)	808,276	4,040,463
2020	2,830,961	868,608	(121,950)	746,658	3,577,619
2021	2,829,961	731,527	(40,650)	690,877	3,520,838
2022	1,341,961	639,433	-	639,433	1,981,394
2023-2027	6,447,639	2,439,729	-	2,439,729	8,887,368
2028-2032	5,189,500	1,187,324	-	1,187,324	6,376,824
2033-2037	4,219,000	429,209	-	429,209	4,648,209
2038-2042	204,000	1,474	-	1,474	205,474
Total	<u>\$ 29,627,786</u>	<u>\$ 8,544,452</u>	<u>\$ (650,063)</u>	<u>\$ 7,894,389</u>	<u>\$ 37,522,175</u>

### Governmental Activities

**General Obligation Bonds** - At June 30, 2017, there is \$6,000,000 outstanding in 2011 general obligation limited tax Qualified School Construction Bonds. This balance is due in annual installments of \$1,500,000 through May 2021, with interest at 5.50 to 5.80 percent with a maximum federal subsidy of 5.42 percent. The bonds had an original issue amount of \$15,000,000.

**Revenue Bonds** - On June 19, 2017, the School District closed on the following Local Government Loan Program Revenue Bonds, which will be liquidated from the General Fund:

Series 2017A-1 totaling \$11,000,000; state aid in monthly installments of \$67,000 to \$108,100 to be intercepted and retained in an escrow trust account; principal in monthly installments of \$58,000 to \$100,000 due from the escrow trust account through September 2029, plus interest at a fixed rate of 4.375 percent \$ 11,000,000

Series 2017A-2 totaling \$5,900,000; state aid in monthly installments of \$21,700 to \$75,400 to be intercepted and retained in an escrow trust account; principal in monthly installments of \$10,000 to \$100,000 due from the escrow trust account through September 2037, plus interest at a fixed rate of 3.950 percent 5,900,000

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 8 - Long-term Obligations (Continued)

Series 2017A-3 totaling \$2,400,000; state aid in monthly installments of \$16,000 to \$48,200 to be intercepted and retained in an escrow trust account; principal in monthly installments of \$10,000 to \$100,000 due from the escrow trust account through August 2027, plus interest at a variable rate of 70 percent of one-month LIBOR, plus 2.95 percent (3.78 percent at June 30, 2017); intercept and repayment terms are reset annually in January based on the audited blended pupil count of the School District

\$ 2,400,000

Total outstanding revenue bond debt

\$ 19,300,000

**Dispute Resolution Agreement with the State of Michigan** - The School District has a long-term obligation to the State of Michigan pursuant to a dispute resolution agreement related to the overpayment of property taxes to the School District several years ago. The obligation is payable in annual installments of \$155,461 with a final payment of \$153,139 payable in December 2022. At June 30, 2017, the long-term obligation related to this agreement is \$930,444. There is no interest related to this agreement.

As of June 30, 2017, the School District has not yet paid the annual payments that were due during the years ended June 30, 2014 - 2017. Accordingly, a current liability of \$621,844 has been recorded in the General Fund and the government-wide statements to reflect these amounts due but not yet paid.

**Remediation Agreement with the Michigan Office of Retirement Services** - In April 2015, the School District entered into a remediation agreement with the Michigan Office of Retirement Services (ORS) that included terms of payment for its outstanding retirement contribution obligation. The total principal balance refinanced, which included delinquent contributions as well as accrued interest and penalties, totaled approximately \$12,150,000 at the date of the agreement, which was recorded as an other financing source in the General Fund during the year ended June 30, 2015. This agreement resulted in the elimination of the previously recorded General Fund liability related to this obligation. During the year ended June 30, 2017, the remaining obligation due to ORS related to this agreement was paid in full.

### Note 8 - Long-term Obligations (Continued)

#### **Remediation Agreements with the Michigan Unemployment Insurance Agency**

- In October 2014, the School District entered into a remediation agreement with the Michigan Unemployment Insurance Agency (UIA) that included terms of payment for the School District's outstanding unemployment benefit charges for the calendar years 2012 and 2013. The total principal amounts refinanced, which included delinquent charges for reimbursement of benefits as well as accrued interest and penalties, totaled approximately \$2,766,000 at the date of the agreement, which was recorded as an other financing source in the General Fund during the year ended June 30, 2015. This agreement resulted in the elimination of the previously recorded General Fund liability related to this obligation. During the year ended June 30, 2017, the remaining obligation due to the UIA related to this agreement was paid in full.

In June 2017, the School District entered into a remediation agreement with the UIA that included terms of payment for the School District's outstanding unemployment benefit charges for the calendar years 2015 and 2016. The total principal amounts refinanced, which included delinquent charges for reimbursement of benefits as well as accrued interest and penalties, totaled approximately \$1,185,000 at the date of the agreement, which was recorded as an other financing source in the General Fund during the year ended June 30, 2017. This agreement resulted in the elimination of the previously recorded General Fund liability related to this obligation. At June 30, 2017, the full amount of the obligation remains outstanding and is recorded as a long-term obligation in the government-wide statements. Installments of \$76,412 are due monthly, with a final payment of \$67,357 in November 2018. Installments include interest and penalties, which accrue at an aggregate rate of 12 percent annually.

**Dispute Resolution Agreement with the Genesee ISD** - During the year ended June 30, 2015, the School District was named a defendant in a lawsuit filed by the Genesee Intermediate School District (GISD) related to the School District's previous operation of the Genesee Area Skill Center (GASC). The GASC was operated by the School District from 1967 until June 30, 2013 under the terms of a 1967 agreement between the School District and the GISD. Pursuant to an agreement dated August 27, 2013 between the two parties, the operations of the GASC were transferred from the School District to the GISD effective subsequent to June 30, 2013.

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 8 - Long-term Obligations (Continued)

The GISD sought monetary recovery from the School District for repayment of restricted GASC funds that were alleged to have been spent by the School District on other School District expenditures. On March 1, 2017, a settlement agreement was reached requiring the School District to pay the GISD a total of \$2,250,000. Upon execution of the settlement agreement, an order of dismissal was filed, resulting in full and complete resolution of the litigation between the GISD and the School District. The full amount of the settlement has been recorded as an expenditure and an other financing source in the General Fund during the year ended June 30, 2017. The obligation is due in 240 installments of \$9,375 beginning April 1, 2017 and is noninterest bearing. As of June 30, 2017, \$2,212,500 of the long-term obligation remains outstanding and has been recorded in the government-wide statements.

### Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District participates in a shared-risk pool for claims relating to property loss, torts, and errors and omissions. From July 1, 2016 to December 31, 2016, the School District purchased commercial insurance for medical and dental claims. Effective January 1, 2017, the School District became self-insured for medical and dental claims. In addition, the School District is self-insured for workers' compensation claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Middle Cities Shared Risk Pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The School District estimates the liabilities for employee medical and dental claims and workers' compensation claims that have been incurred through the end of the period, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the government-wide statements. Changes in the estimated liabilities for the past two fiscal years are as follows:

	Workers' Compensation		Health Benefits
	2017	2016	2017
Estimated liability - Beginning of year	\$ 4,845,457	\$ 5,293,293	\$ -
Estimated claims incurred - Including changes in estimates	80,264	99,079	1,759,458
Claim payments	(523,051)	(546,915)	(1,496,791)
Unpaid claims - End of year	<u>\$ 4,402,670</u>	<u>\$ 4,845,457</u>	<u>\$ 262,667</u>

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 10 - Michigan Public School Employees' Retirement System

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

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

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

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

The range of rates is as follows:

**School District**

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

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

The School District's required and actual contributions to the plan for the year ended June 30, 2017 were \$7,344,972, which includes the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual contributions include an allocation of \$2,498,321 of revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2017.

### **Note 10 - Michigan Public School Employees' Retirement System (Continued)**

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

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

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

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

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

**Net Pension Liability, Deferrals, and Pension Expense** - At June 30, 2017, the School District reported a liability of \$84,346,248 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, which used update procedures to roll forward the estimated liability to September 30, 2016. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016, the School District's proportion was 0.338072 percent.

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 10 - Michigan Public School Employees' Retirement System (Continued)

For the year ended June 30, 2017, the School District recognized pension cost recovery of \$3,121,854, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,051,177	\$ (199,903)
Changes in assumptions	1,318,688	-
Net difference between projected and actual earnings on pension plan assets	1,401,834	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	482,259	(32,280,077)
The School District's contributions subsequent to the measurement date	<u>6,478,589</u>	<u>-</u>
Total	<u>\$ 10,732,547</u>	<u>\$ (32,479,980)</u>

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

Years Ending June 30	Amount
2018	\$ (10,496,884)
2019	(10,609,449)
2020	(6,430,462)
2021	(689,227)
2022	-
Thereafter	-
Total	<u>\$ (28,226,022)</u>

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

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 10 - Michigan Public School Employees' Retirement System (Continued)

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

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.0 to 8.0 percent, net of investment expenses based on the groups
Salary increases	3.5 to 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost-of-living pension adjustments	3 percent annual noncompounded for MIP members

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

**Discount Rate** - The discount rate used to measure the total pension liability was 7.0 - 8.0 percent depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 10 - Michigan Public School Employees' Retirement System (Continued)

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.5	0.9
Real estate and infrastructure pools	10.0	4.3
Real return, opportunistic, and absolute pools	15.5	6.0
Short-term investment pools	2.0	-
Total	100.0 %	

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

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the School District calculated using the discount rate of 7.0 - 8.0 percent, depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1.0 percentage point lower (6.0 - 7.0 percent) or 1.0 percentage point higher (8.0 - 9.0 percent) than the current rate:

1.0 Percent Decrease (6.0 - 7.0 Percent)	Current Discount Rate (7.0 - 8.0 Percent)	1.0 Percent Increase (8.0 - 9.0 Percent)
\$ 108,616,736	\$ 84,346,248	\$ 63,883,892

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

### **Note 10 - Michigan Public School Employees' Retirement System (Continued)**

**Payable to the Pension Plan** - At June 30, 2017, the School District reported a payable of \$885,732 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

**Postemployment Benefits Other Than Pensions (OPEB)** - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 6.4 percent to 6.83 percent of covered payroll for the period from July 1, 2016 to September 30, 2016 and from 5.69 percent to 5.91 percent of covered payroll for the period from October 1, 2016 through June 30, 2017 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403B account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were \$1,545,587, \$1,570,478, and \$1,190,000, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS UAAL stabilization rate is considered a contribution to the retiree healthcare plan.

### **Note 11 - State Aid Anticipation Notes**

In August 2015, the School District borrowed \$9,000,000 at 6.50 percent annual interest on a state aid anticipation note. Due to the note having an original maturity of more than one year, the total principal amount of \$9,000,000 was recorded as an other financing source in the General Fund during the year ended June 30, 2016. At June 30, 2016, the outstanding principal balance of this note totaling \$9,000,000 was recorded as long-term debt within the government-wide financial statements. As of June 30, 2017, the total balance of this note has been paid in full.

# School District, City of Flint

## Notes to Financial Statements June 30, 2017

### Note 11 - State Aid Anticipation Notes (Continued)

On July 6, 2016, the School District borrowed \$3,000,000 at 5.75 percent annual interest on a state aid anticipation note. The note was redeemed on August 22, 2016 at the option of the Michigan Finance Authority. As of June 30, 2017, the total balance of this note has been paid in full.

On August 22, 2016, the School District borrowed \$14,330,000 at 5.85 percent annual interest on a short-term state aid anticipation note. This note was paid in full on June 15, 2017 with proceeds from the issuance of the 2017 revenue bonds, which are discussed in Note 8. As of June 30, 2017, there is no outstanding obligation related to this note.

On August 22, 2016, the School District borrowed \$5,670,000 at 6.50 percent annual interest on a short-term state aid anticipation note. Mandatory redemption installments of \$100,000 per month, plus accrued interest, were paid from November 2016 through May 2017. This balance of this note was paid in full on June 15, 2017 with proceeds from the issuance of the 2017 revenue bonds, which are discussed in Note 8. As of June 30, 2017, there is no outstanding obligation related to this note.

### Note 12 - Contingent Liabilities

The School District is a defendant in various claims and lawsuits. The outcomes and possible ranges of loss related to these actions are not presently determinable.

As discussed in Note 8, the lawsuit filed by the Genesee Intermediate School District related to the School District's previous operation of the Genesee Area Skill Center has been settled as of June 30, 2017.

### Note 13 - Tax Abatements

The School District receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) granted by cities, villages, and townships within the boundaries of the School District. Industrial Facilities Tax exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities.

For the fiscal year ended June 30, 2017, the School District's property tax revenue was reduced by \$476,811 under these programs.

The School District is reimbursed by the State of Michigan under the school aid formula for lost revenue caused by tax abatements on the operating millage of non-homestead properties. The School District received \$390,118 in such reimbursements from the State of Michigan during the fiscal year. The School District is not reimbursed for lost revenue from the sinking fund millage. There are no abatements made by the School District.

### Note 14 - Upcoming Accounting Pronouncements

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

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2020.

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

## **Required Supplemental Information**

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# School District, City of Flint

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 8,133,365	\$ 9,762,375	\$ 10,357,430	\$ 595,055
State sources	39,518,095	47,419,679	49,822,997	2,403,318
Federal sources	19,070,537	16,104,091	16,601,284	497,193
Interdistrict and other sources	376,168	682,699	1,170,107	487,408
Total revenue	67,098,165	73,968,844	77,951,818	3,982,974
<b>Expenditures</b>				
Current:				
Instruction:				
Basic program	20,424,122	20,760,134	23,355,741	2,595,607
Added needs	13,979,207	10,048,768	11,240,904	1,192,136
Adult and continuing education	190,000	407,629	545,570	137,941
Support services:				
Pupil	3,934,064	6,301,502	6,423,667	122,165
Instructional staff	4,898,559	6,123,736	6,569,098	445,362
General administration	1,198,109	3,106,511	3,208,593	102,082
School administration	2,251,027	2,024,128	2,227,934	203,806
Business	1,252,499	1,791,520	3,914,500	2,122,980
Operations and maintenance	7,688,099	8,857,818	8,758,221	(99,597)
Pupil transportation services	2,937,164	2,937,164	3,468,376	531,212
Central	1,941,141	1,981,125	2,301,732	320,607
Other	-	127,814	218,277	90,463
Athletics	230,046	413,799	372,084	(41,715)
Food services	-	-	765	765
Community services	1,114,390	1,873,522	1,150,817	(722,705)
Debt service	6,486,043	20,113,027	19,404,838	(708,189)
Capital outlay	141,105	30,526	51,942	21,416
Total expenditures	68,665,575	86,898,723	93,213,059	6,314,336
<b>Excess of Expenditures Over Revenue</b>	(1,567,410)	(12,929,879)	(15,261,241)	(2,331,362)
<b>Other Financing Sources</b>	-	20,634,495	22,766,849	2,132,354
<b>Net Change in Fund Balance</b>	(1,567,410)	7,704,616	7,505,608	(199,008)
<b>Fund Balance - Beginning of year</b>	112,097	112,097	112,097	-
<b>Fund Balance (Deficit) - End of year</b>	<u>\$ (1,455,313)</u>	<u>\$ 7,816,713</u>	<u>\$ 7,617,705</u>	<u>\$ (199,008)</u>

## School District, City of Flint

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

	2016	2015	2014
School District's proportion of the net pension liability	0.33807 %	0.36850 %	0.56247 %
School District's proportionate share of the net pension liability	\$ 84,346,248	\$ 90,005,405	\$ 123,892,662
School District's covered employee payroll	\$ 27,644,831	\$ 30,515,523	\$ 47,716,778
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	305.11 %	294.95 %	259.64 %
Plan fiduciary net position as a percentage of the total pension liability	63.01 %	62.92 %	66.15 %

## School District, City of Flint

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### Required Supplemental Information Schedule of School District, City of Flint's Contributions Michigan Public School Employees' Retirement System Determined as of the Year Ended June 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 7,283,601	\$ 7,836,899	\$ 7,001,672
Contributions in relation to the statutorily required contribution	7,283,601	-	-
Contribution deficiency	-	7,836,899	7,001,672
School District's covered employee payroll	25,172,434	27,077,204	32,968,924
Contributions as a percentage of covered employee payroll	28.93 %	- %	- %

# **School District, City of Flint**

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## **Notes to Pension Required Supplemental Information Schedules Year Ended June 30, 2017**

**Benefit Changes** - There were no changes of benefit terms during 2016.

**Changes in Assumptions** - There were no changes of benefit assumptions during 2016.

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

**Contributions in Relation to the Statutorily Required Contribution** - As of June 30, 2016 and 2015, the School District was delinquent in its required contribution payments and had entered into a long-term payment arrangement with the plan. Although the School District had made payments to the plan during the years ended June 30, 2016 and 2015, it was assumed that these payments were applied toward delinquent contributions related to previous years. Since payments are first applied to amounts in arrears, the contributions made in relation to statutorily required contributions were reported as zero. As there were no delinquent outstanding contributions due to the ORS as of June 30, 2017, the schedule reflects that the School District has made all required contribution payments to the plan for the year ended June 30, 2017.

## **Other Supplemental Information**

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# School District, City of Flint

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

	Special Revenue Funds		Debt Service	Capital	Total Nonmajor Governmental Funds
	Cafeteria Fund	Olympian Games Fund	Fund	Projects Fund	
			2011 Debt Service Fund	Sinking Fund	
<b>Assets</b>					
Cash and investments	\$ 1,364,265	\$ -	\$ -	\$ -	\$ 1,364,265
Receivables - Due from other governmental units	191,291	-	-	-	191,291
Restricted assets	-	-	135,899	1,851,693	1,987,592
<b>Total assets</b>	<b>\$ 1,555,556</b>	<b>\$ -</b>	<b>\$ 135,899</b>	<b>\$ 1,851,693</b>	<b>\$ 3,543,148</b>
<b>Liabilities and Fund Balances (Deficit)</b>					
<b>Liabilities</b>					
Accounts payable	\$ 669,707	\$ 12,447	\$ -	\$ 14,281	\$ 696,435
Due to other funds	-	69,061	-	-	69,061
<b>Total liabilities</b>	<b>669,707</b>	<b>81,508</b>	<b>-</b>	<b>14,281</b>	<b>765,496</b>
<b>Fund Balances (Deficit)</b>					
Restricted:					
Debt service	-	-	135,899	-	135,899
Food services	885,849	-	-	-	885,849
Sinking Fund	-	-	-	1,837,412	1,837,412
Unassigned (deficit)	-	(81,508)	-	-	(81,508)
<b>Total fund balances (deficit)</b>	<b>885,849</b>	<b>(81,508)</b>	<b>135,899</b>	<b>1,837,412</b>	<b>2,777,652</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 1,555,556</b>	<b>\$ -</b>	<b>\$ 135,899</b>	<b>\$ 1,851,693</b>	<b>\$ 3,543,148</b>

# School District, City of Flint

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

	Special Revenue Funds		Debt Service	Capital	Total Nonmajor Governmental Funds
	Cafeteria Fund	Olympian Games Fund	Fund 2011 Debt Service	Projects Fund Sinking Fund	
<b>Revenue</b>					
Local sources	\$ 74,667	\$ 44,705	\$ -	\$ 2,682,918	\$ 2,802,290
State sources	74,219	-	-	-	74,219
Federal sources	4,756,468	-	304,086	-	5,060,554
<b>Total revenue</b>	<b>4,905,354</b>	<b>44,705</b>	<b>304,086</b>	<b>2,682,918</b>	<b>7,937,063</b>
<b>Expenditures</b>					
Current:					
Support services	30,551	24,289	-	235,230	290,070
Food services	4,479,661	-	-	-	4,479,661
Community services	-	104,928	-	-	104,928
Debt service:					
Principal	-	-	1,500,000	-	1,500,000
Interest	-	-	375,000	-	375,000
Capital outlay	-	-	-	387	387
<b>Total expenditures</b>	<b>4,510,212</b>	<b>129,217</b>	<b>1,875,000</b>	<b>235,617</b>	<b>6,750,046</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>395,142</b>	<b>(84,512)</b>	<b>(1,570,914)</b>	<b>2,447,301</b>	<b>1,187,017</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	1,706,813	-	1,706,813
Transfers out	-	-	-	(1,706,813)	(1,706,813)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>1,706,813</b>	<b>(1,706,813)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>395,142</b>	<b>(84,512)</b>	<b>135,899</b>	<b>740,488</b>	<b>1,187,017</b>
<b>Fund Balances - Beginning of year</b>	<b>490,707</b>	<b>3,004</b>	<b>-</b>	<b>1,096,924</b>	<b>1,590,635</b>
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ 885,849</b>	<b>\$ (81,508)</b>	<b>\$ 135,899</b>	<b>\$ 1,837,412</b>	<b>\$ 2,777,652</b>

# School District, City of Flint

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

Years Ending June 30	2011 Debt Service Fund	Series A-1 Revenue Bond	Series A-2 Revenue Bond	Series A-3 Revenue Bond	Total
	Principal	Principal	Principal	Principal	
2018	\$ 1,500,000	\$ 532,000	\$ -	\$ 210,000	\$ 2,242,000
2019	1,500,000	736,000	-	366,000	2,602,000
2020	1,500,000	769,000	-	294,000	2,563,000
2021	1,500,000	804,000	-	258,000	2,562,000
2022	-	840,000	-	234,000	1,074,000
2023	-	877,000	-	216,000	1,093,000
2024	-	916,000	-	198,000	1,114,000
2025	-	956,000	-	186,000	1,142,000
2026	-	1,000,000	-	174,000	1,174,000
2027	-	1,045,000	-	164,000	1,209,000
2028	-	1,090,000	95,000	100,000	1,285,000
2029	-	1,140,000	132,000	-	1,272,000
2030	-	295,000	489,000	-	784,000
2031	-	-	630,000	-	630,000
2032	-	-	656,000	-	656,000
2033	-	-	682,000	-	682,000
2034	-	-	709,000	-	709,000
2035	-	-	738,000	-	738,000
2036	-	-	767,000	-	767,000
2037	-	-	798,000	-	798,000
2038	-	-	204,000	-	204,000
<b>Total principal</b>	<b>\$ 6,000,000</b>	<b>\$ 11,000,000</b>	<b>\$ 5,900,000</b>	<b>\$ 2,400,000</b>	<b>\$ 25,300,000</b>
Principal payments due					
Interest rate	2.30% - 5.80%	4.375%	3.95%	Variable	
<b>Original issue</b>	<b>\$ 15,000,000</b>	<b>\$ 11,000,000</b>	<b>\$ 5,900,000</b>	<b>\$ 2,400,000</b>	<b>\$ 34,300,000</b>