

Allen Park Public Schools

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

Allen Park Public Schools

Contents

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements	
District-wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Fiduciary Funds - Statement of Fiduciary Assets and Liabilities	16
Notes to Financial Statements	17-36
Required Supplemental Information	37
Budgetary Comparison Schedule - General Fund	38
Schedule of Allen Park Public Schools' Proportionate Share of the Net Pension Liability MPSERS Determined as of the Plan Year Ended September 30	39
Schedule of Allen Park Public Schools' Contributions MPSERS Determined as of the Year Ended June 30	40
Note to Pension Required Supplemental Information Schedules	41
Other Supplemental Information	42
Schedule of Bond Indebtedness	43
Federal Awards Supplemental Information	Issued Under Separate Cover

Independent Auditor's Report

To the Board of Education
Allen Park Public Schools

Report on the Basic Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Allen Park Public Schools as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise Allen Park Public Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinion on these basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of Allen Park Public Schools as of June 30, 2017 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Education
Allen Park Public Schools

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, schedule of proportionate share of the net pension liability, and schedule of contributions, as identified on 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 Allen Park Public Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017 on our consideration of Allen Park Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Allen Park Public Schools' internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 30, 2017

Allen Park Public Schools

Management's Discussion and Analysis

This section of the Allen Park Public Schools' (the "School District") annual financial report 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 Allen Park Public Schools financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund, Refunding Debt Service Fund, and the Capital Projects Fund, with the Cafeteria Fund presented in one column as a nonmajor fund. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. This report is comprised of the following elements:

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

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Schedule of Allen Park Public School's Proportionate Share of the Net Pension Liability MPSERS
Determined as of the Plan Year Ended September 30

Schedule of Allen Park Public Schools' Contributions MPSERS Determined as of the
Year Ended June 30

Other Supplemental Information

Allen Park Public Schools

Management's Discussion and Analysis (Continued)

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

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District. The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, 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 is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). 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.

Allen Park Public Schools

Management's Discussion and Analysis (Continued)

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

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

The School District as a Whole

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

TABLE I	Governmental Activities	
	June 30	
	2017	2016
	(in millions)	
Assets		
Current and other assets	\$ 8.3	\$ 6.7
Capital assets	56.8	58.3
Total assets	65.1	65.0
Deferred Outflows of Resources	13.0	9.3
Total assets and deferred outflows of resources	78.1	74.3
Liabilities		
Current liabilities	6.5	4.8
Long-term liabilities	72.1	74.7
Net pension liability	60.6	56.9
Total liabilities	139.2	136.4
Deferred Inflows of Resources	2.2	1.7
Total liabilities and deferred inflows of resources	141.4	138.1
Net Position		
Invested in capital assets - Net of related debt	(11.8)	(13.8)
Restricted	-	-
Unrestricted	(51.5)	(50.0)
Total net position	\$ (63.3)	\$ (63.8)

Allen Park Public Schools

Management's Discussion and Analysis (Continued)

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was (\$63.3) million at June 30, 2017. Capital assets, net of related debt totaling a deficit of \$11.8 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. The deficit of \$51.5 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance shows the School District's ability to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2017 and 2016.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2017	2016
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.2	\$ 1.2
Operating grants and contributions	8.8	3.7
General revenue:		
Property taxes	7.0	7.2
State foundation allowance	26.7	28.4
Other	0.5	0.4
Total revenue	44.2	40.9
Functions/Program Expenses		
Instruction	27.0	24.7
Support services	12.1	11.8
Athletics	0.4	0.4
Food services	1.4	1.3
Community services	0.4	0.4
Interest on long-term debt and other	2.4	3.0
Total functions/program expenses	43.7	41.6
Change in Net Position	0.5	(0.7)
Net Position - Beginning of year	(63.8)	(63.1)
Net Position - End of year	\$ (63.3)	\$ (63.8)

Allen Park Public Schools

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$43.7 million. Certain activities were partially funded from those who benefited from the programs (\$1.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$7.0 million in taxes, \$26.7 million in State foundation allowance, and with our other revenue, i.e., interest and general entitlements.

The School District experienced a slight increase in net position of \$0.5 million.

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

The School District's Funds

As we noted earlier, the School District uses funds to 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 \$2.1 million, which is a net decrease of \$0.3 million from last year. The primary reasons for the decrease are a half-step increase to teacher salaries and an adjustment to the MSPERS Unfunded Actuarial Accrued Liability (UAAL).

In the General Fund, our principal operating fund, the fund balance decreased from \$2.1 million to \$1.3 million. The change is mainly due to:

- A half-step increase to teacher salaries amounting to approximately \$250,000
- An adjustment to the MSPERS Unfunded Actuarial Accrued Liability (UAAL) of approximately \$311,000
- A contribution to the debt service fund of approximately \$102,000 related to the current bond refunding

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds remained stable from the prior years, showing a net decrease of approximately \$101,000. This is primarily due to a budgeted wage increase of 1 percent that was actually approved as a 3 percent increase, as well as additional half-days during the school year, which reduced lunch revenue within the fund.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$103,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

Allen Park Public Schools

Management's Discussion and Analysis (Continued)

The nonbonded Capital Projects Fund fund balance increased from approximately \$526,000 to approximately \$756,000. The increase is mainly due to additional property tax revenue under the Wayne County Enhancement Millage that was approved by voters during the year. This additional funding is intended to be utilized to support 21st century learning, repair and improve facilities, and improve and sustain academic programs and services for all students. This millage was approved for a six-year period and this year was the first year.

General Fund Budgetary Highlights

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

There were significant revisions made to the 2016-2017 General Fund original budget. Budgeted revenue was increased approximately \$605,000 due to an unanticipated increase in foundation allowance payments as a result of actual student enrollment being greater than original estimates.

Budgeted expenditures were also increased approximately \$558,000 to account for HSA contributions, and due to the increase in student population, the School District revised its plan, which included increased expenses and a result of curriculum development.

There were significant budget variances between the final budget and actual amounts. See Note 2 related to variances. These variances resulted from a half-step increase to teacher salaries, an adjustment to the MSPERS Unfunded Actuarial Accrued Liability (UAAL), a contribution to the debt service fund related to the current bond refunding, and the budget not being updated timely for additional payroll related decisions.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the School District had \$56.8 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$1.4 million, or 2.5 percent, from last year.

	<u>2017</u>	<u>2016</u>
Land	\$ 20,800	\$ 20,800
Buildings and building improvements	54,833,340	56,196,990
Buses and other vehicles	155,695	213,351
Furniture and equipment	<u>1,803,385</u>	<u>1,826,877</u>
Total capital assets	<u>\$ 56,813,220</u>	<u>\$ 58,258,018</u>

Allen Park Public Schools

Management's Discussion and Analysis (Continued)

This year's additions of approximately \$415,000 included technology and building renovations. No debt was issued for these additions.

No major capital projects are planned for the 2017-2018 fiscal year other than building improvements to the administration building, marquee signs at the Schools, new Chromebooks, and certain security upgrades. We anticipate capital additions will be comparable to the 2016-2017 fiscal year with these additions being paid for using enhancement millage funds. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$62.4 million in bonds outstanding versus \$71.7 million in the previous year - a change of 12.9 percent. This decrease was the result of a refunding agreement that the School District entered into during the year to pay off the balances owed on the 2007 refunding serial bonds by issuing new Unlimited Tax General Obligation bonds. The current refunding reduced total debt service payments by \$4.9 million, which represents an economic gain of \$3.9 million.

The School District's general obligation bond rating continues to be equivalent to the State of Michigan's rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below this statutorily imposed limit.

Other obligations include accrued vacation pay. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2018 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018 fiscal year is 90 percent and 10 percent of the February 2017 and October 2017 student counts, respectively. The 2017-2018 budget was adopted in June 2017, based on an estimate of students that will be enrolled in September 2017. Approximately 67 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2017-2018 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Contacting the School District's Management

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

Allen Park Public Schools

Statement of Net Position June 30, 2017

	Primary Government Governmental Activities
Assets	
Cash (Note 3)	\$ 1,689,141
Receivables:	
Accounts receivable	11,253
Due from other governmental units	6,327,312
Prepaid costs and other assets	228,211
Restricted assets	51,968
Capital assets - Net (Note 5)	<u>56,813,220</u>
Total assets	65,121,105
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 7)	2,509,733
Deferred outflows related to pensions (Note 10)	<u>10,514,065</u>
Total deferred outflows of resources	<u>13,023,798</u>
Total assets and deferred outflows of resources	78,144,903
Liabilities	
Accounts payable	572,489
Accrued payroll-related liabilities	3,925,162
State aid anticipation note (Note 9)	1,441,103
Other accrued liabilities	391,014
Unearned revenue (Note 4)	165,693
Noncurrent liabilities (Note 7):	
Due within one year	3,611,811
Due in more than one year	68,568,045
Net pension liability (Note 10)	<u>60,564,655</u>
Total liabilities	139,239,972
Deferred Inflows of Resources - Deferred inflows related to pensions (Note 10)	<u>2,194,139</u>
Total liabilities and deferred inflows of resources	<u>141,434,111</u>
Net Position	
Net investment in capital assets	(11,812,092)
Unrestricted deficit	<u>(51,477,116)</u>
Total net position	<u>\$ (63,289,208)</u>

Allen Park Public Schools

Statement of Activities Year Ended June 30, 2017

	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 27,019,504	\$ 25,674	\$ 5,678,257	\$ (21,315,573)
Support services	12,149,184	37,747	2,433,538	(9,677,899)
Athletics	444,089	46,510	-	(397,579)
Food services	1,357,562	510,446	669,917	(177,199)
Community services	396,946	535,806	-	138,860
Payments to other public schools (ISDs, LEAs)	48,000	-	-	(48,000)
Interest	1,971,026	-	-	(1,971,026)
Debt issuance costs	333,745	-	-	(333,745)
Total primary government	\$ 43,720,056	\$ 1,156,183	\$ 8,781,712	(33,782,161)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				1,933,638
Property taxes, levied for debt service				5,042,237
State aid not restricted to specific purposes				26,728,410
Interest and investment earnings				14,650
Other				563,236
				<u>34,282,171</u>
				Change in Net Position 500,010
				Net Position - Beginning of year (63,789,218)
				Net Position - End of year <u>\$ (63,289,208)</u>

Allen Park Public Schools

Governmental Funds Balance Sheet June 30, 2017

	General Fund	Refunding - Debt Service	Capital Projects Fund	Nonmajor Fund - Cafeteria	Total Governmental Funds
Assets					
Cash (Note 3)	\$ 972,725	\$ -	\$ 665,385	\$ 51,031	\$ 1,689,141
Receivables:					
Accounts receivable	-	-	-	11,253	11,253
Due from other governmental units	6,146,150	-	181,162	-	6,327,312
Due from other funds (Note 6)	6,632	-	-	-	6,632
Prepaid costs and other assets	228,211	-	-	-	228,211
Restricted assets	-	51,968	-	-	51,968
Total assets	\$ 7,353,718	\$ 51,968	\$ 846,547	\$ 62,284	\$ 8,314,517
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 564,734	\$ -	\$ -	\$ 7,755	\$ 572,489
Accrued payroll-related liabilities	3,925,162	-	-	-	3,925,162
State aid anticipation note (Note 9)	1,441,103	-	-	-	1,441,103
Due to other funds (Note 6)	-	-	-	6,632	6,632
Unearned revenue (Note 4)	142,550	-	-	23,143	165,693
Total liabilities	6,073,549	-	-	37,530	6,111,079
Deferred Inflows of Resources -					
Unavailable revenue (Note 4)	4,600	-	90,717	-	95,317
Total liabilities and deferred inflows of resources	6,078,149	-	90,717	37,530	6,206,396
Fund Balances					
Nonspendable - Prepaid assets	228,211	-	-	-	228,211
Restricted:					
Debt service	-	51,968	-	-	51,968
Food service	-	-	-	24,754	24,754
Assigned - Capital projects	-	-	755,830	-	755,830
Unassigned	1,047,358	-	-	-	1,047,358
Total fund balances	1,275,569	51,968	755,830	24,754	2,108,121
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,353,718	\$ 51,968	\$ 846,547	\$ 62,284	\$ 8,314,517

Allen Park Public Schools

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

Fund Balance Reported in Governmental Funds	\$	2,108,121
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	\$ 87,449,803	
Accumulated depreciation	<u>(30,636,583)</u>	56,813,220
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		95,317
Deferred outflows related to pension payments made subsequent to the measurement date		4,758,988
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds payable, including premiums and discounts	(71,135,045)	
Compensated absences	(1,044,811)	
Deferred charges from bond refunding	<u>2,509,733</u>	(69,670,123)
Accrued interest payable is not included as a liability in governmental funds		(391,014)
Deferred outflows related to pensions		5,755,077
Revenue in support of pension contributions made subsequent to the measurement date is reported as deferred inflow of resources in the statement of net position		(1,896,999)
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(60,564,655)
Deferred inflows related to pensions		<u>(297,140)</u>
Net Position of Governmental Activities	\$	<u>(63,289,208)</u>

Allen Park Public Schools

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

	General Fund	Refunding - Debt Service	Capital Projects Fund	Nonmajor Fund - Cafeteria	Total Governmental Funds
Revenue					
Local sources	\$ 2,699,596	\$ 5,049,323	\$ 1,279	\$ 519,399	\$ 8,269,597
State sources	31,823,046	-	-	59,518	31,882,564
Federal sources	1,207,764	-	-	610,399	1,818,163
Intergovernmental	759,717	-	1,303,354	-	2,063,071
Total revenue	36,490,123	5,049,323	1,304,633	1,189,316	44,033,395
Expenditures					
Current:					
Instruction	24,912,172	-	-	-	24,912,172
Support services	11,322,194	-	-	-	11,322,194
Athletics	440,205	-	-	-	440,205
Food services	-	-	-	1,280,885	1,280,885
Community services	351,120	-	-	-	351,120
Debt service:					
Principal	-	3,300,047	-	-	3,300,047
Interest	-	1,995,946	-	-	1,995,946
Other	-	333,745	-	-	333,745
Capital outlay	170,355	-	530,481	9,440	710,276
Payments to other public schools (ISDs, LEAs)	48,000	-	-	-	48,000
Total expenditures	37,244,046	5,629,738	530,481	1,290,325	44,694,590
Excess of Revenue (Under) Over Expenditures	(753,923)	(580,415)	774,152	(101,009)	(661,195)
Other Financing (Uses) Sources					
Payment to escrow agent	-	(47,816,427)	-	-	(47,816,427)
Transfers in (Note 6)	-	350,242	-	-	350,242
Transfers out (Note 6)	(101,984)	-	(248,258)	-	(350,242)
Face value of debt issued	-	40,780,000	-	-	40,780,000
Premium on debt issued	-	7,369,732	-	-	7,369,732
Total other financing (uses) sources	(101,984)	683,547	(248,258)	-	333,305
Net Change in Fund Balances	(855,907)	103,132	525,894	(101,009)	(327,890)
Fund Balances - Beginning of year	2,131,476	(51,164)	229,936	125,763	2,436,011
Fund Balances - End of year	<u>\$ 1,275,569</u>	<u>\$ 51,968</u>	<u>\$ 755,830</u>	<u>\$ 24,754</u>	<u>\$ 2,108,121</u>

Allen Park Public Schools

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

Net Change in Fund Balances - Total Governmental Funds	\$	(327,890)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:</p>		
Depreciation expense and adjustments	\$ (1,859,922)	
Capitalized capital outlay	415,124	(1,444,798)
Revenue in support of pension contributions made subsequent to the measurement date		(348,993)
Debt proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities		(40,780,000)
Amortization of underwriters discount/premium and refunding charges reported as expenditures/revenue in the funds and amortized in the statement of activities		(5,952,958)
Repayment of bond principal and capital leases are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		50,140,047
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		24,920
Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end		95,317
Change in pension expense related to deferred items		(979,762)
Compensated absences are recorded when earned in the statement of activities. In the current year, more was earned than paid out		74,127
Change in Net Position of Governmental Activities	\$	500,010

Allen Park Public Schools

Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2017

	<u>Agency Funds</u>
Assets - Cash (Note 3)	\$ 366,161
Liabilities	
Accounts payable	\$ 3,264
Due to student groups	<u>362,897</u>
Total liabilities	<u>\$ 366,161</u>

Allen Park Public Schools

Notes to Financial Statements June 30, 2017

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

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

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally 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 district-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 district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes for 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 fund balance, assigned fund balance, and unassigned fund balance.

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 deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Note I - Summary of Significant Accounting Policies (Continued)

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

The School District reports the following major governmental funds:

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

Refunding Fund - The Refunding Fund is a debt service fund that is used to record tax and interest revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Projects Fund - The nonbonded Capital Projects Fund is used to record revenue and the disbursement of monies specifically for acquiring new equipment and minor remodeling and repairs.

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 special revenue fund is the Cafeteria Fund. The Cafeteria Fund's primary source of revenue is from federal grants and customer sales. The Cafeteria Fund was created to account for the School District's breakfast and lunch programs. Any operating deficit generated by this activity is the responsibility of the General Fund.

Student Activity (Agency) Fund - The School District maintains a Student Activity Fund 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, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market prices.

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

Allen Park Public Schools

Notes to Financial Statements June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

All accounts and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year for approximately 50 percent of the taxes that are due on August 15 and December 1 for the remainder of the property taxes that are due on February 14. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Restricted Assets - The unspent property taxes levied by the debt service funds are required to be set aside for future bond principal and interest payments.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

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

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

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District only has two such items. They are deferred inflows related to the pension plan and revenue in support of pension payments made subsequent to the measurement date.

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

- **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.

Note 1 - Summary of Significant Accounting Policies (Continued)

- Assigned: Intent to spend resources on specific purposes expressed by the Board of Education, superintendent, or another authorized individual, who is authorized by resolution 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 Board of Education, at its discretion, may maintain a minimum unassigned fund balance in the General Fund to protect against cash flow shortfalls related to timing of projected revenue receipts to maintain a budget stabilization commitment.

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

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

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund, except that capital outlay is budgeted in other expenditure categories. All annual appropriations lapse at fiscal year end.

Allen Park Public Schools

Notes to Financial Statements June 30, 2017

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District revised budgeted amounts during the year when final funding information became known.

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

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

	<u>Budget</u>	<u>Actual</u>
Instruction - Basic programs	\$ 19,834,054	\$ 20,961,044
Support services - Pupil	2,391,741	2,493,048
Support services - Instructional staff	1,306,895	1,361,008
Support services - School administration	2,163,605	2,248,159
Support services - Business	500,970	511,330
Support services - Central	954,711	969,436
Support services - Other	59,326	61,592
Athletics	307,227	460,178
Community services	318,929	351,120

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, 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 two banks for the deposit of its funds.

Note 3 - Deposits and Investments (Continued)

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's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits. At year end, the School District's deposit balance of \$2,386,059 included \$2,135,052 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a maximum 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

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

Concentration of Credit Risk - The School District's investment policy places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Allen Park Public Schools

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

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

Note 4 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At June 30, 2017, the various components of unavailable and unearned revenue were as follows:

	Governmental Funds	
	Deferred Inflow - Unavailable	Liability - Unearned
Enhancement millage funds received after the period of availability	\$ 90,717	\$ -
Grant and categorical aid payment received after the period of availability	4,600	-
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	165,693
Total	<u>\$ 95,317</u>	<u>\$ 165,693</u>

Allen Park Public Schools

Notes to Financial Statements June 30, 2017

Note 5 - Capital Assets

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

Governmental Activities	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated -				
Land	\$ 20,800	\$ -	\$ -	\$ 20,800
Capital assets being depreciated:				
Buildings and improvements	77,221,712	160,578	-	77,382,290
Furniture and equipment	8,657,753	254,546	5,000	8,907,299
Buses and other vehicles	1,139,414	-	-	1,139,414
Subtotal	<u>87,018,879</u>	<u>415,124</u>	<u>5,000</u>	<u>87,429,003</u>
Accumulated depreciation:				
Buildings and improvements	21,024,722	1,524,228	-	22,548,950
Furniture and equipment	6,830,876	278,038	5,000	7,103,914
Buses and other vehicles	926,063	57,656	-	983,719
Subtotal	<u>28,781,661</u>	<u>1,859,922</u>	<u>5,000</u>	<u>30,636,583</u>
Net capital assets being depreciated	<u>58,237,218</u>	<u>(1,444,798)</u>	<u>-</u>	<u>56,792,420</u>
Net capital assets	<u>\$ 58,258,018</u>	<u>\$ (1,444,798)</u>	<u>\$ -</u>	<u>\$ 56,813,220</u>

Depreciation expense was charged to activities of the School District (primary government) as follows:

Governmental activities:	
Instruction	\$ 1,171,751
Support services	595,175
Community services	55,798
Food services	37,198
Total governmental activities	<u>\$ 1,859,922</u>

Allen Park Public Schools

Notes to Financial Statements June 30, 2017

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From Cafeteria Fund
General Fund	\$ 6,632

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

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

Transfers In	Transfers Out		Total
	General Fund	Capital Projects Fund	
Refunding - Debt Service Fund	\$ 101,984	\$ 248,258	\$ 350,242

Transfers from the General Fund and Capital Projects Fund were to cover the advanced refunding of the Refunding Fund.

Note 7 - Long-term Debt

The School District issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and School Bond Loan Fund borrowings.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 71,720,000	\$ 40,780,000	\$ 50,140,000	\$ 62,360,000	\$ 2,950,000
Less deferred amounts:					
Issuance discounts	(23,068)	-	(1,282)	(21,786)	(1,282)
Issuance premiums	1,933,122	7,369,732	506,023	8,796,831	547,598
Deferred outflows - Deferred interest from refunding bonds	(1,597,700)	(976,427)	(64,394)	(2,509,733)	-
Total bonds payable	72,032,354	47,173,305	50,580,347	68,625,312	3,496,316
School Bond Loan Fund	47	-	47	-	-
Employee compensated absences	1,118,938	124,902	199,029	1,044,811	115,495
Total governmental activities	\$ 73,151,339	\$ 47,298,207	\$ 50,779,423	\$ 69,670,123	\$ 3,611,811

Allen Park Public Schools

Notes to Financial Statements June 30, 2017

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond obligation is as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2018	\$ 2,950,000	\$ 2,399,500	\$ 5,349,500
2019	12,000,000	2,326,000	14,326,000
2020	12,580,000	2,026,000	14,606,000
2021	9,050,000	1,671,000	10,721,000
2022	3,475,000	1,230,500	4,705,500
2023-2027	20,140,000	3,366,500	23,506,500
2028-2032	2,065,000	111,125	2,176,125
2033	100,000	4,000	104,000
Total	<u>\$ 62,360,000</u>	<u>\$ 13,134,625</u>	<u>\$ 75,494,625</u>

Governmental Activities

General obligation bonds consist of the following:

\$40,780,000 unlimited tax qualified refunding bonds due in annual installments of \$100,000 to \$9,050,000 through May 1, 2033; interest at 2 percent to 5 percent	\$ 37,480,000
\$25,030,000 unlimited tax qualified refunding bonds due in annual installments of \$300,000 to \$12,580,000 through May 1, 2020; interest at 2.50 percent	<u>24,880,000</u>
Total bonded debt	<u>\$ 62,360,000</u>

Current Refundings - During the year, the School District issued \$40,780,000 in general obligation bonds with an interest rate ranging from 2 to 5 percent. The proceeds of these bonds were used to advance refund \$46,840,000 of outstanding 2007 refunding serial bonds with an interest rate ranging from 4 to 5 percent. The net proceeds of \$47,816,427 (after payment of \$333,305 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The current refunding reduced total debt service payments by \$4,948,943, which represents an economic gain of \$3,952,356.

Note 8 - 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 has purchased commercial insurance for health claims and participates in the SET-SEG risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The School District is self insured for vision and dental claims for certain employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The 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 liability for dental and vision claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The estimated liabilities and expenditures incurred are not material to the financial statements.

Note 9 - State Aid Anticipation Notes

In August 2016, the School District borrowed a total of \$2,500,000 in a state aid anticipation note; this includes \$1,250,000 set aside at 1.20 percent interest, \$499,694 set aside at 1.00 percent interest, and \$750,306 set aside at 0.76 percent interest under state aid anticipation notes in anticipation of funds to be received by the School District from the State of Michigan. Proceeds from the note were used to fund school operations. The unpaid balance at June 30, 2017, including interest, was repaid in August 2017.

In August 2017, the School District borrowed a total of \$2,000,000 in a state aid anticipation note, which is set aside at 1.27 percent interest. The notes are due at maturity in August 2018.

Note 10 - Michigan Public School Employees' Retirement System

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS 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.

Allen Park Public Schools

Notes to Financial Statements June 30, 2017

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

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

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

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

The range of rates is as follows:

School District

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

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

The School District's required and actual contributions to the plan for the year ended June 30, 2017 were \$5,791,028, 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 \$1,896,999 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.

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

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

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

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

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

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

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2017, the School District reported a liability of \$60,564,655 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, which used updated procedures to roll forward the estimated liability to September 30, 2016. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the School District's proportion was 0.24275 percent and 0.23292, respectively.

Allen Park Public Schools

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 expense of \$6,682,676, 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	\$ 754,796	\$ (143,540)
Changes of assumptions	946,881	-
Net difference between projected and actual earnings on pension plan assets	1,006,584	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	3,046,816	(153,600)
The School District's contributions subsequent to the measurement date	4,758,988	-
Total	<u>\$ 10,514,065</u>	<u>\$ (297,140)</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	\$ 1,387,051
2019	1,307,855
2020	2,239,584
2021	523,447
Total	<u>\$ 5,457,937</u>

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

In addition, the School District had deferred inflows of resources related to revenue in support of pension payments made subsequent to the measurement date totaling \$1,896,999 at June 30, 2017.

Allen Park Public Schools

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	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 - 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 from 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

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

Allen Park Public Schools

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 pool	15.5	6.0
Short-term investment pools	2.0	-
Total	100.0 %	

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent. As a result, the actuarial computed employer contributions and the net pension liability will increase for the measurement period ending 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)
\$ 77,992,031	\$ 60,564,655	\$ 45,871,702

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 \$799,213 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 6.40 percent to 6.83 percent of covered payroll for the period from October 1, 2015 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 to not pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403(b) account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were \$1,193,896, \$1,110,540, and \$1,695,753, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

Note 11 - Upcoming Accounting Pronouncements

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

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

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that 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 Districts' financial statements for the year ending June 30, 2021.

Required Supplemental Information

Allen Park Public Schools

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	(Under) Over <u>Final Budget</u>
Revenue				
Local sources	\$ 2,573,495	\$ 2,743,021	\$ 2,699,596	\$ (43,425)
State sources	31,113,364	31,574,444	31,823,046	248,602
Federal sources	1,239,189	1,273,052	1,207,764	(65,288)
Intermediate sources	<u>680,232</u>	<u>620,663</u>	<u>759,717</u>	<u>139,054</u>
Total revenue	35,606,280	36,211,180	36,490,123	278,943
Expenditures				
Current:				
Instruction:				
Basic programs	20,006,641	19,834,054	20,961,044	1,126,990
Added needs	4,262,701	4,361,617	3,987,502	(374,115)
Support services:				
Pupil	2,167,908	2,391,741	2,493,048	101,307
Instructional staff	1,176,774	1,306,895	1,361,008	54,113
General administration	447,663	438,737	405,189	(33,548)
School administration	2,065,236	2,163,605	2,248,159	84,554
Business	371,998	500,970	511,330	10,360
Operating and maintenance	2,865,061	2,913,871	2,901,018	(12,853)
Pupil transportation services	559,949	594,271	533,422	(60,849)
Central	876,612	954,711	969,436	14,725
Other	49,946	59,326	61,592	2,266
Athletics	446,963	307,227	460,178	152,951
Community services	<u>290,780</u>	<u>318,929</u>	<u>351,120</u>	<u>32,191</u>
Total expenditures	<u>35,588,232</u>	<u>36,145,954</u>	<u>37,244,046</u>	<u>1,098,092</u>
Excess of Revenue Over (Under) Expenditures	18,048	65,226	(753,923)	(819,149)
Other Financing Sources (Uses)				
Transfers in	30,000	30,000	-	(30,000)
Transfers out	<u>-</u>	<u>-</u>	<u>(101,984)</u>	<u>(101,984)</u>
Total other financing sources (uses)	<u>30,000</u>	<u>30,000</u>	<u>(101,984)</u>	<u>(131,984)</u>
Net Change in Fund Balance	48,048	95,226	(855,907)	(951,133)
Fund Balance - July 1, 2016	<u>2,131,476</u>	<u>2,131,476</u>	<u>2,131,476</u>	<u>-</u>
Fund Balance - June 30, 2017	<u>\$ 2,179,524</u>	<u>\$ 2,226,702</u>	<u>\$ 1,275,569</u>	<u>\$ (951,133)</u>

Allen Park Public Schools

Required Supplemental Information Schedule of Allen Park Public Schools' Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System Determined as of the Plan Year Ended September 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability	0.24275 %	0.23292 %	0.22401 %
School District's proportionate share of the net pension liability	\$ 60,564,655	\$ 56,891,456	\$ 49,341,131
School District's covered employee payroll	20,802,738	19,286,209	19,023,131
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	291.14 %	294.99 %	259.37 %
Plan fiduciary net position as a percentage of the total pension liability	63.01 %	62.92 %	66.20 %

Allen Park Public Schools

Required Supplemental Information Schedule of Allen Park Public Schools' 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	\$ 5,712,984	\$ 4,493,383	\$ 3,883,548
Contributions in relation to the statutorily required contribution	5,712,984	4,493,383	3,883,548
Contribution deficiency (excess)	-	-	-
School District's covered employee payroll	20,373,650	19,920,005	19,506,867
Contributions as a percentage of covered employee payroll	28.04 %	22.56 %	19.91 %

Allen Park Public Schools

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

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

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

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

Other Supplemental Information

Allen Park Public Schools

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

June 30	2016 Refunding Principal	2015 Refunding Principal	Total
2018	\$ 2,650,000	\$ 300,000	\$ 2,950,000
2019	-	12,000,000	12,000,000
2020	-	12,580,000	12,580,000
2021	9,050,000	-	9,050,000
2022	3,475,000	-	3,475,000
2023	3,650,000	-	3,650,000
2024	3,830,000	-	3,830,000
2025	4,020,000	-	4,020,000
2026	4,215,000	-	4,215,000
2027	4,425,000	-	4,425,000
2028	1,665,000	-	1,665,000
2029	100,000	-	100,000
2030	100,000	-	100,000
2031	100,000	-	100,000
2032	100,000	-	100,000
2033	100,000	-	100,000
Total bonded debt	<u>\$ 37,480,000</u>	<u>\$ 24,880,000</u>	<u>\$ 62,360,000</u>
Principal payments due	May 1 and November 1	May 1 and November 1	
Interest payments due	May 1 and November 1	May 1 and November 1	
Interest rate	2.00% to 5.00%	2.50%	
Original issue	<u>\$ 40,780,000</u>	<u>\$ 25,030,000</u>	<u>\$ 65,810,000</u>