

Allen Park Public Schools

**Financial Report
with Supplemental Information
June 30, 2014**

Allen Park Public Schools

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Independent Auditor's Report

To the Board of Education
Allen Park Public Schools

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Allen Park Public Schools (the "School District") as of and for the year ended June 30, 2014, 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 Basic 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 an 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.

To the Board of Education
Allen Park Public Schools

Opinion

In our opinion, the basic 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, 2014 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedule 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.

To the Board of Education
Allen Park Public Schools

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014 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, 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 13, 2014

Allen Park Public Schools

Management's Discussion and Analysis

This section of 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, 2014. 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 and 2007 Refunding Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

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 and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues 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 and liabilities, 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 revenues 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) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. 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 net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2014 and 2013:

Table I	Governmental Activities	
	June 30	
	2014	2013
	(in millions)	
Assets		
Current and other assets	\$ 8.9	\$ 8.2
Capital assets	<u>62.2</u>	<u>64.2</u>
Total assets	71.1	72.4
Deferred Outflows of Resources -		
Deferred charges on bond refunding	<u>1.8</u>	<u>1.9</u>
Total assets and deferred outflows of resources	72.9	74.3
Liabilities		
Current liabilities	5.3	8.7
Long-term liabilities	<u>78.5</u>	<u>74.7</u>
Total liabilities	<u>83.8</u>	<u>83.4</u>
Net Position		
Net investment in capital assets	(9.1)	(9.0)
Restricted	0.4	0.2
Unrestricted	<u>(2.2)</u>	<u>(0.3)</u>
Total net position	<u>\$ (10.9)</u>	<u>\$ (9.1)</u>

The above analysis focuses on the net position (see Table I). 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 a deficit of \$10.9 million at June 30, 2014. Net investment in capital assets totaling a deficit of \$9.1 million compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use net position for day-to-day operations.

Allen Park Public Schools

Management's Discussion and Analysis (Continued)

The deficit of \$2.2 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

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 2014 and 2013.

Table 2

	Governmental Activities	
	2014	2013
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.2	\$ 1.3
Operating grants and contributions	4.5	5.1
General revenue:		
Property taxes	4.6	4.6
State foundation allowance	26.4	25.1
Other	0.3	0.3
Total revenue	<u>37.0</u>	<u>36.4</u>
Functions/Program Expenses		
Instruction	22.9	22.9
Support services	10.7	10.3
Athletics	0.4	0.4
Food services	1.3	1.3
Community services	0.4	0.4
Interest on long-term debt	3.1	3.2
Bond issuance costs	-	0.3
Total functions/program expenses	<u>38.8</u>	<u>38.8</u>
Change in Net Position	(1.8)	(2.4)
Net Position - Beginning of year	<u>(9.1)</u>	<u>(6.7)</u>
Net Position - End of year	<u><u>\$ (10.9)</u></u>	<u><u>\$ (9.1)</u></u>

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 \$38.8 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 (\$4.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$4.6 million in taxes, \$26.4 million in State foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced a decrease in net position of \$1.8 million. Key reasons for the change in net position were the increase in long-term liabilities due to the borrowing on the School Bond Loan Fund.

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 \$4 million, which is an increase of \$0.8 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance increased \$179,000 to \$2.8 million. The change is mainly due to:

- An increase in federal and state revenue for categorical programs without a like increase in program expenditures
- A continued decrease in General Fund support of the Debt Fund
- A decrease in maintenance expenditures

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

Our special revenue fund remained stable from the prior years, showing a net increase of approximately \$34,000 before a transfer to the General Fund.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$440,000. Millage rates did not change in the current year. 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.

The Capital Projects Fund fund balance increased, primarily due to transfers from other funds, as the School District continued construction related to the repairs and maintenance on the buildings.

Allen Park Public Schools

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 revenues 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 as required supplemental information of these financial statements.

There were significant revisions made to the 2013-2014 General Fund original budget. Budgeted revenues were increased \$1.4 million due to an unexpected change in certain categorical revenue from the State.

Budgeted expenditures were also increased \$1.8 million to account for the increase in salaries and purchased professional services resulting from the School District's revised operating plan due to the fluctuations in revenue.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the School District had \$62.2 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 \$1.9 million from last year.

	<u>2014</u>	<u>2013</u>
Land	\$ 20,800	\$ 20,800
Buildings and building improvements	59,214,178	60,786,849
Buses and other vehicles	330,267	195,285
Furniture and equipment	<u>2,646,257</u>	<u>3,179,191</u>
Total capital assets	<u>\$ 62,211,502</u>	<u>\$ 64,182,125</u>

This year's additions of \$192,512 included busses and other vehicles. No debt was issued for these additions.

No major capital projects are planned for the 2014-2015 fiscal year. We anticipate capital additions will be comparable to the 2013-2014 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$52.4 million in bonds outstanding versus \$55.4 million in the previous year - a change of 5.4 percent.

Allen Park Public Schools

Management's Discussion and Analysis (Continued)

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 capital lease obligations, accrued vacation pay, sick leave, and School Bond Loan Fund debt. 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 2015 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 2015 fiscal year is 90 percent and 10 percent of the fall 2014 and February 2015 student counts, respectively. The 2014-2015 budget was adopted in June 2014, based on an estimate of students that will be enrolled in fall 2014. Approximately 69 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 2015 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2014-2015 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, 2014

	<u>Governmental Activities</u>
Assets	
Cash and investments (Note 3)	\$ 2,825,672
Receivables (Note 4)	5,401,078
Inventories	666
Prepaid costs and other assets	107,275
Restricted assets (Note 1)	577,395
Capital assets - Net (Note 5)	<u>62,211,502</u>
Total assets	71,123,588
Deferred Outflows of Resources - Deferred charges on bond refunding (Note 7)	<u>1,785,666</u>
Total assets and deferred outflows of resources	72,909,254
Liabilities	
Accounts payable	264,702
Accrued payroll-related liabilities	3,626,589
State aid anticipation note (Note 10)	987,387
Other accrued liabilities	385,629
Unearned revenue (Note 4)	67,659
Long-term liabilities (Note 7):	
Due within one year	2,971,472
Due in more than one year	<u>75,516,201</u>
Total liabilities	<u>83,819,639</u>
Net Position	
Net investment in capital assets	(9,116,345)
Restricted:	
Debt service	191,766
Food service	251,610
Unrestricted	<u>(2,237,416)</u>
Total net position	<u>\$ (10,910,385)</u>

Allen Park Public Schools

Statement of Activities Year Ended June 30, 2014

	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	\$ 22,929,797	\$ 8,850	\$ 3,779,129	\$ (19,141,818)
Support services	10,710,019	28,748	-	(10,681,271)
Athletics	381,440	39,459	-	(341,981)
Food services	1,282,353	529,247	749,365	(3,741)
Community services	401,162	571,932	-	170,770
Payments to other public schools (ISDs, LEAs)	36,668	-	-	(36,668)
Interest on long-term debt	3,058,755	-	-	(3,058,755)
Debt issuance costs	300	-	-	(300)
Total primary government	\$ 38,800,494	\$ 1,178,236	\$ 4,528,494	(33,093,764)
General revenue:				
Taxes:				
Property taxes - Levied for general purposes				1,762,810
Property taxes - Levied for debt service				2,829,543
State aid not restricted to specific purposes				26,356,393
Interest and investment earnings				7,556
Other				344,814
				<u>31,301,116</u>
				(1,792,648)
				<u>(9,117,737)</u>
				\$ (10,910,385)

Allen Park Public Schools

Governmental Funds Balance Sheet June 30, 2014

	General Fund	2007 Refunding	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 2,236,267	\$ -	\$ 589,405	\$ 2,825,672
Receivables (Note 4)	5,390,660	-	10,418	5,401,078
Inventories	-	-	666	666
Prepaid costs and other assets	107,275	-	-	107,275
Restricted assets (Note 1)	-	577,160	235	577,395
Total assets	\$ 7,734,202	\$ 577,160	\$ 600,724	\$ 8,912,086
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 258,549	\$ -	\$ 6,153	\$ 264,702
Accrued payroll and other liabilities	3,626,589	-	-	3,626,589
State aid anticipation note (Note 10)	987,387	-	-	987,387
Unearned revenue (Note 4)	54,814	-	12,845	67,659
Total liabilities	4,927,339	-	18,998	4,946,337
Fund Balances				
Nonspendable:				
Inventories	-	-	666	666
Prepaid costs	90,380	-	-	90,380
Restricted:				
Debt service	-	577,160	235	577,395
Food service	-	-	250,944	250,944
Assigned:				
Capital projects	415,000	-	329,881	744,881
Budgeted use of fund balance in subsequent year	940,671	-	-	940,671
Unassigned	1,360,812	-	-	1,360,812
Total fund balances	2,806,863	577,160	581,726	3,965,749
Total liabilities and fund balances	\$ 7,734,202	\$ 577,160	\$ 600,724	\$ 8,912,086

Allen Park Public Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2014

Fund Balance Reported in Governmental Funds	\$	3,965,749
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	\$ 86,947,053	
Accumulated depreciation	<u>(24,735,551)</u>	62,211,502
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds payable including premium and discount	(54,537,280)	
Capital lease	(73,531)	
Compensated absences	(1,169,876)	
School Bond Loan Fund	(5,648,963)	
School Loan Revolving Fund	(17,058,023)	
Deferred charges from bond refunding	<u>1,785,666</u>	(76,702,007)
Accrued interest payable is not included as a liability in governmental funds		<u>(385,629)</u>
Net Position of Governmental Activities	\$	<u>(10,910,385)</u>

Allen Park Public Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	2007 Refunding	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 2,751,169	\$ 2,831,231	\$ 540,559	\$ 6,122,959
State sources	28,321,164	-	71,206	28,392,370
Federal sources	1,135,487	-	678,159	1,813,646
Intermediate sources	678,871	-	-	678,871
Total revenue	32,886,691	2,831,231	1,289,924	37,007,846
Expenditures				
Current:				
Instruction	21,588,623	-	-	21,588,623
Support services	9,864,816	-	-	9,864,816
Athletics	381,440	-	-	381,440
Food services	-	-	1,217,459	1,217,459
Community services	357,899	-	-	357,899
Debt service:				
Principal	-	2,800,000	241,290	3,041,290
Interest	-	2,413,556	7,447	2,421,003
Other	-	300	-	300
Capital outlay	307,838	-	46,932	354,770
Payments to other public schools (ISDs, LEAs)	36,668	-	-	36,668
Total expenditures	32,537,284	5,213,856	1,513,128	39,264,268
Excess of Revenue Over (Under) Expenditures	349,407	(2,382,625)	(223,204)	(2,256,422)
Other Financing Sources (Uses)				
Transfers in (Note 6)	30,000	-	409,920	439,920
Transfers out (Note 6)	(200,000)	(209,920)	(30,000)	(439,920)
School Bond Loan and Revolving Fund proceeds (Note 7)	-	3,032,102	-	3,032,102
Total other financing (uses) sources	(170,000)	2,822,182	379,920	3,032,102
Net Change in Fund Balances	179,407	439,557	156,716	775,680
Fund Balances - Beginning of year	2,627,456	137,603	425,010	3,190,069
Fund Balances - End of year	<u>\$ 2,806,863</u>	<u>\$ 577,160</u>	<u>\$ 581,726</u>	<u>\$ 3,965,749</u>

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

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, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 775,680

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	\$ (2,163,135)	
Capitalized capital outlay	<u>192,512</u>	(1,970,623)

Debt proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities (3,032,102)

Amortization of underwriter's discount/premium and refunding charges are reported as expenditures/revenue in the funds and amortized in the statement of activities 12,130

Repayment of bond principal and capital leases are an expenditure in the governmental funds, but not in the statement of activities (where they reduce long-term debt) 3,041,290

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (649,882)

Employee compensated absences are recorded when earned in the statement of activities. In the current year, more was paid out than earned 30,859

Change in Net Position of Governmental Activities **\$ (1,792,648)**

Allen Park Public Schools

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2014

	<u>Agency Funds</u>
Assets	\$ 320,923
Liabilities	
Accounts payable	\$ 29,094
Due to student groups	<u>291,829</u>
Total liabilities	<u>\$ 320,923</u>

Allen Park Public Schools

Notes to Financial Statements June 30, 2014

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 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 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 revenues 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 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. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

2007 Refunding Fund - The 2007 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.

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.

Debt Service Funds - The debt service funds are used to record tax and interest revenue and the payment of interest, principal, and other expenditures on long-term debt.

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

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 Assets or Equity

Cash - Cash include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

Allen Park Public Schools

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

All accounts and property taxes receivable 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 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.

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

Restricted Assets - The unspent property taxes levied of the debt service funds are required to be set aside for future bond principal and interest payments. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental 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 estimated useful lives 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 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.

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

Note I - Summary of Significant Accounting Policies (Continued)

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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then. The School District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-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.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

- 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, superintendent, or director of finance, who is authorized by policy and 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.

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

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, Special Revenue Fund, Capital Projects Fund, and debt service funds, except that capital outlay is budgeted in other expenditure categories. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, and object. 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 (object) 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.

Allen Park Public Schools

Notes to Financial Statements June 30, 2014

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

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restrictions, commitments, or assignments of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year. 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 - Added needs	\$ 3,349,631	\$ 3,442,839
Support services - Instructional staff	1,089,615	1,102,037
Support services - General administration	441,553	496,383
Community services	323,762	357,899

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.

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 \$3,816,629 included \$3,561,234 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.

Note 3 - Deposits and Investments (Continued)

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.

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.

Allen Park Public Schools

Notes to Financial Statements June 30, 2014

Note 4 - Receivables and Unearned Revenue

Receivables as of year end for the School District's major fund and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Other Nonmajor Funds	Total
Receivables:			
Accounts receivable	\$ 17,433	\$ 10,418	\$ 27,851
Intergovernmental	<u>5,373,227</u>	<u>-</u>	<u>5,373,227</u>
Total receivables	<u>\$ 5,390,660</u>	<u>\$ 10,418</u>	<u>\$ 5,401,078</u>

Governmental funds report unearned revenue recognition in connection with resources that have been received but not yet earned. Unearned revenue of \$67,659 has been recorded in the governmental funds representing resources that have been received but not yet earned.

Note 5 - Capital Assets

Capital asset activity of the School District was as follows:

	Balance July 1, 2013	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2014
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 20,800	\$ -	\$ -	\$ 20,800
Capital assets being depreciated:				
Buildings and improvements	77,118,981	-	-	77,118,981
Furniture and equipment	8,689,238	-	-	8,689,238
Buses and other vehicles	<u>1,072,542</u>	<u>192,512</u>	<u>147,020</u>	<u>1,118,034</u>
Subtotal	86,880,761	192,512	147,020	86,926,253
Accumulated depreciation:				
Buildings and improvements	16,332,132	1,572,671	-	17,904,803
Furniture and equipment	5,510,047	532,934	-	6,042,981
Buses and other vehicles	<u>877,257</u>	<u>57,530</u>	<u>147,020</u>	<u>787,767</u>
Subtotal	<u>22,719,436</u>	<u>2,163,135</u>	<u>147,020</u>	<u>24,735,551</u>
Net capital assets being depreciated	<u>64,161,325</u>	<u>(1,970,623)</u>	<u>-</u>	<u>62,190,702</u>
Net capital assets	<u>\$ 64,182,125</u>	<u>\$ (1,970,623)</u>	<u>\$ -</u>	<u>\$ 62,211,502</u>

Allen Park Public Schools

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets (Continued)

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

Governmental activities:

Instruction	\$	1,362,775
Support services		692,203
Community services		43,263
Food services		64,894
Total governmental activities	\$	<u>2,163,135</u>

Note 6 - Interfund Transfers

Transfers In	Transfers Out			Total
	General Fund	Cafeteria Fund	Debt Service Funds	
General Fund	\$ -	\$ 30,000	\$ -	\$ 30,000
Debt service funds	-	-	209,920	209,920
Capital projects	200,000	-	-	200,000
Total	<u>\$ 200,000</u>	<u>\$ 30,000</u>	<u>\$ 209,920</u>	<u>\$ 439,920</u>

Transfers from the General Fund provided funding for the nonbonded capital projects fund. Transfers from the Cafeteria Fund repaid indirect costs of the food service program that were funded during the year from the General 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, capital leases, and School Bond Loan Fund/School Loan Revolving Fund borrowings.

Allen Park Public Schools

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 55,420,000	\$ -	\$ 3,005,000	\$ 52,415,000	\$ 2,780,000
Less deferred amounts:					
Issuance discounts	(26,914)	-	(1,282)	(25,632)	(1,282)
Issuance premiums	2,255,307	-	107,395	2,147,912	107,395
Deferred outflows - Deferred interest from refunding bonds	(1,879,649)	-	(93,983)	(1,785,666)	(93,983)
Total bonds payable	55,768,744	-	3,017,130	52,751,614	2,792,130
School Bond Loan Fund	5,456,773	192,190	-	5,648,963	-
School Loan Revolving Fund	13,527,994	3,530,029	-	17,058,023	-
Capital lease	109,821	-	36,290	73,531	36,595
Employee compensated absences	1,200,735	15,428	46,287	1,169,876	48,764
Total governmental activities	<u>\$ 76,064,067</u>	<u>\$ 3,737,647</u>	<u>\$ 3,099,707</u>	<u>\$ 76,702,007</u>	<u>\$ 2,877,489</u>

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2015	\$ 2,780,000	\$ 2,301,556	\$ 5,081,556
2016	2,795,000	2,162,556	4,957,556
2017	2,845,000	2,022,806	4,867,806
2018	2,855,000	1,880,556	4,735,556
2019	2,865,000	1,737,806	4,602,806
2020-2024	14,075,000	6,913,281	20,988,281
2025-2029	13,645,000	3,974,600	17,619,600
2030-2033	10,555,000	1,116,900	11,671,900
Total	<u>\$ 52,415,000</u>	<u>\$ 22,110,061</u>	<u>\$ 74,525,061</u>

Governmental Activities

General obligation bonds consist of the following:

\$56,515,000 serial bonds due in annual installments of \$2,605,000 to \$2,865,000 through May 1, 2033; interest at 4 percent to 5 percent	\$ 52,415,000
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Allen Park Public Schools

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

Capital Leases - The School District has entered into a lease agreement as lessee for financing the purchase of a phone operating system. This lease agreement qualifies as a capital lease and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2015	\$ 38,817
2016	<u>38,817</u>
Total	77,634
Less amount representing interest	<u>4,103</u>
Present value of net minimum lease payments	<u>\$ 73,531</u>

School Bond Loan Fund - The School Bond Loan Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest, at the annual rate ranging from 3.52 percent to 3.53 percent from July 1, 2013 to June 30, 2014, has been assessed for the year ended June 30, 2014. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7 mills. The School District is required to levy 7 mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

Note 7 - Long-term Debt (Continued)

School Loan Revolving Fund - The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in accordance with Section 9 of Act No. 92 of the Public Acts of 2005, as amended. Interest, at an average rate of 3.53 percent from July 1, 2013 to June 30, 2014, has been assessed for the year ended June 30, 2014. Repayment begins as soon as annual tax collections exceed annual debt service payment requirements. The predetermined mandatory final loan repayment date is May 1, 2040. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

During July 2014, the School District approved a resolution to borrow from the State of Michigan School Loan Revolving Fund for the purpose of making required debt service payments during fiscal year 2014-2015.

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.

Allen Park Public Schools

Notes to Financial Statements June 30, 2014

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

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

The Michigan Public School Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary 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 Services at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. For the period from July 1, 2013 through September 30, 2013 employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension Contributions	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
Health Contributions	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
Defined Contribution Plan Employer Contributions							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

* First worked September 4, 2012 or later

Allen Park Public Schools

Notes to Financial Statements June 30, 2014

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

For the period from October 1, 2013 through June 30, 2014 employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension Contributions	18.34 %	18.11 %	18.11 %	15.44 %	15.44 %	15.44 %	18.34 %
Health Contributions	6.45 %	6.45 %	5.52 %	5.52 %	6.45 %	5.52 %	5.52 %
Defined Contribution Plan Employer Contributions							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

* First worked September 4, 2012 or later

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 years ended June 30, 2014, 2013, and 2012 were \$3,600,511, \$3,026,160, and \$2,877,414, respectively.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Postemployment Benefits - 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 8.18 percent to 9.11 percent of covered payroll for the period from July 1, 2013 through September 30, 2013, and from 5.52 percent to 6.45 percent of covered payroll for the period October 1, 2013 through June 30, 2014 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 401(k) account.

The School District's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2014, 2013, and 2012 were \$2,024,441, \$1,690,778, and \$1,628,115, respectively.

Note 10 - State Aid Anticipation Notes

In August 2013, the School District borrowed \$2,000,000 at 0.43 percent interest, \$385,000 at 1.05 percent interest, and \$315,000 at 1.38 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, 2014 includes accrued interest of \$12,204. The notes were repaid in July and August 2014.

In August 2014, the School District borrowed a total of \$2,000,000 in a state aid anticipation note, which includes \$1,000,000 set-aside at 0.42 percent interest, \$550,000 non-set-aside at 1.05 percent interest, and \$450,000 non-set-aside at 1.24 percent. The note is due in eight monthly installments beginning January 2015 through August 2015.

Note 11 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted; however, the impact is expected to be material. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

Required Supplemental Information

Allen Park Public Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Over (Under) <u>Final Budget</u>
Revenue				
Local sources	\$ 2,584,380	\$ 2,579,868	\$ 2,751,169	\$ 171,301
State sources	27,082,152	28,235,208	28,321,164	85,956
Federal sources	954,642	1,140,390	1,135,487	(4,903)
Intermediate sources	<u>590,000</u>	<u>703,938</u>	<u>678,871</u>	<u>(25,067)</u>
Total revenue	31,211,174	32,659,404	32,886,691	227,287
Expenditures				
Current:				
Instruction:				
Basic programs	17,833,200	18,582,143	18,157,942	(424,201)
Added needs	3,268,541	3,349,631	3,442,839	93,208
Support services:				
Pupil	2,227,349	2,384,447	2,218,124	(166,323)
Instructional staff	917,731	1,089,615	1,102,037	12,422
General administration	360,614	441,553	496,383	54,830
School administration	1,861,940	1,915,035	1,806,268	(108,767)
Business	316,253	325,533	297,599	(27,934)
Operating and maintenance	2,732,355	2,980,196	2,831,060	(149,136)
Pupil transportation services	623,525	663,885	623,297	(40,588)
Central	526,486	828,356	724,083	(104,273)
Other	51,037	44,334	45,994	1,660
Athletics	396,540	397,356	397,091	(265)
Community services	359,833	323,762	357,899	34,137
Payments to other public schools (ISDs, LEAs)	<u>35,284</u>	<u>34,684</u>	<u>36,668</u>	<u>1,984</u>
Total expenditures	<u>31,510,688</u>	<u>33,360,530</u>	<u>32,537,284</u>	<u>(823,246)</u>
Excess of Revenue (Under) Over Expenditures	(299,514)	(701,126)	349,407	1,050,533
Other Financing Sources (Uses)				
Transfers in	65,000	30,000	30,000	-
Transfers out	<u>(209,423)</u>	<u>(10,000)</u>	<u>(200,000)</u>	<u>(190,000)</u>
Total other financing (uses) sources	<u>(144,423)</u>	<u>20,000</u>	<u>(170,000)</u>	<u>(190,000)</u>
Net Change in Fund Balance	(443,937)	(681,126)	179,407	860,533
Fund Balance - July 1, 2013	<u>2,627,456</u>	<u>2,627,456</u>	<u>2,627,456</u>	<u>-</u>
Fund Balance - June 30, 2014	<u>\$ 2,183,519</u>	<u>\$ 1,946,330</u>	<u>\$ 2,806,863</u>	<u>\$ 860,533</u>

Other Supplemental Information

Allen Park Public Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Special Revenue Fund	Debt Service Funds		Capital Projects Fund	Total Nonmajor Governmental Funds
	Cafeteria	1999 Issue	2003 Issue		
Assets					
Cash and investments	\$ 259,524	\$ -	\$ -	\$ 329,881	\$ 589,405
Receivables (Note 4)	10,418	-	-	-	10,418
Inventories	666	-	-	-	666
Restricted assets	-	226	9	-	235
	<u>\$ 270,608</u>	<u>\$ 226</u>	<u>\$ 9</u>	<u>\$ 329,881</u>	<u>\$ 600,724</u>
Total assets					
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 6,153	\$ -	\$ -	\$ -	\$ 6,153
Unearned revenue (Note 4)	12,845	-	-	-	12,845
	<u>18,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,998</u>
Total liabilities					
Fund Balances					
Nonspendable - Inventory	666	-	-	-	666
Restricted:					
Debt service	-	226	9	-	235
Food service	250,944	-	-	-	250,944
Assigned - Capital projects	-	-	-	329,881	329,881
	<u>251,610</u>	<u>226</u>	<u>9</u>	<u>329,881</u>	<u>581,726</u>
Total fund balances					
Total liabilities and fund balances	<u>\$ 270,608</u>	<u>\$ 226</u>	<u>\$ 9</u>	<u>\$ 329,881</u>	<u>\$ 600,724</u>

Allen Park Public Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2014

	Special Revenue Fund	Debt Service Funds		Capital Projects Fund	Total Nonmajor Governmental Funds
	Cafeteria	2003 Issue	1999 Issue		
Revenue					
Local sources	\$ 538,045	\$ -	\$ -	\$ 2,514	\$ 540,559
State sources	71,206	-	-	-	71,206
Federal sources	678,159	-	-	-	678,159
Total revenue	1,287,410	-	-	2,514	1,289,924
Expenditures					
Current - Food services	1,217,459	-	-	-	1,217,459
Debt service:					
Principal	-	-	205,000	36,290	241,290
Interest	-	-	4,920	2,527	7,447
Capital outlay	35,932	-	-	11,000	46,932
Total expenditures	1,253,391	-	209,920	49,817	1,513,128
Excess of Revenue Over (Under) Expenditures	34,019	-	(209,920)	(47,303)	(223,204)
Other Financing Sources (Uses)					
Transfers in	-	-	209,920	200,000	409,920
Transfers out	(30,000)	-	-	-	(30,000)
Total other financing (uses) sources	(30,000)	-	209,920	200,000	379,920
Net Change in Fund Balances	4,019	-	-	152,697	156,716
Fund Balances - Beginning of year	247,591	9	226	177,184	425,010
Fund Balances - End of year	<u>\$ 251,610</u>	<u>\$ 9</u>	<u>\$ 226</u>	<u>\$ 329,881</u>	<u>\$ 581,726</u>

Allen Park Public Schools

Other Supplemental Information Schedule of Bond Indebtedness June 30, 2014

<u>Years Ending June 30</u>	<u>2007 Issue</u>
2015	\$ 2,780,000
2016	2,795,000
2017	2,845,000
2018	2,855,000
2019	2,865,000
2020	2,845,000
2021	2,830,000
2022	2,815,000
2023	2,800,000
2024	2,785,000
2025	2,765,000
2026	2,750,000
2027	2,730,000
2028	2,710,000
2029	2,690,000
2030	2,670,000
2031	2,650,000
2032	2,630,000
2033	2,605,000
Total	<u>\$ 52,415,000</u>
Principal payments due	May 1
Interest payments due	May 1 and November 1
Interest rate	4.00% to 5.00%
Original issue	<u>\$ 56,515,000</u>