

**Royal Oak Schools**

**Financial Statements**

**June 30, 2017**



**ROYAL OAK SCHOOLS**  
A COMMUNITY OF EXCELLENCE



**YEO & YEO**  
CPAs & BUSINESS CONSULTANTS

**Comprehensive Annual Financial Report**

**of**

**Royal Oak Schools**

**Royal Oak, Michigan**

As prepared by the Finance Department

For the Fiscal Year Ended June 30, 2017

Shawn Lewis-Lakin

Superintendent of Schools – through June 30, 2017

Mary Beth Fitzpatrick

Superintendent of Schools – beginning July 1, 2017

Katherine Abela

Executive Director, Finance & Operations

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## INTRODUCTORY SECTION

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**Board of Education**  
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August 31, 2017

The Board of Education  
Royal Oak Schools  
800 DeVillen  
Royal Oak, Michigan 48073

Dear Board Members:

This letter of transmittal is intended to provide an overview of the financial condition of Royal Oak Schools from the perspective of the Superintendent and the Executive Director, Finance & Operations. It serves as an introduction to our Comprehensive Annual Financial Report for the fiscal year which ended June 30, 2017. The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes the District's organizational chart, a list of principal officials and this transmittal letter. The financial section includes the Management's Discussion and Analysis, the Independent Auditor's Report, district-wide financial statements, fund financial statements and notes to the financial statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. For an additional narrative about the financial performance of the District, please direct your attention to the Management's Discussion and Analysis.

The report has been prepared by the District's Finance Office with responsibility for accuracy and completeness of the report resting with the District. This report was prepared in accordance with generally accepted accounting principles. The basic financial statements have been audited by the firm of Yeo & Yeo, an independent auditor, and the report is preceded by their unmodified opinion.

## **The District**

Royal Oak Schools is a suburban district located two miles north of the City of Detroit. It is a fiscally independent school district governed by a seven-member elected Board of Education. In fiscal year 2017, the District operated six K-5 elementary schools, one 6-8 middle school, one 9-12 senior high school, an early childhood center, a community education center, an alternative high school, an administration building and a maintenance/transportation facility. The district provided shared services to private and parochial schools located within the bounds of the district, most significantly to Shrine Schools.

## **Student Services Provided**

The District provides a comprehensive program of public education from pre-kindergarten through twelfth grade, as well as outstanding programs of continuing and alternative education. In addition, a wide array of special education programs and services are offered to eligible students, ranging from children in early intervention and early childhood developmentally delayed programs to students reaching the age of 26. The high school, middle school, all elementary schools and continuing education are fully accredited by Advanced Ed. In addition, the District operates preschool, childcare and before and after school programs as a part of the wide array of services that are provided to the community.

The curriculum of the District is a broad-based curriculum designed to meet the individual needs of all students including the regular daytime, academically talented, at-risk, special needs and adult continuing education students. In addition, there are many opportunities for students to participate in extra-curricular activities including athletics, music, drama, clubs and numerous other special interest activities.

## **Accounting System and Budgetary Control**

The Governmental Funds of Royal Oak Schools are presented in accordance with statements issued by the Governmental Accounting Standards Board (GASB). The District adheres to budgetary policies and procedures as established by the Board of Education, which includes multiple reviews of the budget throughout the year with amendments submitted to the Board of Education for approval. The District utilizes a detailed line item budget that is prepared according to the guidelines in Bulletin 1022 (Revised), the State of Michigan's School Accounting Manual. Executive and building level administrators are delegated the responsibility for controlling the expenditures within their respective responsibilities according to Board policies and procedures. The existing system of budgetary and internal accounting controls provides reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period. Refer to Note 1 in the Financial Section of the report, which specifically outlines significant accounting policies of the District.



## **State School Finance System**

In the 1994-95 fiscal year, fundamental and dramatic changes in Michigan school finance were implemented, and today, we are still feeling the effects of this shift in school funding from local to state control. These changes significantly reduced local sources of revenue (property taxes) and increased the reliance on State funding. Currently, funding received by each school district is based upon the number of students and the per pupil foundation allowance received for each student. Any increase or decrease in the per pupil foundation allowance from year to year is directly tied to available revenue in the State School Aid Fund. Under this funding system, school districts are very much dependent upon the State for their revenue. With the past decade's unprecedented economic downturn in the State of Michigan, along with state budget decisions, school districts have been presented with the financial challenges of declining revenues, rising costs and increasing demands for student achievement.

Royal Oak Schools has, for a number of years, experienced significant declines in enrollment as the demographics of the community have shifted. In the 2016-17 Royal Oak Schools saw an increase in student enrollment of just over 100 pupils. This was the first increase the District has seen in many years. Student enrollment projections are prepared by an outside firm and indicate a flat to slow increase in student enrollment over the next several years.

From a local district's perspective, the school funding system instituted following the passage of proposal A in 1994 has not lived up to its promise of adequately funding public education. Over time, increases in the per-pupil foundation allowance have not kept pace with inflation. In many of those years, money promised and committed to local school districts has been taken away mid-year by the State of Michigan due to insufficient State revenue and the inability of State lawmakers to make the necessary structural changes in the State budget. Decisions by the state to fund higher education through the school aid budget have eroded funding available for K-12 schools, even as revenue and expenditures in the school aid budget rebound. Insufficient state funding for education has placed a significant financial burden on all school districts across the state when wage, benefit, retirement, and utility costs are increasing at rates above inflation. The dependence upon sales tax and statewide property tax revenue for school funding will continue to result in significant cyclical effects tied to the performance of the economy. Any future increase in the District's per-pupil foundation allowance will be based on the growth in sales tax, statewide property tax and other state revenue. As a result, there are very serious concerns about the financial impact of Michigan's current and future economic downturns on the revenue stream for the State School Aid Fund. The financial outlook for school districts in Michigan remains challenging. The \$470 reduction in per pupil funding adopted by the State Legislature in 2012-13 continues to have a lingering effect. School districts across Michigan continue to be challenged by financial uncertainty.

## **Revenue Base**

The District is supported primarily by funding received from State sources. Most of this State funding is based upon two components: a per-pupil foundation allowance and the number of students enrolled in the District on the two official count days,

one in October and the other in February. This reliance on State revenue as a funding source in the General Fund is illustrated as follows:

	<u>Amount</u>	<u>Percentage of Total</u>
Local Sources	\$ 20,581,666	34.96%
State Sources	\$ 32,386,390	55.02%
Federal Sources	\$ 1,817,732	3.09%
Interdistrict Sources	\$ 4,080,207	6.93%
<u>Total Revenue</u>	<u>\$ 58,865,995</u>	<u>100.00%</u>

Local Sources are comprised mainly of local property taxes, facility rentals, and miscellaneous fees. Property tax revenue is a function of two variables: taxable valuation of property located in the District and the millage rate. The real and personal property within the District is assessed at the rate of 50% of true cash value. However, there is a cap on the annual growth in taxable valuation. This annual growth is limited to the rate of inflation or 5%, whichever is less. In November 2017 residents of the Royal Oak School District approved a Non-Homestead Millage Rate Restoration of .8 mills. This was due property rate values growing faster than inflation so that the District could collect the entire 18.0000 mills on the Non-Homestead property. In 2016-17, the operating millage rate for Royal Oak homeowners was 2.5548 mills and 18.0000 mills for businesses.

A comparison of 2016-17 General Fund revenue to the prior year reveals the following:

	<u>2016-17</u>	<u>2015-16</u>	<u>Increase (Decrease)</u>	<u>(Decrease) By Source</u>
Local Sources	\$ 20,581,666	\$ 20,022,766	\$ 558,900	2.79%
State Sources	\$ 32,386,390	\$ 30,646,176	\$ 1,740,214	5.68%
Federal Sources	\$ 1,817,732	\$ 1,686,554	\$ 131,178	7.78%
Interdistrict Sources	\$ 4,080,207	\$ 4,113,029	\$ (32,822)	-0.80%
<u>Total Revenues</u>	<u>\$ 58,865,995</u>	<u>\$ 56,468,525</u>	<u>\$ 2,397,470</u>	<u>4.25%</u>

The increase in Local Sources of \$558,900 is mostly attributed to the rise in property taxes collected on non-homestead properties and an increase in facilities rentals.

The net increase in State Sources of \$1,740,214 was primarily the result of the 120 student increase to enrollment and increase in 147c MPSERS UAAL rate stabilization allocation.

The net increase in Federal Sources of \$131,178 is attributable to the increase in IDEA funding allocations.

The decrease in Interdistrict Sources of \$32,822 was due to the decrease in county distributions of Public Act (PA) 18. PA 18 is a special education millage rate levied on all of Oakland County, collected by the Oakland Intermediate School District, and distributed to all Local Education Agencies.

In November 2013, the electors of the District approved a renewal of the operating property tax levies that maintain current per-pupil revenue levels. This renewal was for a seven-year period and represents an important element of financial stability. This operating millage will extend through the end of the 2020-2021 fiscal year. Voters offered this affirmation of support to the district one year following their approval of a new 1 mill sinking fund levy.

## Expenditures

Expenditures and Other Financing (Sources) Uses for the General Fund totaled \$56,398,135 for the year ended June 30, 2017. The amount of expenditures for various functions and the percent of the total expenditures are as follows:

<u>Function</u>	<u>Amount</u>	<u>% of Total</u>
Instruction:		
Basic Programs	\$ 25,926,178	44.36%
Added Needs	\$ 7,006,048	11.99%
Continuing Education	\$ 201,577	0.34%
Total Instruction	\$ 33,133,803	56.69%
Support Services:		
Pupil Services	\$ 4,700,118	8.04%
Instructional Services	\$ 2,184,700	3.74%
General Administration	\$ 648,453	1.11%
School Administration	\$ 2,901,153	4.96%
Business Services	\$ 9,173,251	15.69%
Central Staff	\$ 1,855,851	3.18%
Athletic Activities	\$ 763,345	1.31%
Other	\$ 41,582	0.07%
Total Support Services	\$ 22,268,453	38.10%
Payments to other governmental units	\$ 1,346,705	2.30%
Community Services	\$ 1,265,541	2.17%
Capital Outlay	\$ 15,342	0.03%
Debt Service	\$ 75,235	0.13%
Total Expenditures	\$ 58,105,079	99.41%
Other Financing Uses	\$ 343,571	0.59%
Total Expenditures and Other Financing Sources Uses	\$ 58,448,650	100.00%

A comparison of 2016-17 General Fund expenditures to the prior year is as follows:

Function	2016-17	2015-16	Increase (Decrease)	% Increase (Decrease) By Source
Instruction:				
Basic Programs	\$ 25,926,178	\$ 25,467,088	\$ 459,090	1.80%
Added Needs	\$ 7,006,048	\$ 5,971,277	\$ 1,034,771	17.33%
Continuing Education	\$ 201,577	\$ 185,258	\$ 16,319	8.81%
Total Instruction	\$ 33,133,803	\$ 31,623,623	\$ 1,493,861	4.72%
Support Services:				
Pupil Services	\$ 4,700,118	\$ 4,732,277	\$ (32,159)	-0.68%
Instructional Services	\$ 2,184,700	\$ 2,194,597	\$ (9,897)	-0.45%
General Administration	\$ 648,453	\$ 655,508	\$ (7,055)	-1.08%
School Administration	\$ 2,901,153	\$ 2,978,263	\$ (77,110)	-2.59%
Business Services	\$ 9,173,251	\$ 7,631,310	\$ 1,541,941	20.21%
Central Staff	\$ 1,855,851	\$ 2,151,889	\$ (296,038)	-13.76%
Athletic Activities	\$ 763,345	\$ 627,266	\$ 136,079	21.69%
Other	\$ 41,582	\$ 44,188	\$ (2,606)	-5.90%
Total Support Services	\$ 22,268,453	\$ 21,015,298	\$ 1,253,155	5.96%
Payments to other governmental units	\$ 1,346,705	\$ 1,813,518	\$ (466,813)	-25.74%
Community Services	\$ 1,265,541	\$ 1,078,979	\$ 186,562	17.29%
Capital Outlay	\$ 15,342	\$ 10,314	\$ 5,028	48.75%
Debt Service	\$ 75,235	\$ 75,235	\$ -	0.00%
Total Expenditures	\$ 58,105,079	\$ 55,616,967	\$ 2,488,112	4.47%
Other Financing Uses	\$ 343,571	\$ 781,168	\$ (437,597)	-56.02%
Total Expenditures and Other Financing Sources Uses	\$ 58,448,650	\$ 56,398,135	\$ 2,050,515	3.64%

The most significant dollar changes from 2015-16 to 2016-17 can be explained as follows:

The 4.72% increase in total instruction is in large part attributable to the increase in retirement costs. The district was required to make contributions in the amount of \$3,327,268 to the Michigan Public School Employee Retirement System (MPSERS). This amount represents the additional employer contributions attributed to the unfunded accrued liability (UAAL) rate, which was approximately 11.70% for the year. This expenditure was offset by corresponding state revenue referred to as 147c MPSERS UAAL Rate Stabilization. Essentially the state held us harmless; however, the state still required local education agencies to account for the expense. Additionally, the settlement of the collective bargaining agreements with the Royal Oak Education Association (ROEA) and the Royal Oak Educational Support Association (ROESA) included salary step increments for all eligible bargaining unit members. Benefit rates had minimal effect on the increase in expenses for the fiscal year.

The 25.74% decrease in Payments to Other Governmental Units reflects the Districts commitment to bringing our special education students back from center based programs, thus reducing our expense for tuition.

The stability in Community Services expenses is reflects our consistency with the shared services agreement with Royal Oak Shrine. The increase seen was due to additional classes covered under that agreement.

The increase in capital outlay is desks purchased for classroom.

Overall expenditures increase was 3.64% from the previous fiscal year.

### **Fund Balance**

The District ended fiscal year 2017 in stable financial condition; however, we remain cautious as the State continues to discuss the funding system of K-12 education. The General Fund's fund balance of \$14,519,123 achieves the stated goal of 15% of expenditures and other financing uses. A conscious effort was made a number of years ago to establish an adequate fund balance level to assist with cash flow needs, prevent borrowing, provide adequate reserves during economic downturns, and provide for unforeseen emergencies. Our District has achieved this goal; however, the current financial challenges and uncertainty of school funding have made the goal of maintaining stable fund equity a significant challenge. It should also be noted that a portion of the fund balance is assigned for specific uses. These include assignments for the subsequent year's budget and compensated absences. The unassigned fund balance of \$12.6 million at the end of fiscal year 2017 represents 21% of expenditures and other financing uses.

## **Debt Service**

In the 2014-2015 the District Refunded our 2005 Debt. The savings to the tax payers over the life of the new bonds is \$3,969,283. The District continues to meet its debt service obligations by levying a local debt retirement millage and using funds on hand. The millage levied in fiscal year 2017 was 3.75 mills, same as the previous year. The total fund balance in the debt retirement funds of \$1,536,938 along with anticipated tax revenues is adequate to meet our future years debt obligation and interest payments provided our property tax values remain relatively stable.

## **Fiscal Planning**

The District adopts an annual budget for the general fund and special revenue funds as required by legislation. The general fund budget is amended three times during the fiscal year to assure all stakeholders are continually aware of the changes to the districts available resources.

A comprehensive evaluation of all buildings' infrastructure needs was performed a number of years ago and was updated in 2016-17 fiscal year. This facility assessment included an evaluation of the electrical and mechanical systems, roofing, plumbing, site, sidewalks, parking lots, heating and cooling, as well as life safety issues.

In November 2012, the Royal Oak Community approved a 1 mill sinking fund that provides a dedicated revenue source to renovate our facilities. These renovations will support and improve the construction and renovation projects that occurred in 2017.

Since the current State funding system so closely ties our revenue to student enrollment, the District's enrollment projection efforts have utilized an outside firm with expertise in enrollment forecasting. These forecasts have had a very high correlation to actual results. The importance of an established long-range planning process and model, with extremely accurate enrollment projections, will continue to be especially important in upcoming years.

Since student enrollment is so critical to the District's financial well being, several short and long term initiatives have been developed to address this key issue. These include engaging the services of a marketing agency to continue our comprehensive advertising campaign. Once again, the District was a successful participant in the Schools of Choice Program during fiscal 2017. This program allows students residing in other Oakland County districts to enroll in our District. This program has enabled the District to generate revenue to maintain programs despite a decline in resident students. For fiscal year 2017, this program used a targeted, space available and grade specific approach.

Other long term initiatives have been implemented to maintain student enrollment. These include: An Early Childhood Center that provides Child Care and Preschool services and introduces families to Royal Oak Schools at an early age. Numerous other

initiatives have also been implemented, some of which included Board of Education and citizen based advisory committees, community based decision-making on facility consolidation, efforts in District-wide public relations and marketing, and curriculum updates.

We will proceed with caution as we develop amendments and prepare the following fiscal years budget as there remains uncertainty in the School Aid Fund and pupil enrollment

### **Other Financial Highlights**

The District maintains a prudent and fiscally conservative cash management program. The General Fund investment income earned was \$38,469. This amount is the result of a low interest rate environment.

During the fiscal year, there were four union groups recognized within the District. We successfully negotiated contracts with all four groups and settled contracts are in place for the 2016-2017 school year.

During 2010-11, the District privatized custodial, maintenance, grounds and transportation services. This difficult decision was necessary to reduce expenditures, balance the budget and ultimately preserve instructional programs. The transition to contracted services for these services was a tremendous success. Additionally, non-mandated general education transportation was also eliminated in 2010-11 and was necessary for the future financial stability of the District.

The 2012-2013 school year was the first year in which technology services were provided through an intergovernmental agreement with Oakland Schools. This model for technology services has led to lower costs and improved district-wide technology planning and support.

The Food Service Fund ended the year with a slight shortage of revenues over expenditures in the amount of \$26,627 which decreases the fund balance to \$358,878.

The District has two tax capture authorities within its boundaries: a Downtown Development Authority (DDA) and the Royal Oak Brownstown Re-Development Authority. Such authorities use tax revenue generated from property value growth above a base year value in a defined geographic area to finance public infrastructure improvements. The stated purpose of these authorities is to increase the desirability of the defined area to encourage economic growth and activity. The DDA has been able to meet all of its financial obligations and return excess captured tax revenue to the respective taxing units, including our school district.

To cope with the ever increasing economic uncertainty, increasing costs, and declining revenue, the District has employed a number of expenditure and revenue enhancement strategies over the past several years. These include: an early return to work program for employees on workers' compensation, energy performance contracts, increased summer staff development activity, tuition-based day care, increased fees for facility usage, use of a targeted Schools of Choice Program, building consolidation,



standardized office automation software and hardware, purchasing card usage, purchase of software and hardware to handle administrative functions, summer team cleaning of buildings, a health insurance dependent eligibility audit, advertising, development of a Quality Assurance Plan for custodial operations, implementation of a preventive maintenance program for facilities, use of a computerized bus routing system, elimination of general education transportation, restructured special education services, improved effectiveness of the facility rental process, an automated substitute calling system, and the direct purchase of fuel and electricity.

## **Curriculum Highlights**

### *School Quality*

The District and school staff are engaged in an ongoing process to address school quality. A framework of standards from AdvancEd is utilized to evaluate current practice and make changes to ensure continuous improvement. The areas identified for evaluation are Purpose and Direction, Governance and Leadership, Teaching and Assessing for Learning, Resources and Support Systems, and Using Results for Continuous Improvement.

The District continues to use the model of a School Quality Team, comprised of administrators and teacher leaders from each school. This Team focuses on the implementation of Response to Intervention and oversees the collection and use of student data for decision-making purposes. In 2017-2018, Royal Oak maintained the school culture component to our data-driven learning in Response to Intervention. All of our schools joined forces at the District level to pursue a K-12 system of Positive Behavior Intervention and Support.

### *Accreditation*

The high school, middle school, all elementaries and continuing education are fully accredited through AdvancEd, as well as by the Michigan Department of Education. Both set rigorous standards for accreditation. The accreditation process focuses on documented enhanced student achievement for both the individual student as well as the instructional program as a whole. In the Spring of 2013 Royal Oak Schools engaged in a Quality Assurance Review by AdvancEd. The next External Review will be five years from that time, in Spring 2018. This was an external review of the systems the district has in place. The District received district wide accreditation as a result of the review and will remain fully accredited for the following five years.

### *Curriculum and Instruction Overview*

The District's comprehensive curriculum, which provides focus and direction for classroom instruction, is continuously evaluated and redesigned to meet the needs of our students. Curriculum renewal occurs through a process that involves all stakeholders in the learning community, including students, staff, parents, and community members. All students are prepared with the

knowledge, skills, and behaviors that are essential for the future. Through their years of school, Royal Oak students receive instruction in reading, writing, communication, mathematics, social studies, and science. World languages, fine and performing arts, physical education, health, and career education are included at all levels of the curriculum.

Keller Elementary School received the designation as an authorized International Baccalaureate Primary Years Programme in the spring of 2011. Royal Oak Middle School and Royal Oak High School received full authorization as International Baccalaureate (IB) World Schools in the Spring of 2015. All three of these schools are implementing inquiry-based learning methods, which are student-centered approaches that encourage inquiry, exploration, and problem-solving.

Royal Oak High School is well poised to take on the challenges of the rigorous graduation requirements mandated by the State. The high school has curricular programs for the graduating classes of 2018 and beyond to meet these challenges. At the same time, the high school has focused on “Learning for All” in efforts to leave no student behind during this transition to stronger graduation requirements. In recent years, Royal Oak High School was named by US News and World Report as one of the top fifty high schools in the state of Michigan.

### *Core Curriculum*

Royal Oak Schools has created a system-wide K-12 Learning Council, comprised of teachers and administrators across all grades and subjects. The charge of this team is to review, develop, and refine instructional programs and practices to meet the high standards as set by the team. Royal Oak is currently engaged in a process to plan, create and implement the Common Core Standards for Math and ELA (including literacy skills in both Science and Social Studies). In the 2014-2015 school year, the Royal Oak Board of Education approved new curriculum in the areas of ELA, Math, and World Languages. In the spring of 2017, the K-12 Science Curriculum Team began work to develop and align our Science curriculum to the New Generation Science Standards (NGSS).

### *Language Arts*

The District’s Language Arts curriculum meets or exceeds state content expectations in all areas. In the early grades, students work on different literacy skills to become fluent readers. At the same time, they hone their communication and writing skills. In the upper grades, students read fiction and non-fiction in all content areas to gain knowledge and develop their skills. Writing skills become increasingly important as students are expected to express their ideas and demonstrate mastery through written language.

## *Math*

Our math curriculum is both broad and deep, ensuring that all students will master the math content expectations as laid out by the State. Students at all levels work toward mastering computational math skills. Equal emphasis is placed on math concepts and operations to ensure that students develop the problem-solving skills needed for the 21<sup>st</sup> century.

## *Science*

The District has recently evaluated our entire science curriculum to ensure compliance with the latest State content expectations. In the early grades, students are exposed to science concepts and the scientific method through hands-on experiences in the classroom as well as age-appropriate science texts. In the upper grades, students make use of written content and science labs. Physical, Life, and Earth Science are covered throughout the curriculum. In the spring of 2017, the K-12 Science Curriculum Team began work to develop and align our Science curriculum to the New Generation Science Standards (NGSS).

## *Social Studies*

In the early grades, students spend time on topics such as family, community, economics and state and regional themes. In the upper grades, students learn about the ancient and modern world as well as different civics issues. Economics, Geography, History and Government are strands throughout the K-12 Social Studies curriculum.

## *Individualized Instruction*

The District has a tiered process in place to monitor the progress of each student. When necessary, a child's progress is reviewed by a team of educational professionals, and interventions are put into place to meet the unique needs of each student. District leadership works with the classroom teacher, support staff, administration, and the family to ensure all student needs are met. Advanced and accelerated work is available at all grade levels to students who are ready for additional challenges.

The District is committed to meet the needs of all students. A collaborative, individualized approach is used to identify those needs. Special Education students have support in the general education classroom and with special education staff who work with them to reach their maximum potential.

## *Instructional Technology*

Instructional Technology is integrated into the curriculum to address different learning styles, to provide access to a wide array of information, and to encourage real-world application of academic content and skills. All elementary and secondary schools in Royal Oak have excellent media centers and support staff who are trained in applications of multi-media materials and

technology. Royal Oak Schools has initiated a partnership with Oakland Schools Technology Services Department to formalize technology integration initiatives for the classroom, as well as professional development for teachers and administrators.

### *Assessment*

The District's Instruction Office maintains a prescribed assessment program to monitor the progress of individual students as well as the effectiveness of our instructional programs. The District uses common assessments at all grade levels to evaluate student progress and to improve instructional practices. The District Uses AIMSWeb (Academic Improvement Monitoring System) and NWEA Map testing to collect academic growth data on students in grades K-10. The information collected is norm-referenced. The new Michigan M-Step is administered in the Spring to all students in grades 3-8 and grade 11. The SAT was administered to all students in Grade 11 in March of 2017.

Classroom and Common Assessments are administered to monitor student achievement and to guide instructional decision-making. A formal system has been put in place to manage and communicate all assessment data and associated information.

### *Communication*

Communication between home and school has never been more important. The District utilizes multiple tools to stay connected with our constituents. All staff members are reachable via telephone or email. Parent-teacher conferences are scheduled in the fall and spring. Each school holds an informational curriculum night at the beginning of the school year to acclimate families to the school and its offerings. Many staff members maintain classroom websites or blogs where students and parents can go for the latest information and direction for more classroom enrichment opportunities. The District is pleased to provide parents with online access to student information regarding academic progress, grades, and daily attendance using Mi-Star Parent Connect.

### **In Appreciation**

The preparation of this report could not have been accomplished without the commitment and dedication of a fine Business Office staff. Special commendation is extended to the Finance Department and the professional auditing staff of Yeo & Yeo for their desire to produce a comprehensive, easily readable, and effectively organized Comprehensive Annual Financial Report.

This School District is highly committed to a program of excellence. A dedicated Board of Education has adopted sound policies that facilitate the continued growth and improvement of the total school program.

In addition, there is a wide, all-encompassing array of support provided by parents, students, employees, citizens, civic organizations and hundreds of volunteers, which enables the District to achieve high goals. For this continued support, we are most grateful!

Respectfully submitted,



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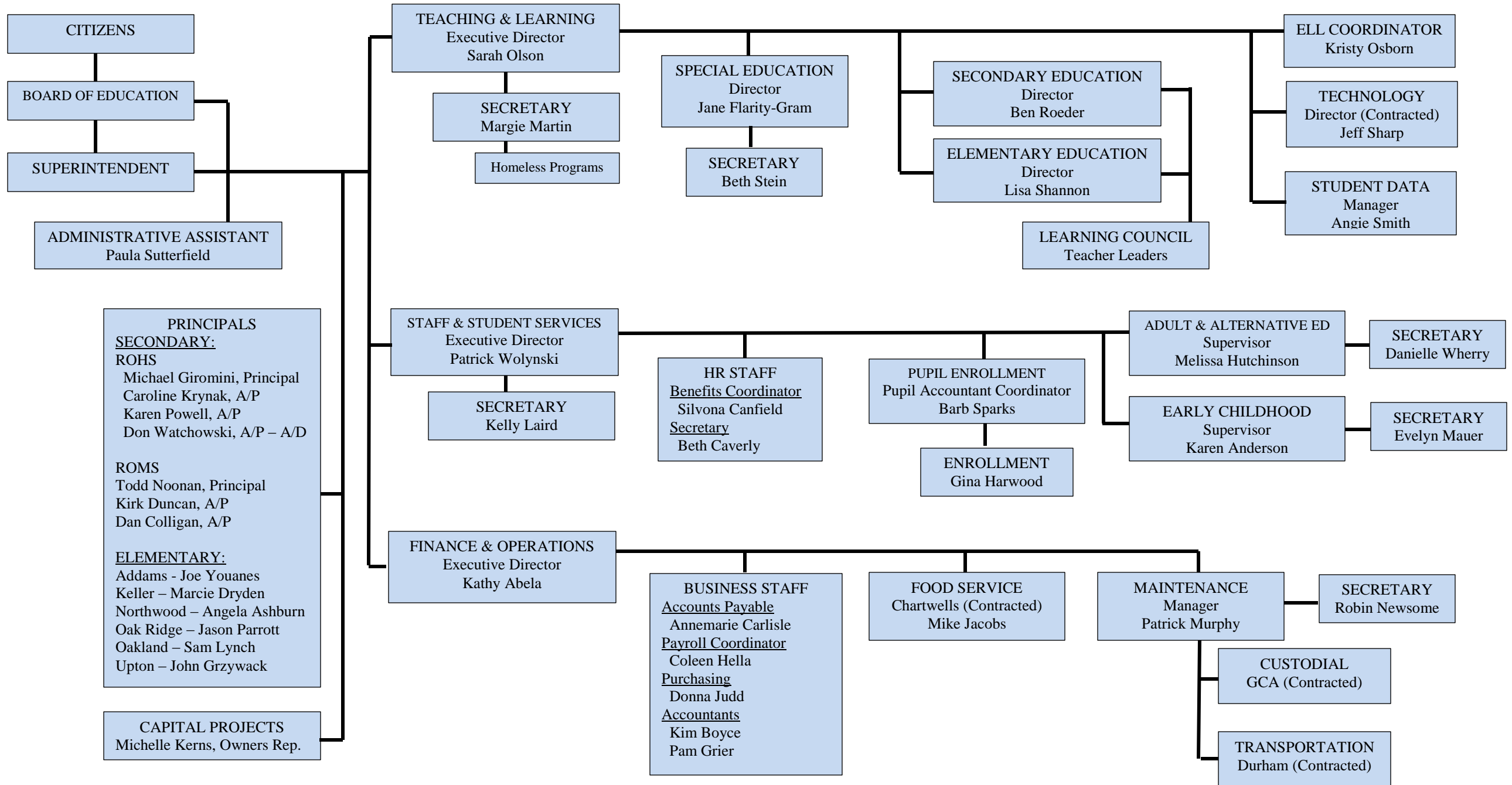
Mary Beth Fitzpatrick  
Superintendent of Schools



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Katherine Abela  
Executive Director, Finance & Operations

# ROS ORGANIZATIONAL CHART



## FINANCIAL SECTION

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**Royal Oak Schools**  
**Members of the Board of Education and Administration**  
**June 30, 2017**

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Members of the Board of Education

Deborah Anderson	President
Gary Briggs	Vice President
Marty Cardamone	Treasurer
Jeff Brinker	Secretary
Carrie Beerer	Trustee
Maryanne VanHaitsma	Trustee
Allison Sykes	Trustee

Administration

Shawn Lewis-Lakin	Superintendent of Schools – through June 30, 2017
Mary Beth Fitzpatrick	Superintendent of Schools – beginning July 1, 2017
Katherine Abela	Executive Director, Finance & Operations

Board of Education Regular Meetings: Second Thursday of each month

Accreditation: AdvancED





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## Independent Auditors' Report

Management and the Board of Education  
Royal Oak Schools  
Royal Oak, MI

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Oak Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Oak Schools, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Report on Prior-Year Summarized Comparative Information***

We have previously audited Royal Oak Schools' 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated September 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matters:**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of school district's proportionate share of net pension liability, and schedule of school district's contributions, identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who 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 supplementary 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 Royal Oak Schools' basic financial statements. The introductory section, other supplementary information, and statistical section, 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 supplementary information, as identified in the table of contents, is the responsibility of management and, other than the prior year information, 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, other than the prior year information, the other supplementary 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.

The introductory section and statistical sections, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### ***Prior Year Supplementary Information***

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Royal Oak Schools' basic financial statements as of and for the year ended June 30, 2016, which are not presented with the accompanying basic financial statements. In our report dated September 6, 2016, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Royal Oak Schools' basic financial statements as a whole. The 2016 information in the comparative supplementary schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 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 2016 information in the comparative supplementary schedules is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017 on our consideration of Royal Oak 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 solely 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 effectiveness of Royal Oak Schools' 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 Royal Oak Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Saginaw, MI  
August 31, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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This section of the Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the District's financial position and results of operations for the year ended June 30, 2017. It should be read in conjunction with the District's financial statements, which immediately follow this section.

**Understanding the Comprehensive Annual Financial Report**

The CAFR consists of a series of financial statements and notes to those statements. The statements are organized in a way to assist the reader in understanding the overall financial condition of the School District. The *District-wide Financial Statements* provide data regarding the financial activities of the entire School District. The *Fund Financial Statements* provide the next level of detail. They present the School District's financial position and the results of operations in more detail than the District-wide Financial Statements and illustrate the various sources of funding used to support the instructional and support service programs of the District. The major funds of the District are presented separately. All other funds are combined and presented in one column labeled as Non-Major Funds. The remaining statement, the Statement of Fiduciary Net Position, presents financial information about activities for which the School District acts solely as the fiduciary for various student groups. The Comprehensive Annual Financial Report is arranged as follows:

Financial Section

- Basic Financial Statements
  - District-wide Financial Statements
  - Fund Financial Statements
  - Fiduciary Fund
  - Notes to Financial Statements
  
- Required Supplemental Information
  - Budgetary Comparison Schedule – General Fund
  - Schedule of School District's Proportionate Share of Net Pension Liability
  - Schedule of School District's Contributions
  
- Other Supplemental Information
  - Combining Balance Sheet - Nonmajor Governmental Funds
  - Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds

**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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- Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Budget to Actual – Special Revenue Funds
  - Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Budget to Actual – Debt Service Funds
  - Combining Statement of Revenue, Expenditures, and Changes in Fund Balance – Capital Projects Fund
  - Schedule of Bonded Indebtedness
- 
- Statistical Section

**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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

The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report the financial information of the School District as a whole. These schedules assist the reader in assessing the School District's financial condition as a result of the year's activities. These statements include all assets and liabilities, and are presented using the accrual basis of accounting, the accounting method used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report the District's net position, the difference between assets and liabilities, as one of many ways to measure the School District's financial position. Over time, increases or decreases in net position, as reported in the Statement of Activities, are indicators of whether the financial condition of the District is either improving or declining. The difference between revenues and expenditures represents the School District's operating results. It is important to remember that the District's primary mission is to provide outstanding instructional programs and support services to the students in the District, not to generate profits as commercial entities do. There are many other non-financial factors that must be considered when assessing the overall well-being of the School District. These include the quality of the educational services provided, student safety, standardized student test scores, and the wide array of programs and services provided to the community.

In addition, the Statement of Net Position and the Statement of Activities report the governmental activities of the School District. These activities encompass all of the School District's services, including instruction, supporting services, community services, athletics, special education and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants provide the funding for most of these activities.

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

The Fund Financial Statements provide detailed information for the various funds used in the District. Some funds have been established because they are required by State law or bond covenants. Other funds have been established by the District to help control and manage financial resources that are used for specific purposes such as Food Service and Community Services. Funds are also established to meet legal responsibilities for certain taxes, grants, bonds and property maintenance revenue. 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. The financial reporting in these funds focuses on the revenue and expenditures and the balances remaining at year end. Transactions are accounted for using



**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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the modified accrual method of 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 financial view of the operations of the School District. Governmental fund statements provide information to illustrate whether there has been an increase or decrease in available financial resources that can be expended in future years. The relationship between governmental activities and governmental funds is illustrated in a reconciliation included in the financial section on page 4-6.

***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 the Statement of Fiduciary Net Position. These activities are excluded from the School District's other financial statements because these assets cannot be used to finance the District's operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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**The School District as a Whole**

The Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a comparative summary of the School District's net position as of June 30, 2017 and June 30, 2016.

**TABLE 1**

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 33.7	\$ 32.3
Capital assets	<u>114.8</u>	<u>116.5</u>
Total Assets	148.5	148.8
Deferred Outflows of Resources	<u>11.4</u>	<u>9.7</u>
Total assets and deferred outflows of resources	159.9	158.5
<b>Liabilities</b>		
Current liabilities	6.9	7.9
Long-term liabilities	<u>108.7</u>	<u>115.1</u>
Total Liabilities	115.6	123.0

**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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Governmental Activities

	<u>2017</u>	<u>2016</u>
	(in millions)	
Deferred Inflows of Resources	2.7	2.3
<b>Net Position</b>		
Net investment in capital assets	\$ 85.0	\$ 78.3
Restricted	4.5	3.4
Unrestricted	<u>(47.9)</u>	<u>(48.5)</u>
Total Net Position	<u>\$ 41.6</u>	<u>\$ 33.2</u>

The previous schedule (Table 1) reports the net position of the District. The School District's net position was \$41.6 million and \$33.2 million at June 30, 2017 and 2016, respectively. Net investment in capital assets totaled \$85.0 million. This represents the original cost of the School District's capital assets less accumulated depreciation, and net of the long-term debt used to finance the acquisition of those assets. General obligation long-term debt will be repaid from voter-approved property tax collections as the principal and interest comes due. The principal and interest obligations of the Qualified School Construction Bonds (QSCB) will be repaid from energy savings generated by the energy conservation projects funded from the proceeds of the QSCB. Restricted net position are reported separately to highlight any legal constraints included in debt covenants and legislation that may limit the School District's ability to use those net position for day-to-day operations. The unrestricted net position is \$(47.9) million.

The \$(47.9) million in unrestricted net position of governmental activities represents the *cumulative* results of all past years' operations and includes the GASB 68 Unfunded Liability.

**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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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 year 2017 and fiscal year 2016.

**TABLE 2**

Governmental Activities

2017                      2016

(in millions)

**Revenue**

Program revenue:

Charges for services	\$	2.6		\$	2.2
Operating grants and contributions		11.1			10.4

General revenue:

Property taxes		31.3			30.8
State foundation allowance		28.5			27.2
Other		<u>0.5</u>			<u>2.4</u>
Total Revenue		74.1			73.0

**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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Governmental Activities

2017                      2016

(in millions)

**Functions/Program Expenses**

Instruction	36.1	35.5
Support services	20.5	18.8
Food services	1.4	1.2
Community services	1.9	1.7
Interest on long-term debt	0.7	1.1
Depreciation (unallocated)	<u>5.0</u>	<u>5.0</u>
Total Functions/program Expenses	<u>65.6</u>	<u>63.3</u>
<b>Increase (Decrease) in Net Position</b>	<b>\$ <u>8.5</u></b>	<b>\$ <u>9.7</u></b>

As reported in the Statement of Activities, the expenditures for all *governmental* activities this year was \$65.6 million. Certain activities were partially funded from those who benefited from the programs (\$2.6 million). In addition, other governmental units and organizations subsidized certain programs with grants and contributions (\$11.1 million). The remaining “public benefit” portion of our governmental activities was funded with \$31.3 million in taxes, \$28.5 million in State foundation allowance, and \$0.5 million in other revenues, such as interest earnings, proceeds from the sale of property and general entitlements.

During fiscal year 2017, the School District experienced an increase in net position of approximately \$8.5 million.

**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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As discussed above, the net cost of the programs and activities offered in the District illustrates the impact each program has on the resources of the District. Since property taxes for operations and unrestricted state aid constitute the vast majority of District's operating revenue sources, the Board of Education and administration must annually evaluate and prioritize the needs of the District and balance those needs with the limited available resources.

**The School District's Funds**

Individual funds are used by the District to control and manage resources that are dedicated for specific purposes. The following overview of these funds will demonstrate the District's strong financial stewardship over the resources provided by the taxpayers. These funds, taken individually and collectively, also provide additional insight into the District's financial condition.

At the end of fiscal year 2017, the governmental funds reported a combined fund balance of approximately \$26.9 million, which represents an increase of \$2.6 million from last year. The changes in fund balance, major and non-major funds are as follows:

In the General Fund, the fund balance increased by approximately \$417,000 for a total year-end fund balance of \$14.5 million. A portion of the General Fund's fund balance is assigned for specific purposes with the remaining unassigned portion available for unforeseen emergencies. This level of fund balance meets the target of 15% of expenditures and provides the District with sufficient resources to handle unforeseen emergencies, prevent cash flow borrowing and cover potential state revenue shortfalls.

The Special Revenue Funds combined fund balance increased by \$291,410 from the prior year.

The Debt Service Funds has a fund balance of approximately \$1.5 million, an increase of \$0.5 million from last year. The Debt Retirement millage rate was consistent at 3.75 mills. The millage rate is determined annually to ensure that the School District accumulates sufficient resources to pay principal and interest obligations of the bonded debt. Debt Service fund balances are reserved and are only used to pay debt service obligations.

The combined Capital Projects Funds' fund balance increased from the prior year. The final payment on an existing land contract was received.

**General Fund Budgetary Highlights**

Over the course of the year, the School District's budget was revised on multiple occasions to reflect anticipated and unanticipated changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed

**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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appropriations established by the Board of Education. The budget amendment process utilized by the District is a proven budget management tool that has been used effectively to ensure that revenue and expenditure appropriations are up-to-date throughout the year. The final amendment to the budget was adopted just before year end. A schedule comparing the School District's original and final budget amounts to actual revenues and expenditures is provided in the Required Supplemental Information Section of these financial statements.

Revenue amendments were made during the year to reflect revisions to local, state, and federal funds based on the anticipated and actual collection of funds. Adjustment in property tax collections, student enrollment, and federal grants are all examples of reasons it becomes necessary to amend the revenue budgets. Budgeted expenditures were amended to reflect changes that occurred after the adoption of the original budget which is created using conservative assumptions. Modifications in salaries and benefits are made to reflect actual staffing levels, while purchased services, supplies and materials, capital outlay, and other expenditures are modified throughout the year to reflect actual and anticipated expenses.

**Capital Assets and Debt Administration**

***Capital Assets***

As of June 30, 2017 and 2016, the School District had \$114.8 million and \$116.5 million, respectively, invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. The 2017 amount represents a net decrease of approximately \$1.6 million, or 1.5 percent, from the previous year. This change from the previous year includes all additions, disposals, and depreciation.

**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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	<u>2017</u>	<u>2016</u>
	(in millions)	
Land	\$ 5.0	\$ 5.0
Construction in Progress	2.5	0.7
Building and building improvements	197.9	199.0
Buses and other equipment	<u>2.9</u>	<u>2.8</u>
Total Capital Assets	208.3	207.5
Less accumulated depreciation	<u>93.4</u>	<u>91.0</u>
Net Capital Assets	<b><u>\$ 114.9</u></b>	<b><u>\$116.5</u></b>

**Debt**

At the end of this year, the School District had approximately \$26.3 million in bonds outstanding compared to a little over \$33.7 million in the previous year. Of this total, general obligation bonds amounted to \$25.1 million and Qualified School Construction Bonds totaled \$1.2 million. The Qualified School Construction Bonds were issued during 2011 with the proceeds being used for energy conservation projects. The 2014 Bonds were refunded during November of 2014 at a net savings to the taxpayers of Royal Oak of \$3,969,283.

The School District bonds have a S&P rating of AA- and Moody's rating of Aa2. 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 general obligation debt is significantly below the statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave and severance pay. Detailed information about our long-term liabilities is included in the notes to the financial statements.



**Royal Oak Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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

The Board of Education and administration considered many variables when the School District's 2017-18 fiscal year budget was developed. The two most important factors that determine the overwhelming majority of the District's revenue are student enrollment (blended count) and the per pupil foundation allowance. The blended student count for the 2017-18 fiscal year will be 90 percent of the October 2017 actual student count and 10 percent of the February 2018 student count. We have projected student enrollment to be flat for the 2017-2018 school year. Any change in the per pupil foundation allowance is determined by the State and is dependent upon the State's economic climate and the financial condition of the State School Aid Fund. The 2017-18 budget was adopted by the Board of Education on June 29, 2017.

There remains great uncertainty in public school funding. The 2017-18 adopted budget takes into consideration these uncertainties while maintaining a strong commitment to the education of our students.

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

This Comprehensive Annual Financial Report (CAFR) is designed to provide the School District's citizens, taxpayers, customers, and creditors with a picture of the School District's financial position and the results of operations for fiscal year 2017 and to demonstrate the District's fiscal responsibility and accountability over its financial resources. The CAFR is available on the District's website and at the Administrative offices for public inspection. If you have any questions or would like additional information, please feel free to contact the Finance Department at 800 DeVillen, Royal Oak, MI 48073.

## BASIC FINANCIAL STATEMENTS

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**Royal Oak Schools**  
**Statement of Net Position**  
**June 30, 2017**

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	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 27,255,189
Accounts receivable	111,676
Due from other governmental units	6,161,037
Inventory	23,033
Investments	20,292
Prepaid items	126,000
Capital assets not being depreciated	7,484,126
Capital assets - net of accumulated depreciation	<u>107,376,255</u>
 Total assets	 148,557,608
 <b>Deferred Outflows of Resources</b>	
Deferred amount relating to net pension liability	<u>11,427,237</u>
 Total assets and deferred outflows of resources	 <u>159,984,845</u>

See Accompanying Notes to the Financial Statements

**Royal Oak Schools**  
**Statement of Net Position**  
**June 30, 2017**

	<u>Governmental Activities</u>
<b>Liabilities</b>	
Accounts payable	\$ 1,017,443
Accrued expenditures	215,000
Accrued salaries payable	5,171,974
Unearned revenue	524,443
Noncurrent liabilities	
Net pension liability	78,591,165
Due within one year	7,798,307
Due in more than one year	<u>22,283,217</u>
 Total liabilities	 <u>115,601,549</u>
<b>Deferred Inflows of Resources</b>	
Deferred amount on debt refunding	47,415
Deferred amount relating to net pension liability	<u>2,666,307</u>
 Total deferred inflows of resources	 <u>2,713,722</u>
 Total liabilities and deferred inflows of resources	 <u>118,315,271</u>
<b>Net Position</b>	
Net investment in capital assets	85,077,012
Restricted for	
Food service	358,878
Debt service	1,321,938
Capital projects	2,841,059
Unrestricted (deficit)	<u>(47,929,313)</u>
 Total net position	 <u>\$ 41,669,574</u>

See Accompanying Notes to the Financial Statements

**Royal Oak Schools**  
**Statement of Activities**  
**For the Year Ended June 30, 2017**

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Functions/Programs</b>				
Governmental activities				
Instruction	\$ 36,088,719	\$ 40,808	\$ 9,992,468	\$ (26,055,443)
Supporting services	20,570,368	212,990	-	(20,357,378)
Food services	1,381,164	725,094	627,260	(28,810)
Community services	1,886,136	1,587,652	454,121	155,637
Interest and fiscal charges on long-term debt	742,821	-	-	(742,821)
Depreciation (unallocated)	4,980,448	-	-	(4,980,448)
	<u>\$ 65,649,656</u>	<u>\$ 2,566,544</u>	<u>\$ 11,073,849</u>	<u>(52,009,263)</u>
Total governmental activities				
General revenues				
				19,529,389
				9,374,541
				2,444,540
				28,578,016
				51,120
				41,264
				468,173
				<u>60,487,043</u>
				8,477,780
				<u>33,191,794</u>
				<u>\$ 41,669,574</u>

See Accompanying Notes to the Financial Statements

**Royal Oak Schools  
Governmental Funds  
Balance Sheet**

**June 30, 2017 (With Comparative Summarized Totals for 2016)**

	General Fund	2014 Debt	General Property Maintenance Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds 2017	Total Governmental Funds 2016
<b>Assets</b>							
Cash	\$ 14,248,390	\$ 1,534,657	\$ 5,252,918	\$ 3,401,843	\$ 2,817,381	\$ 27,255,189	\$ 25,692,426
Accounts receivable	100,664	2,281	-	803	7,928	111,676	411,125
Due from other governmental units	6,151,892	-	-	-	9,145	6,161,037	6,001,009
Inventory	-	-	-	-	23,033	23,033	19,566
Investments	20,292	-	-	-	-	20,292	10,948
Prepaid items	16,000	-	-	-	110,000	126,000	142,000
<b>Total assets</b>	<b><u>\$ 20,537,238</u></b>	<b><u>\$ 1,536,938</u></b>	<b><u>\$ 5,252,918</u></b>	<b><u>\$ 3,402,646</u></b>	<b><u>\$ 2,967,487</u></b>	<b><u>\$ 33,697,227</u></b>	<b><u>\$ 32,277,074</u></b>
<b>Liabilities</b>							
Accounts payable	\$ 346,678	\$ -	\$ -	\$ 561,587	\$ 109,178	\$ 1,017,443	\$ 1,002,665
Accrued salaries payable	5,171,974	-	-	-	-	5,171,974	6,032,147
Unearned revenue	499,463	-	-	-	24,980	524,443	635,069
<b>Total liabilities</b>	<b><u>6,018,115</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>561,587</u></b>	<b><u>134,158</u></b>	<b><u>6,713,860</u></b>	<b><u>7,669,881</u></b>

See Accompanying Notes to the Financial Statements

**Royal Oak Schools  
Governmental Funds  
Balance Sheet**

**June 30, 2017 (With Comparative Summarized Totals for 2016)**

	General Fund	2014 Debt	General Property Maintenance Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds	
						2017	2016
<b>Deferred Inflows of Resources</b>							
Unavailable revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 290,000
<b>Fund Balance</b>							
Non-spendable							
Inventory	-	-	-	-	23,033	23,033	19,566
Prepaid items	16,000	-	-	-	110,000	126,000	142,000
Restricted for							
Food service	-	-	-	-	225,845	225,845	255,939
Debt service	-	1,536,938	-	-	-	1,536,938	961,630
Capital projects	-	-	-	2,841,059	-	2,841,059	2,279,040
Committed	-	-	125,662	-	-	125,662	223,641
Assigned	1,829,317	-	5,127,256	-	2,474,451	9,431,024	8,616,903
Unassigned	12,673,806	-	-	-	-	12,673,806	11,818,474
 Total fund balance	 <u>14,519,123</u>	 <u>1,536,938</u>	 <u>5,252,918</u>	 <u>2,841,059</u>	 <u>2,833,329</u>	 <u>26,983,367</u>	 <u>24,317,193</u>
 Total liabilities, deferred inflows of resources, and fund balance	 <u>\$ 20,537,238</u>	 <u>\$ 1,536,938</u>	 <u>\$ 5,252,918</u>	 <u>\$ 3,402,646</u>	 <u>\$ 2,967,487</u>	 <u>\$ 33,697,227</u>	 <u>\$ 32,277,074</u>

See Accompanying Notes to the Financial Statements

**Royal Oak Schools**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2017**

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<b>Total fund balances for governmental funds</b>	<b>\$ 26,983,367</b>
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets not being depreciated	7,484,126
Capital assets - net of accumulated depreciation	107,376,255
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from debt refunding	(47,415)
Deferred inflows of resources resulting from net pension liability	(2,666,307)
Deferred outflows of resources resulting from net pension liability	11,427,237
Certain liabilities are not due and payable in the current period and are not reported in the funds	
Accrued interest	(215,000)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities	
Net pension liability	(78,591,165)
Compensated absences	(345,570)
Bonds payable	(26,260,000)
Other loans payable and liabilities	<u>(3,475,954)</u>
<b>Net position of governmental activities</b>	<b><u>\$ 41,669,574</u></b>

See Accompanying Notes to the Financial Statements



**Royal Oak Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017 (With Comparative Summarized Totals for 2016)**

	General Fund	2014 Debt	General Property Maintenance Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds	
						2017	2016
<b>Revenues</b>							
Local sources	\$ 20,581,666	\$ 9,408,163	\$ -	\$ 2,446,248	\$ 2,198,495	\$ 34,634,572	\$ 33,296,674
State sources	32,386,390	-	-	-	511,291	32,897,681	31,194,192
Federal sources	1,817,732	-	-	-	655,980	2,473,712	2,292,430
Interdistrict sources	4,080,207	-	-	-	-	4,080,207	4,113,029
<b>Total revenues</b>	<b>58,865,995</b>	<b>9,408,163</b>	<b>-</b>	<b>2,446,248</b>	<b>3,365,766</b>	<b>74,086,172</b>	<b>70,896,325</b>
<b>Expenditures</b>							
<b>Current</b>							
<b>Education</b>							
Instruction	33,133,803	-	-	-	1,080,705	34,214,508	32,886,906
Supporting services	22,268,453	-	-	-	100,094	22,368,547	21,104,953
Food services	-	-	-	-	1,364,823	1,364,823	1,187,441
Community services	1,265,541	-	-	-	598,279	1,863,820	1,703,914
Intergovernmental payments	1,346,705	-	-	-	-	1,346,705	1,813,518
Capital outlay	15,342	-	15,365	1,342,877	-	1,373,584	775,985
<b>Debt service</b>							
Principal	71,928	7,215,000	-	-	240,000	7,526,928	7,119,107
Interest and other expenditures	3,307	1,613,750	-	-	75,290	1,692,347	2,047,699
<b>Total expenditures</b>	<b>58,105,079</b>	<b>8,828,750</b>	<b>15,365</b>	<b>1,342,877</b>	<b>3,459,191</b>	<b>71,751,262</b>	<b>68,639,523</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>760,916</b>	<b>579,413</b>	<b>(15,365)</b>	<b>1,103,371</b>	<b>(93,425)</b>	<b>2,334,910</b>	<b>2,256,802</b>

See Accompanying Notes to the Financial Statements

**Royal Oak Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017 (With Comparative Summarized Totals for 2016)**

	General Fund	2014 Debt	General Property Maintenance Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds	
						2017	2016
<b>Other Financing Sources (Uses)</b>							
Insurance recoveries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300,000
Proceeds from sale of capital assets	34,964	-	290,000	-	6,300	331,264	2,659,783
Transfers in	7,561	-	-	-	386,096	393,657	823,284
Transfers out	(386,096)	-	-	-	(7,561)	(393,657)	(823,284)
 Total other financing sources (uses)	 (343,571)	 -	 290,000	 -	 384,835	 331,264	 2,959,783
 Net change in fund balance	 417,345	 579,413	 274,635	 1,103,371	 291,410	 2,666,174	 5,216,585
 Fund balance - beginning	 14,101,778	 957,525	 4,978,283	 1,737,688	 2,541,919	 24,317,193	 19,100,608
 Fund balance - ending	 <u>\$ 14,519,123</u>	 <u>\$ 1,536,938</u>	 <u>\$ 5,252,918</u>	 <u>\$ 2,841,059</u>	 <u>\$ 2,833,329</u>	 <u>\$ 26,983,367</u>	 <u>\$ 24,317,193</u>

See Accompanying Notes to the Financial Statements

**Royal Oak Schools**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2017**

<b>Net change in fund balances - Total governmental funds</b>	<b>\$ 2,666,174</b>
Total change in net position reported for governmental activities in the statement of activities is different because:	
Land contract revenues recognized in the governmental funds were recognized in the statement of activities in past years.	(290,000)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(4,980,448)
Capital outlay	5,015,037
Sale of capital assets (net book value)	(1,688,886)
Expenses are recorded when incurred in the statement of activities.	
Interest	61,000
Compensated absences	(4,415)
The statement of net position reports the net pension liability and deferred outflows and inflows of resources related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(1,968,395)
Net change in deferrals of resources related to the net pension liability	1,215,003
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	37,256
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Repayments of long-term debt	7,526,928
Amortization of premiums	876,420
Amortization of deferred amount on debt refunding	12,106
<b>Change in net position of governmental activities</b>	<b>\$ 8,477,780</b>

See Accompanying Notes to the Financial Statements

**Royal Oak Schools**  
**Fiduciary Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2017 and 2016**

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	Student Activities Agency Funds	
	2017	2016
<b>Assets</b>		
Cash	<u>\$ 514,149</u>	<u>\$ 527,052</u>
<b>Liabilities</b>		
Accounts payable	-	13,706
Due to agency fund activities	<u>514,149</u>	<u>513,346</u>
Total liabilities	<u>\$ 514,149</u>	<u>\$ 527,052</u>

See Accompanying Notes to the Financial Statements

**Royal Oak Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Royal Oak Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

**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. The School District has no component units.

**District-wide Financial Statements**

The School District's basic financial statements include both district-wide (reporting for the School District as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

**Fund Financial Statements**

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.

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. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as

**Royal Oak Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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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 government.

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

The School District reports the General Fund, 2014 Debt Fund, General Property Maintenance Fund, and the Sinking Fund as major funds as described below.

The School District reports the following governmental funds:

General Fund – The General Fund is the School District’s primary operating fund. It is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or assigned to expenditure for specified purposes. The School District’s Special Revenue Funds are comprised of the Food Services and Community Service Funds.

Food Service Fund – The Food Service Fund is used to segregate, for administrative purposes, the transactions of cafeteria operations from regular revenue and expenditure accounts. The School District maintains full control of this fund. The annual operating deficit, if any, generated by this activity is

the responsibility of the General Fund. Any operating surplus remains within the fund.

Community Service Fund - The Community Services Fund is used to account for the revenues and expenditures of the School District’s preschool, child care, and alternative education programs. The annual operating deficit, if any, generated by this activity is the responsibility of the General Fund. Any operating surplus remains within the fund.

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

2014 Debt – used to record tax, interest, and other revenue and the payment of principal, interest, and other expenditures on long-term debt issued in 2014.

QSCB Debt – used to record tax, interest, and other revenue and the payment of principal, interest, and other expenditures on long-term debt issued in 2011.

Capital Projects Funds – Capital Projects Funds are used to record bond proceeds and other revenue and the disbursement of monies specifically for acquiring new school sites, buildings and equipment, and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

General Property Maintenance Fund – used to record revenue and the disbursement of monies specifically assigned for property maintenance and renovations.

Instructional Technology Capital Projects Fund – used to record revenue and the disbursement of monies specifically assigned for the purchase of instructional technology equipment and software.

**Royal Oak Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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Sinking Funds – used to record the Sinking Fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction, or repair of school buildings.

Fiduciary Funds – The School District’s only fiduciary fund is the Student Activities Fund, which is used to account for assets held by the School District in a trustee capacity or as an agent. The Student Activities Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school related purposes.

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

Cash and Investments – Cash includes cash on hand, demand deposits, certificates of deposits and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

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

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2017, the rates are as follows per \$1,000 of assessed value:

General Fund	
Principal residence exemption	2.55480
Non-principal residence exemption	18.00000
Commercial personal property	8.55480
Industrial personal property	2.55480
Debt Service Funds	3.75000
Sinking Fund	0.98630

School property taxes are assessed and collected in accordance with enabling state legislation by local municipalities within the School District’s boundaries. All of the School District’s tax roll lies within Oakland County.

Property taxes are levied on July 1 for taxes due August 31 and December 1 for taxes due February 14 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on February 28 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in the governmental funds, the School District follows the consumption method, and they are therefore capitalized as prepaid items.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. In the Food Service Fund, inventory is capitalized at year end.

**Royal Oak Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	20-40 years
Buses, vehicles, and equipment	7-10 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

Compensated Absences – The liability for compensated absences reported in the district-wide financial 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 and other employees who are

expected to become eligible in the future to receive such payments upon termination 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 straight line 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.

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

Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan



**Royal Oak Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions. In addition, the School District reports a deferred amount on refunding as the result of the difference of reacquisition price and net carrying value of the old debt.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Executive Council. The Board of Education has granted the Executive Council the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

**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, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**Summarized Comparative Data**

Summarized comparative data for the prior year has been presented for the major and nonmajor funds and in the fund financial statements in total but not by fund in order to provide an understanding of the changes in the financial position and operations of these funds. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the School District's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

**Royal Oak Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Eliminations and Reclassifications**

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

**Adoption of New Accounting Standards**

Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

**Upcoming Accounting and Reporting Changes**

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

The School District is evaluating the impact that the above statements will have on its financial reporting.

**Royal Oak Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund, and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. The Uniform Budgeting and Accounting Act requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted on a functional level are a violation of the Uniform Budgeting and Accounting Act. The Uniform Budgeting and Accounting Act permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. Revenue amendments were made during the year to reflect revisions to local, state, and federal funds based on the anticipated and actual collection of funds. Adjustment in property tax collections, student enrollment, and federal grants are all examples of reasons it becomes necessary to amend the revenue budgets. Budgeted expenditures were amended to reflect changes that occurred after the adoption of the original budget which is created using conservative assumptions. Modifications in salaries and benefits are made to reflect actual staffing levels, while purchased services, supplies and materials, capital outlay, and other expenditures are modified throughout the year to reflect actual and anticipated expenses.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as assigned or committed 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.

**Compliance - Sinking Funds**

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, management believes the School District has complied, in all material respects, with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

**Note 3 - Deposits and Investments**

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 27,255,189	\$514,149	\$27,769,338
Investments	20,292	-	20,292
	\$ 27,275,481	\$514,149	\$27,789,630

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 27,767,699
Investments in securities, mutual funds, and similar vehicles	20,292
Petty cash and cash on hand	1,639
Total	\$ 27,789,630

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As of year end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
U.S. Government Treasury Bond	<u>\$ 20,292</u>	Not required	AAA	Moody's

Interest rate risk – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – 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 an office 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.

Concentration of credit risk – The School District’s current policy places no limit on the amount the School District may invest in any one issuer, nor does it minimize the 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.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$28,293,437 of the School District’s bank balance of \$28,568,392 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the district’s investments were exposed to custodial credit risk.

**Note 4 - Receivables**

Receivables as of year end for the School District’s individual major fund and the non-major funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows. The School District had no allowance for uncollectible accounts as of June 30, 2017.

	General Fund	2014 Debt	General Property Maintenance Fund	Sinking Fund	Nonmajor Funds	Total
Receivables						
Taxes	\$ 8,689	\$ 2,281	\$ -	\$ 803	\$ -	\$ 11,773
Accounts	<u>91,975</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,928</u>	<u>99,903</u>
	<u>\$ 100,664</u>	<u>\$ 2,281</u>	<u>\$ -</u>	<u>\$ 803</u>	<u>\$ 7,928</u>	<u>\$ 111,676</u>
Due from other governments						
Federal	\$ 72,621	\$ -	\$ -	\$ -	\$ -	\$ 72,621
State	5,765,836	-	-	-	9,145	5,774,981
Local	<u>313,435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>313,435</u>
	<u>\$ 6,151,892</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,145</u>	<u>\$ 6,161,037</u>

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**Notes to the Financial Statements**  
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**Note 5 - Capital Assets**

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 4,968,731	\$ -	\$ -	\$ 4,968,731
Construction-in-progress	<u>727,742</u>	<u>2,405,956</u>	<u>618,303</u>	<u>2,515,395</u>
Total capital assets not being depreciated	<u>5,696,473</u>	<u>2,405,956</u>	<u>618,303</u>	<u>7,484,126</u>
Capital assets being depreciated				
Buildings and building improvements	199,022,775	2,302,245	3,402,739	197,922,281
Buses, vehicles, and equipment	<u>2,855,990</u>	<u>306,836</u>	<u>274,667</u>	<u>2,888,159</u>
Total capital assets being depreciated	<u>201,878,765</u>	<u>2,609,081</u>	<u>3,677,406</u>	<u>200,810,440</u>
Less accumulated depreciation for				
Buildings and building improvements	88,798,945	4,808,435	2,342,908	91,264,472
Buses, vehicles, and equipment	<u>2,261,615</u>	<u>172,013</u>	<u>263,915</u>	<u>2,169,713</u>
Total accumulated depreciation	<u>91,060,560</u>	<u>4,980,448</u>	<u>2,606,823</u>	<u>93,434,185</u>
Net capital assets being depreciated	<u>110,818,205</u>	<u>(2,371,367)</u>	<u>1,070,583</u>	<u>107,376,255</u>
Net capital assets	<u>\$ 116,514,678</u>	<u>\$ 34,589</u>	<u>\$ 1,688,886</u>	<u>\$ 114,860,381</u>

Depreciation expense was \$4,980,448 for the year ended June 30, 2017. Depreciation was not charged to activities of the School District because the district considers its assets to impact multiple activities and allocation of depreciation expense is not practical.

**Construction Contracts**

As of year end, the School District had the following construction contracts in progress:

Project	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
Various renovation and new construction projects	<u>\$ 3,727,776</u>	<u>\$ 2,804,606</u>	<u>\$ 923,170</u>

Contracts payable at year end represent actual contractor billings and are recorded in the Capital Projects Fund liability. All projects are expected to be completed during the 2018 fiscal year.

**Note 6 - Interfund Receivables, Payables, and Transfers**

Interfund transfers consist of the following:

	Transfers Out		
	General Fund	Nonmajor Funds	Total
<b>Transfers in</b>			
General Fund	\$ -	\$ 7,561	\$ 7,561
Nonmajor funds	<u>386,096</u>	<u>-</u>	<u>386,096</u>
	<u>\$ 386,096</u>	<u>\$ 7,561</u>	<u>\$ 393,657</u>

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These transfers were made to cover the costs of School District programs that were in excess of revenues generated from those activities, and to cover indirect costs.

**Note 7 - Unearned Revenue**

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

	Unearned
Unearned property taxes	\$ 471,210
Food service student accounts	24,980
Athletics	4,443
Grant and categorical aid payments received prior to meeting all eligibility requirements	23,810
<b>Total</b>	<b>\$ 524,443</b>

The School District is authorized to levy a hold-harmless millage rate on homestead property located within the boundaries of the School District. The property tax revenue generated from this millage is restricted by statute to \$851 per student. Any hold-harmless tax revenue generated in excess of the allowable \$851 per student is classified as unearned revenue and is considered unearned at fiscal year end.

**Note 8 - Leases**

**Capital Leases**

The district has a capital lease for copy machines. The future minimum lease payments are as follows:

Year ended June 30,	Principal	Interest	Total
2018	\$ 43,307	\$ 581	\$ 43,888

The net book value of the copy machines as of June 30, 2017 is as follows:

Asset cost	\$ 340,365
Less accumulated depreciation	(306,328)
	<b>\$ 34,037</b>

**Note 9 - Long-Term Debt**

The School District issues bonds, notes, 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, claims and judgments, termination benefits, and certain risk liabilities.

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Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 33,715,000	\$ -	\$ 7,455,000	\$ 26,260,000	\$ 7,755,000
Capital lease	115,235	-	71,928	43,307	43,307
Compensated absences	341,155	47,626	43,211	345,570	-
Premium on bonds	4,309,067	-	876,420	3,432,647	-
<b>Total</b>	<b>\$ 38,480,457</b>	<b>\$ 47,626</b>	<b>\$ 8,446,559</b>	<b>\$ 30,081,524</b>	<b>\$ 7,798,307</b>

General obligation bonds payable at year end, consist of the following:

\$2,650,000 of 2011 energy conservation bonds due in annual installments of \$240,000 to \$245,000 through November 1, 2021; interest at 1.25% - 6.0%	\$ 1,210,000
\$39,075,000 refunding bond due in annual installments of \$5,565,000 to \$7,515,000 through November 1, 2020, interest at 5.0%	25,050,000
<b>Total general obligation bonded debt</b>	<b>\$ 26,260,000</b>

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
<b>Year Ending June 30,</b>			
2018	\$ 7,755,000	\$ 1,314,860	\$ 9,069,860
2019	5,805,000	926,060	6,731,060
2020	6,080,000	634,310	6,714,310
2021	6,375,000	328,305	6,703,305
2022	245,000	7,350	252,350
<b>Total</b>	<b>\$ 26,260,000</b>	<b>\$ 3,210,885</b>	<b>\$ 29,470,885</b>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a balance of \$1,536,938 to pay this debt. Future debt and interest will be payable from future tax levies. Other long-term liabilities are expected to be liquidated primarily by General Fund resources.

Interest expenditures for the fiscal year ended June 30, 2017 in the General Fund and debt service funds were \$3,307 and \$1,692,347, respectively.

**Energy Conservation Improvement Bonds**

The 2011 Energy Conservation Improvement Bonds are due November 1, 2021. The bonds are issued under the Qualified Zone Academy Bond program. Interest is eliminated through a tax credit.

**Compensated Absences**

Accrued compensated absences at year end was \$345,570 and consisted of \$136,861 of vacation hours earned and vested, \$198,125 in accrued termination pay, and \$10,584 in employer social security obligations related to the accrual. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

**Royal Oak Schools**  
**Notes to the Financial Statements**  
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**Deferred Amount on Refunding**

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$78,688, of which \$47,415 remains unamortized. This amount is reported in the accompanying statement of net position as a deferred inflow of resources and is being charged to activities through fiscal year 2021.

**Note 10 - Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for health, property and general liability claims. Additionally, reinsurance has been purchased by the School District to protect against claims exceeding a specific dollar amount. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the State of Michigan Unemployment Insurance Agency for all benefits charged against the School District.

**Note 11 - Pension Plans and Post-Employment Benefits**

**Plan Description**

The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), originally created under Public Act 136 of 1945, recodified, and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System.

The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the System's financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

**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. Depending on the plan option selected, member retirement benefits for DB plan members are determined by final average compensation and years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

**Contributions and Funding Status**

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.



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Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20 year period for the plan's 2016 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Pension Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	18.95%
Member Investment Plan	3.0 - 7.0	18.95
Pension Plus	3.0 - 6.4	17.73
Defined Contribution	0.0	14.56

Required contributions to the pension plan from the School District were \$7,073,600 for the year ending September 30, 2016.

**Net Pension Liability**

June 30, 2017, the School District reported a liability of \$78,591,165 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 rolled forward from September 30, 2015. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2016, the School District's proportionate share percent was 0.315% percent, which was a decrease of 0.0013 percent since the prior measurement date.

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

For the year ended June 30, 2017, the School District recognized total pension expense of \$7,818,771. The School District's actual contributions for the years ended June 30, 2017, 2016, and 2015 and were approximately \$5,014,854, \$5,090,269, and \$5,867,007, respectively.

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 979,453	\$ 186,263
Changes in assumptions	1,228,711	-
Net difference between projected and actual earnings on pension plan investments	1,306,185	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	992,947	55,131
Employer contributions subsequent to the measurement date	<u>6,919,941</u>	<u>2,424,913</u>
	<u>\$11,427,237</u>	<u>\$ 2,666,307</u>

\$6,919,941 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. \$2,424,913 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the

**Royal Oak Schools**  
**Notes to the Financial Statements**  
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measurement date are 147c revenues received that will be recognized in the year ended June 30, 2018 when the related payments reduce the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ending September 30	Amount:
2017	\$ 946,952
2018	844,248
2019	2,139,884
2020	<u>334,818</u>
Total	<u>\$ 4,265,902</u>

**Actuarial Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

*Summary of Actuarial Assumptions:*

- Valuation Date: September 30, 2015
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of returns:
  - MIP and Basic Plans (Non-Hybrid): 8.0%
  - Pension Plus Plan (Hybrid): 7.0%

- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (for men, 140% of the table rates for ages 0-89, 133% of the table rates for ages 80-84, and 121.8% of the table rates for ages over 84 were used. For women, 96% of the table rates were used).

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. 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 using generally accepted actuarial procedures, including the experience study. The recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.6273 for non-university employers). The recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (CAFR) ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

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**Long-Term Expected Return on Plan Assets**

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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.9
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
	<u>100.0%</u>	

\*Long term rate of return does not include 2.1% inflation

**Discount Rate**

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection

of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially-determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the hybrid plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)*	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
7.0% / 6.0%	8.0% / 7.0%	9.0% / 8.0%
\$ 101,205,639	\$ 78,591,165	\$ 59,524,990

\*Non-university employers, the Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

**Royal Oak Schools**  
**Notes to the Financial Statements**  
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**Fiduciary Net Position**

*Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2016 MPERS CAFR ([www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr)).*

**Payables to the Pension Plan**

There were no significant payables to the pension plan that are not ordinary accruals to the district.

**Post-Employment Benefits**

In addition to the pension benefits described above, state law requires the School District to provide post-employment healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPERS).

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

For the periods July 1, 2016 through September 30, 2016, and October 1, 2016 through June 30, 2017, the employer contribution rate ranged from 6.40% to 6.83% and 5.69% to 5.91%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2017, 2016, and 2015 and were approximately \$1,590,953, \$1,686,060, and \$921,819, respectively.

**Royal Oak Schools**  
**Notes to the Financial Statements**  
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**Unfunded Accrued Liability**

During the year ending June 30, 2017, the School District had contributions in the amount of \$3,327,268 to the MPERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 11.70% for the year ending June 30, 2017.

**Note 12 - Committed and Assigned Fund Balance**

The fund balance has been committed or assigned for the following purposes:

	General Fund	General Property Maintenance Fund	Other Nonmajor Governmental Funds
Committed			
Encumbrances	<u>\$ -</u>	<u>\$ 125,662</u>	<u>\$ -</u>
Assigned			
Subsequent year's budget	\$ 1,295,609	\$ -	\$ -
Compensated absences	345,570	-	-
Capital projects	-	5,127,256	-
Operating purposes	-	-	2,474,451
Encumbrances	<u>188,138</u>	<u>-</u>	<u>-</u>
Total fund balance assigned for various operating purposes	<u>\$ 1,829,317</u>	<u>\$ 5,127,256</u>	<u>\$ 2,474,451</u>

**Note 13 - Contingent Liabilities**

Amounts received or receivable from grantor agencies are subjected to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. There were no disallowed costs that have been recorded as a liability. Additional amounts, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

## REQUIRED SUPPLEMENTARY INFORMATION

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**Royal Oak Schools**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**

**For the Year Ended June 30, 2017 (with Comparative Actual Amounts for the Year Ended June 30, 2016)**

	2017			2016	
	Budgeted Amounts		Actual	Over (Under) Budget	Actual
	Original	Final			
<b>Revenues</b>					
Local sources	\$ 20,020,946	\$ 20,630,952	\$ 20,581,666	\$ (49,286)	\$ 20,022,766
State sources	30,705,988	32,478,597	32,386,390	(92,207)	30,646,176
Federal sources	1,687,337	1,952,097	1,817,732	(134,365)	1,686,554
Interdistrict sources	3,903,568	4,080,207	4,080,207	-	4,113,029
	<u>56,317,839</u>	<u>59,141,853</u>	<u>58,865,995</u>	<u>(275,858)</u>	<u>56,468,525</u>
<b>Expenditures</b>					
Instruction					
Basic programs	26,289,460	26,148,591	25,926,178	(222,413)	25,467,088
Added needs	6,281,440	7,162,527	7,006,048	(156,479)	5,971,277
Adult and continuing education	236,571	234,938	201,577	(33,361)	185,258
Supporting services					
Pupil	4,912,450	4,763,518	4,700,118	(63,400)	4,732,277
Instructional staff	2,547,692	2,300,705	2,184,700	(116,005)	2,194,597
General administration	703,898	715,017	648,453	(66,564)	655,508
School administration	3,058,291	2,943,976	2,901,153	(42,823)	2,978,263
Business	7,026,423	9,297,114	9,173,251	(123,863)	7,631,310
Central	2,033,144	1,950,388	1,855,851	(94,537)	2,151,889
Athletic activities	656,135	781,539	763,345	(18,194)	627,266
Other	46,541	49,031	41,582	(7,449)	44,188
Community services	1,116,843	1,282,569	1,265,541	(17,028)	1,078,979
Intergovernmental payments	1,922,502	1,346,893	1,346,705	(188)	1,813,518

**Royal Oak Schools**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**

**For the Year Ended June 30, 2017 (with Comparative Actual Amounts for the Year Ended June 30, 2016)**

	2017			Over (Under) Budget	2016
	Budgeted Amounts		Actual		Actual
	Original	Final			
Capital outlay	\$ 13,000	\$ 16,500	\$ 15,342	\$ (1,158)	\$ 10,314
Debt service					
Principal	71,925	72,000	71,928	(72)	69,107
Interest and fiscal charges	<u>3,310</u>	<u>3,310</u>	<u>3,307</u>	<u>(3)</u>	<u>6,128</u>
Total expenditures	<u>56,919,625</u>	<u>59,068,616</u>	<u>58,105,079</u>	<u>(963,537)</u>	<u>55,616,967</u>
Excess (deficiency) of revenues over expenditures	<u>(601,786)</u>	<u>73,237</u>	<u>760,916</u>	<u>687,679</u>	<u>851,558</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	-	35,000	34,964	(36)	23,686
Transfers in	5,000	10,000	7,561	(2,439)	9,215
Transfers out	<u>(796,662)</u>	<u>(386,096)</u>	<u>(386,096)</u>	<u>-</u>	<u>(814,069)</u>
Total other financing sources (uses)	<u>(791,662)</u>	<u>(341,096)</u>	<u>(343,571)</u>	<u>(2,475)</u>	<u>(781,168)</u>
Net change in fund balance	(1,393,448)	(267,859)	417,345	685,204	70,390
Fund balance - beginning	<u>14,101,778</u>	<u>14,101,778</u>	<u>14,101,778</u>	<u>-</u>	<u>14,031,388</u>
Fund balance - ending	<u>\$ 12,708,330</u>	<u>\$ 13,833,919</u>	<u>\$ 14,519,123</u>	<u>\$ 685,204</u>	<u>\$ 14,101,778</u>



**Royal Oak Schools**  
**Required Supplementary Information**  
**Schedule of the School District's Proportionate Share of the Net Pension Liability**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years (Measurement Date September 30th)**

	June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
A. Reporting unit's proportion of net pension liability (%)	0.31%	0.31%	0.31%							
B. Reporting unit's proportionate share of net pension liability	\$ 78,591,165	\$ 76,622,770	\$ 68,060,082							
C. Reporting unit's covered-employee payroll	\$ 26,589,939	\$ 26,274,901	\$ 26,685,495							
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	295.57%	291.62%	336.25%							
E. Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%							

**Royal Oak Schools**  
**Required Supplementary Information**  
**Schedule of the School District's Contributions**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years**

	For the Years Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
A. Statutorily required contributions	\$ 7,073,600	\$ 6,051,796	\$ 5,867,007							
B. Contributions in relation to statutorily required contributions	<u>7,073,600</u>	<u>6,051,796</u>	<u>5,867,007</u>							
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
D. Reporting unit's covered-employee payroll	\$ 27,281,002	\$ 26,396,616	\$ 26,594,474							
E. Contributions as a percentage of covered-employee payroll	25.93%	22.93%	22.06%							

Notes: Benefit Changes - There were no changes of benefit terms in 2017. Changes in Assumptions – There were no changes of benefit assumptions in 2017.

## OTHER SUPPLEMENTARY INFORMATION

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**Royal Oak Schools**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2017 (With Comparative Summarized Totals for 2016)**

	Special Revenue Funds		Debt Service Funds	Capital Projects Fund	Total Nonmajor Governmental Funds	
	Food Service	Community Services	QSCB Debt	Instructional Technology Capital Projects Fund	2017	2016
<b>Assets</b>						
Cash	\$ 342,214	\$ 1,749,466	\$ -	\$ 725,701	\$ 2,817,381	\$ 2,468,202
Accounts receivable	7,928	-	-	-	7,928	5,331
Due from other governmental units	9,145	-	-	-	9,145	44,950
Inventory	23,033	-	-	-	23,033	19,566
Prepaid items	110,000	-	-	-	110,000	110,000
<b>Total assets</b>	<b>\$ 492,320</b>	<b>\$ 1,749,466</b>	<b>\$ -</b>	<b>\$ 725,701</b>	<b>\$ 2,967,487</b>	<b>\$ 2,648,049</b>
<b>Liabilities</b>						
Accounts payable	\$ 108,462	\$ 716	\$ -	\$ -	\$ 109,178	\$ 87,488
Unearned revenue	24,980	-	-	-	24,980	18,642
<b>Total liabilities</b>	<b>133,442</b>	<b>716</b>	<b>-</b>	<b>-</b>	<b>134,158</b>	<b>106,130</b>

**Royal Oak Schools**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2017 (With Comparative Summarized Totals for 2016)**

	Special Revenue Funds		Debt Service Funds	Capital Projects Fund	Total Nonmajor Governmental Funds	
	Food Service	Community Services	QSCB Debt	Instructional Technology Capital Projects Fund	2017	2016
<b>Fund Balance</b>						
Non-spendable						
Inventory	\$ 23,033	\$ -	\$ -	\$ -	\$ 23,033	\$ 19,566
Prepaid items	110,000	-	-	-	110,000	110,000
Restricted for						
Food service	225,845	-	-	-	225,845	255,939
Debt service	-	-	-	-	-	4,105
Capital projects	-	-	-	-	-	541,352
Committed	-	-	-	-	-	41,360
Assigned	-	1,748,750	-	725,701	2,474,451	1,569,597
 Total fund balance	 <u>358,878</u>	 <u>1,748,750</u>	 <u>-</u>	 <u>725,701</u>	 <u>2,833,329</u>	 <u>2,541,919</u>
 Total liabilities and fund balance	 <u>\$ 492,320</u>	 <u>\$ 1,749,466</u>	 <u>\$ -</u>	 <u>\$ 725,701</u>	 <u>\$ 2,967,487</u>	 <u>\$ 2,648,049</u>

**Royal Oak Schools**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017 (With Comparative Summarized Totals for 2016)**

	Special Revenue Funds		Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds	
	Food Service	Community Services	QSCB Debt	Instructional Technology Capital Projects Fund	2017	2016
<b>Revenues</b>						
Local sources	\$ 725,094	\$ 1,289,052	\$ -	\$ 184,349	\$ 2,198,495	\$ 1,824,818
State sources	57,170	454,121	-	-	511,291	548,016
Federal sources	557,193	12,691	86,096	-	655,980	605,876
<b>Total revenues</b>	<b>1,339,457</b>	<b>1,755,864</b>	<b>86,096</b>	<b>184,349</b>	<b>3,365,766</b>	<b>2,978,710</b>
<b>Expenditures</b>						
Current						
Education						
Instruction	-	1,080,705	-	-	1,080,705	1,263,283
Supporting services	-	100,094	-	-	100,094	89,655
Food services	1,364,823	-	-	-	1,364,823	1,187,441
Community services	-	598,279	-	-	598,279	624,935
Debt service						
Principal	-	-	240,000	-	240,000	240,000
Interest and other expenditures	-	-	75,290	-	75,290	87,170
<b>Total expenditures</b>	<b>1,364,823</b>	<b>1,779,078</b>	<b>315,290</b>	<b>-</b>	<b>3,459,191</b>	<b>3,492,484</b>
Excess (deficiency) of revenues over expenditures	(25,366)	(23,214)	(229,194)	184,349	(93,425)	(513,774)

**Royal Oak Schools**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017 (With Comparative Summarized Totals for 2016)**

	Special Revenue Funds		Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds	
	Food Service	Community Services	QSCB Debt	Instructional Technology Capital Projects Fund	2017	2016
<b>Other Financing Sources (Uses)</b>						
Proceeds from sale of capital assets	\$ 6,300	\$ -	\$ -	\$ -	\$ 6,300	\$ -
Transfers in	-	161,007	225,089	-	386,096	814,069
Transfers out	(7,561)	-	-	-	(7,561)	(9,215)
Total other financing sources (uses)	(1,261)	161,007	225,089	-	384,835	804,854
Net change in fund balance	(26,627)	137,793	(4,105)	184,349	291,410	291,080
Fund balance - beginning	385,505	1,610,957	4,105	541,352	2,541,919	2,250,839
Fund balance - ending	\$ 358,878	\$ 1,748,750	\$ -	\$ 725,701	\$ 2,833,329	\$ 2,541,919

**Royal Oak Schools**  
**Other Supplementary Information**  
**Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual**  
**For the Year Ended June 30, 2017**

	Food Service			Community Services			Total		
	Final Budget	Actual	Over (Under) Final Budget	Final Budget	Actual	Over (Under) Final Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenues</b>									
Local sources	\$ 730,453	\$ 725,094	\$ (5,359)	\$ 1,269,000	\$ 1,289,052	\$ 20,052	\$ 1,999,453	\$ 2,014,146	\$ 14,693
State sources	57,103	57,170	67	454,432	454,121	(311)	511,535	511,291	(244)
Federal sources	552,184	557,193	5,009	12,000	12,691	691	564,184	569,884	5,700
<b>Total revenues</b>	<b>1,339,740</b>	<b>1,339,457</b>	<b>(283)</b>	<b>1,735,432</b>	<b>1,755,864</b>	<b>20,432</b>	<b>3,075,172</b>	<b>3,095,321</b>	<b>20,149</b>
<b>Expenditures</b>									
Current									
Education									
Instruction	-	-	-	1,105,591	1,080,705	(24,886)	1,105,591	1,080,705	(24,886)
Supporting services	-	-	-	155,500	100,094	(55,406)	155,500	100,094	(55,406)
Food services	1,437,096	1,364,823	(72,273)	-	-	-	1,437,096	1,364,823	(72,273)
Community services	-	-	-	637,607	598,279	(39,328)	637,607	598,279	(39,328)
<b>Total expenditures</b>	<b>1,437,096</b>	<b>1,364,823</b>	<b>(72,273)</b>	<b>1,898,698</b>	<b>1,779,078</b>	<b>(119,620)</b>	<b>3,335,794</b>	<b>3,143,901</b>	<b>(191,893)</b>
Excess (deficiency) of revenues over expenditures	(97,356)	(25,366)	71,990	(163,266)	(23,214)	140,052	(260,622)	(48,580)	212,042
<b>Other Financing Sources (Uses)</b>									
Proceeds from sale of capital assets	6,300	(6,300)	(12,600)	-	-	-	6,300	(6,300)	(12,600)
Transfers in	-	-	-	163,266	161,007	2,259	163,266	161,007	2,259
Transfers out	(10,000)	(7,561)	(2,439)	-	-	-	(10,000)	(7,561)	(2,439)
<b>Total other financing sources (uses)</b>	<b>(3,700)</b>	<b>(13,861)</b>	<b>(15,039)</b>	<b>163,266.00</b>	<b>161,007</b>	<b>2,259</b>	<b>159,566</b>	<b>147,146</b>	<b>(12,780)</b>
<b>Net change in fund balance</b>	<b>(101,056)</b>	<b>(39,227)</b>	<b>87,029</b>	<b>-</b>	<b>137,793</b>	<b>137,793</b>	<b>(101,056)</b>	<b>98,566</b>	<b>224,822</b>
Fund balance - beginning	385,505	385,505	-	1,610,957	1,610,957	-	1,996,462	1,996,462	-
<b>Fund balance - ending</b>	<b>\$ 284,449</b>	<b>\$ 346,278</b>	<b>\$ 87,029</b>	<b>\$ 1,610,957</b>	<b>\$ 1,748,750</b>	<b>\$ 137,793</b>	<b>\$ 1,895,406</b>	<b>\$ 2,095,028</b>	<b>\$ 224,822</b>



**Royal Oak Schools**  
**Other Supplementary Information**  
**Debt Service Funds**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual**  
**For the Year Ended June 30, 2017**

	2014 Debt	QSCB Debt	Total Debt Actual	Total Debt Final Budget	Over (Under) Final Budget
<b>Revenues</b>					
Local sources	\$ 9,408,163	\$ -	\$ 9,408,163	\$ 9,506,966	\$ 98,803
Federal sources	-	86,096	86,096	88,355	2,259
Total revenues	<u>9,408,163</u>	<u>86,096</u>	<u>9,494,259</u>	<u>9,595,321</u>	<u>101,062</u>
<b>Expenditures</b>					
Debt service					
Principal	7,215,000	240,000	7,455,000	7,455,000	-
Interest and other expenditures	<u>1,613,750</u>	<u>75,290</u>	<u>1,689,040</u>	<u>1,689,040</u>	<u>-</u>
Total expenditures	<u>8,828,750</u>	<u>315,290</u>	<u>9,144,040</u>	<u>9,144,040</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	579,413	(229,194)	350,219	451,281	101,062
<b>Other Financing Sources</b>					
Transfers in	-	225,089	225,089	222,830	(2,259)
Net change in fund balance	579,413	(4,105)	575,308	674,111	98,803
Fund balance - beginning	<u>957,525</u>	<u>4,105</u>	<u>961,630</u>	<u>1,919,155</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,536,938</u>	<u>\$ -</u>	<u>\$ 1,536,938</u>	<u>\$ 2,593,266</u>	<u>\$ 98,803</u>

**Royal Oak Schools**  
**Other Supplementary Information**  
**Capital Projects Fund**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017**

	General Property Maintenance Fund	Instructional Technology Fund	Sinking Fund	Total Capital Projects Actual
<b>Revenues</b>				
Local sources	\$ -	\$ 184,349	\$ 2,446,248	\$ 2,630,597
<b>Expenditures</b>				
Capital outlay	<u>15,365</u>	<u>-</u>	<u>1,342,877</u>	<u>1,358,242</u>
Excess (deficiency) of revenues over expenditures	(15,365)	184,349	1,103,371	1,272,355
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	<u>290,000</u>	<u>-</u>	<u>-</u>	<u>290,000</u>
Net change in fund balance	274,635	184,349	1,103,371	1,562,355
Fund balance - beginning	<u>4,978,283</u>	<u>541,352</u>	<u>1,737,688</u>	<u>7,257,323</u>
Fund balance - ending	<u>\$ 5,252,918</u>	<u>\$ 725,701</u>	<u>\$ 2,841,059</u>	<u>\$ 8,819,678</u>

**Royal Oak Schools**  
**Other Supplementary Information**  
**Schedule of Outstanding Bonded Indebtedness**  
**June 30, 2017**

Year Ending June 30,	QSCB Debt	2014 Debt	Total
2018	\$ 240,000	\$ 7,515,000	\$ 7,755,000
2019	240,000	5,565,000	5,805,000
2020	240,000	5,840,000	6,080,000
2021	245,000	6,130,000	6,375,000
2022	245,000	-	245,000
Total	\$ <u>1,210,000</u>	\$ <u>25,050,000</u>	\$ <u>26,260,000</u>

Principal payments due the first day of

May

May

Interest payments due the first day of

May and November

May and November

Interest rate

1.25% - 6.00%

5.00%

Original issue

\$ 2,650,000

\$ 39,075,000

STATISTICAL SECTION (UNAUDITED)

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**Royal Oak Schools**  
**District-Wide Net Position by Component - Last Ten Fiscal Year:**  
**(Unaudited)**

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	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental activities										
Net investment in										
capital assets	\$ 85,077,012	\$ 78,315,855	\$ 72,594,218	\$ 64,247,738	\$ 58,096,056	\$ 52,291,388	\$ 51,696,758	\$ 53,954,727	\$ 50,601,272	\$ 52,654,211
Restricted	4,521,875	3,349,905	3,015,555	2,138,043	3,656,271	4,067,813	2,636,146	997,709	932,613	1,508,339
Unrestricted (deficit)	<u>(47,929,313)</u>	<u>(48,474,236)</u>	<u>(52,091,303)</u>	<u>(49,254,679)</u>	<u>17,388,631</u>	<u>14,348,224</u>	<u>9,123,012</u>	<u>139,455</u>	<u>(2,160,410)</u>	<u>(3,400,339)</u>
Total primary government	<u>\$ 41,669,574</u>	<u>\$ 33,191,524</u>	<u>\$ 23,518,470</u>	<u>\$ 17,131,102</u>	<u>\$ 79,140,958</u>	<u>\$ 70,707,425</u>	<u>\$ 63,455,916</u>	<u>\$ 55,091,891</u>	<u>\$ 49,373,475</u>	<u>\$ 50,762,211</u>

Note: The District began reporting net pension liabilities as required by GASB Statement 68 in fiscal year 2015, resulting in a prior period adjustment in fiscal year 2014.

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2008-2017.

**Royal Oak Schools**  
**District-Wide Revenues by Source and Expenses by Function - Last Ten Fiscal Years**  
**(Unaudited)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Expenses</b>										
<b>Governmental activities</b>										
Instruction	\$ 36,088,719	\$ 35,518,070	\$ 34,260,122	\$ 33,706,787	\$ 32,453,172	\$ 33,046,290	\$ 34,412,197	\$ 37,440,682	\$ 37,301,542	\$ 37,801,871
Support services	20,570,368	18,753,557	20,142,019	19,639,249	18,992,270	19,389,775	20,011,511	24,450,712	29,541,877	27,818,723
Food services	1,381,164	1,216,593	1,162,690	1,160,434	1,153,903	1,275,493	1,284,725	1,249,617	1,208,841	1,115,386
Athletics	-	-	-	-	-	-	-	639,525	674,369	721,696
Community services	1,886,136	1,745,745	1,485,327	1,281,731	1,261,333	622,865	678,492	707,362	773,152	902,012
Interest on long-term debt	742,821	1,096,173	2,525,742	2,721,696	3,121,759	3,187,457	3,307,073	3,597,687	4,111,571	5,438,669
Depreciation (unallocated)	4,980,448	4,996,650	4,832,519	4,693,465	4,516,412	5,234,270	4,447,823	4,650,857	5,151,043	4,741,507
<b>Total primary government expenses</b>	<b>65,649,656</b>	<b>63,326,788</b>	<b>64,408,419</b>	<b>63,203,362</b>	<b>61,498,849</b>	<b>62,756,150</b>	<b>64,141,821</b>	<b>72,736,442</b>	<b>78,762,395</b>	<b>78,539,864</b>
<b>Program revenues</b>										
<b>Governmental activities</b>										
<b>Charges for services</b>										
Instruction	40,808	23,046	38,484	39,291	61,311	60,916	59,266	61,410	103,086	100,724
Food services	725,094	639,249	655,274	623,393	581,116	624,267	638,257	687,884	750,537	691,366
Athletics	-	-	-	-	-	-	-	185,857	110,875	148,506
Support services	212,990	175,956	206,409	221,060	238,864	231,887	235,330	-	-	-
Community services	1,587,652	1,407,426	1,346,909	1,345,498	1,353,860	1,501,390	1,489,773	1,279,830	1,277,102	1,245,726
<b>Operating grants and contributions</b>										
Instruction	9,992,468	9,347,498	8,952,291	8,065,756	8,239,751	4,600,751	5,842,037	9,849,305	9,393,039	8,089,334
Support services	-	-	-	516,070	550,136	5,635,280	5,635,280	5,605,338	5,309,265	5,724,078
Food services	627,260	596,957	582,981	573,520	597,160	677,043	665,616	647,355	536,377	432,510
Community services	454,121	486,394	523,210	314,329	139,110	159,292	100,480	82,715	99,013	94,548
<b>Total primary government program revenues</b>	<b>13,640,393</b>	<b>12,676,526</b>	<b>12,305,558</b>	<b>11,698,917</b>	<b>11,761,308</b>	<b>13,490,826</b>	<b>14,666,039</b>	<b>18,399,694</b>	<b>17,579,294</b>	<b>16,526,792</b>
<b>Net (expense) revenue</b>										
<b>Total primary government net expense</b>	<b>\$ (52,009,263)</b>	<b>\$ (50,650,262)</b>	<b>\$ (52,102,861)</b>	<b>\$ (51,504,445)</b>	<b>\$ (49,737,541)</b>	<b>\$ (49,265,324)</b>	<b>\$ (49,475,782)</b>	<b>\$ (54,336,748)</b>	<b>\$ (61,183,101)</b>	<b>\$ (62,013,072)</b>

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2008-2017.

**Royal Oak Schools**  
**District-Wide General Revenues and Total Change in Net Position - Last Ten Fiscal Years**  
**(Unaudited)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net (expense) revenue										
Total primary government net expense	\$ (52,009,263)	\$ (50,650,262)	\$ (52,102,861)	\$ (51,504,445)	\$ (49,737,541)	\$ (49,265,324)	\$ (49,475,782)	\$ (54,336,748)	\$ (61,183,101)	\$ (62,013,072)
General revenues and other changes in net position										
Governmental activities										
Taxes										
Property taxes levied for general purposes	19,529,389	19,252,696	19,104,445	18,904,444	19,163,973	18,925,737	19,279,237	19,744,221	19,128,074	19,931,958
Property taxes levied for debt service	9,374,541	9,067,830	8,758,980	10,795,009	10,542,052	10,647,453	10,904,444	11,778,957	11,846,917	11,683,889
Property taxes levied for sinking fund	2,444,540	2,387,206	2,309,954	-	-	-	-	-	-	-
Unrestricted state aid	28,578,016	27,187,890	26,832,592	25,911,514	26,477,203	25,927,663	26,346,437	25,423,522	26,743,641	29,301,556
Interest and investment earnings	51,120	44,286	41,148	41,810	33,163	41,643	33,558	65,288	365,721	1,912,523
Gain on sale of assets	41,264	1,803,787	321,858	1,307,721	1,538,403	680,496	614,413	488,977	60,000	100,000
Insurance recoveries	-	300,000	832,317	-	-	-	-	2,000,000	-	-
Other	468,173	279,891	288,935	648,649	416,280	293,841	661,718	554,199	1,650,012	406,123
Total primary government	60,487,043	60,323,586	58,490,229	57,609,147	58,171,074	56,516,833	57,839,807	60,055,164	59,794,365	63,336,049
Change in net position										
Total primary government	\$ 8,477,780	\$ 9,673,324	\$ 6,387,368	\$ 6,104,702	\$ 8,433,533	\$ 7,251,509	\$ 8,364,025	\$ 5,718,416	\$ (1,388,736)	\$ 1,322,977

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2008-2017.

**Royal Oak Schools**  
**Fund Level Fund Balances - Last Ten Fiscal Years**  
**(Unaudited)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>General Fund</b>										
Non-spendable	\$ 16,000	\$ 32,000	\$ -	\$ -	\$ 3,817	\$ 72,405	\$ -	\$ -	\$ -	\$ -
Committed	-	-	-	137,674	-	-	-	-	-	-
Assigned	1,829,317	2,251,304	1,452,263	3,004,594	2,824,754	2,859,270	5,301,954	-	-	-
Unassigned	12,673,806	11,818,474	12,579,125	10,720,665	10,037,295	7,622,793	4,061,055	-	-	-
Reserved	-	-	-	-	-	-	-	195,205	30,442	99,015
Unreserved										
Designated	-	-	-	-	-	-	-	3,896,984	5,101,754	7,634,221
Undesignated	-	-	-	-	-	-	-	2,678,084	1,198,855	4,372,960
<b>Total General Fund</b>	<b>14,519,123</b>	<b>14,101,778</b>	<b>14,031,388</b>	<b>13,862,933</b>	<b>12,865,866</b>	<b>10,554,468</b>	<b>9,363,009</b>	<b>6,770,273</b>	<b>6,331,051</b>	<b>12,106,196</b>
<b>All other governmental funds</b>										
Non-spendable	133,033	129,566	125,275	129,865	131,034	136,843	26,580	-	-	-
Restricted	4,603,842	2,539,084	3,470,354	2,138,043	3,653,902	4,067,813	4,380,800	-	-	-
Committed	125,662	41,360	111,928	3,051,008	-	-	-	-	-	-
Assigned	7,601,707	1,569,597	1,361,663	2,463,262	5,331,284	4,529,435	1,007,336	-	-	-
Unassigned	-	-	-	-	-	-	(238,471)	-	-	-
Reserved	-	-	-	-	-	-	-	1,120,695	1,020,753	4,129,779
Unreserved, reported in:										
Special Revenue Funds	-	-	-	-	-	-	-	1,311,216	2,185,837	2,015,393
Capital Project Funds	-	-	-	-	-	-	-	(2,359,856)	(5,298,279)	(6,980,540)
<b>Total all other governmental funds</b>	<b>12,464,244</b>	<b>4,279,607</b>	<b>5,069,220</b>	<b>7,782,178</b>	<b>9,116,220</b>	<b>8,734,091</b>	<b>5,176,245</b>	<b>72,055</b>	<b>(2,091,689)</b>	<b>(835,368)</b>
<b>Total all funds</b>	<b>\$ 26,983,367</b>	<b>\$ 18,381,385</b>	<b>\$ 19,100,608</b>	<b>\$ 21,645,111</b>	<b>\$ 21,982,086</b>	<b>\$ 19,288,559</b>	<b>\$ 14,539,254</b>	<b>\$ 6,842,328</b>	<b>\$ 4,239,362</b>	<b>\$ 11,270,828</b>

Note: The District began reporting fund balance under new definitions as required by GASB Statement 54 in fiscal year 2011.

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2008-2017.



**Royal Oak Schools**  
**Fund Level Revenues by Source - Last Ten Fiscal Years**  
**(Unaudited)**

Year Ended	General Fund						Special Revenue Funds					Capital Project Funds			Debt Service Funds			Total Revenue
	Property Taxes	Other Local Sources	Interdistrict Sources	State Sources	Federal Sources *	Total General Fund Revenues	Local Sources	Interdistrict Sources	State Sources	Federal Sources	Total Special Revenue Funds Revenue	Property Taxes, Interest and Other	State Sources	Total Capital Project Funds Revenue	Property Taxes	Interest and Other	Total Debt Service Funds Revenue	
2008	\$ 19,931,958	\$ 1,485,682	\$ 5,628,026	\$ 32,158,320	\$ 2,123,988	\$ 61,327,974	\$ 1,761,007	\$ 2,115,760	\$ 1,218,667	\$ 376,023	\$ 5,471,457	\$ 885,634	\$ -	\$ 885,634	\$ 11,725,384	\$ 393,887	\$ 12,119,271	\$ 79,804,336
2009	19,128,074	1,018,240	5,429,852	29,574,837	3,955,458	59,106,461	1,838,357	1,635,792	979,873	486,740	4,940,762	98,579	-	98,579	11,846,917	136,111	11,983,028	76,128,830
2010	19,744,221	944,292	5,122,785	27,868,679	5,310,354	58,990,331	1,844,314	1,666,260	1,047,871	583,377	5,141,822	20,799	-	20,799	11,778,996	33,933	11,812,929	75,965,881
2011	19,279,237	1,209,137	5,220,718	29,659,838	3,114,539	58,483,469	1,725,212	-	174,886	591,210	2,491,308	-	-	-	10,904,656	12,000	10,916,656	71,891,433
2012	18,925,737	990,252	4,210,781	29,169,198	2,631,679	55,927,647	1,766,482	-	234,126	602,209	2,602,817	-	-	-	10,647,453	149,246	10,796,699	69,327,163
2013	19,163,973	955,151	3,743,464	29,689,691	1,712,589	55,264,868	1,726,589	-	189,173	540,390	2,456,152	-	-	-	10,542,062	118,442	10,660,504	68,381,524
2014	18,934,302	1,092,851	3,700,185	29,178,665	1,495,945	54,401,948	1,770,244	-	369,091	527,355	2,666,690	2,259,101	-	2,259,101	8,510,309	107,787	8,618,096	67,945,835
2015	19,139,195	771,400	3,842,917	30,180,869	1,632,761	55,567,142	1,813,291	-	580,621	535,191	2,929,103	2,307,388	-	2,307,388	8,733,763	107,287	8,841,050	69,644,683
2016	19,287,977	734,789	4,113,029	30,646,176	1,686,554	56,468,525	1,824,818	-	548,016	546,479	2,919,313	2,387,511	-	2,387,511	9,061,579	59,397	9,120,976	70,896,325
2017	19,567,379	1,014,287	4,080,207	32,386,390	1,817,732	58,865,995	2,014,146	-	511,291	569,884	3,095,321	2,630,597	-	2,630,597	9,408,163	86,096	9,494,259	74,086,172

\* In 2012, 2011, 2010, and 2009, the District received \$648,732, \$800,607, \$3,217,775 and \$1,995,247 respectively in federal dollars as part of the American Recovery and Reinvestment Act.

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2008-2017.

**Royal Oak Schools**  
**Fund Level Expenditures by Function - Last Ten Fiscal Years**  
**(Unaudited)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Instruction (2)	\$ 33,133,803	\$ 31,623,623	\$ 31,198,044	\$ 30,384,432	\$ 19,494,865	\$ 19,287,159	\$ 20,836,847	\$ 22,789,538	\$ 22,968,200	\$ 22,995,734
Pupil services	4,700,118	4,732,277	4,618,925	4,686,290	3,145,836	3,134,485	3,030,725	3,894,769	3,547,896	3,572,906
Instructional support services	2,184,700	2,194,597	2,151,361	1,840,714	1,312,486	1,376,078	1,287,388	1,830,065	1,569,359	1,630,971
General administration	648,453	655,508	635,080	570,881	543,944	505,682	544,271	593,784	593,714	583,406
School administration	2,901,153	2,978,263	2,939,396	2,914,383	1,837,736	2,075,127	2,152,357	2,143,988	2,210,699	2,017,650
Business services	9,173,251	7,631,310	8,052,085	6,554,363	6,096,684	6,412,103	7,089,407	7,095,898	7,528,487	8,306,281
Central staff	1,855,851	2,151,889	2,122,841	1,865,325	1,543,609	822,949	768,903	952,911	828,829	823,762
Athletics	763,345	627,266	627,746	585,482	498,456	445,893	441,760	639,525	674,369	721,696
Employee benefits (2)	-	-	-	-	13,388,786	14,546,344	14,833,474	15,262,778	15,107,125	15,546,380
Other	41,582	44,188	-	-	-	-	-	-	-	-
Community services (2)	1,265,541	1,078,979	923,577	749,920	543,777	92,385	151,932	124,243	146,350	248,850
Payments to other governmental units	1,346,705	1,813,518	2,129,381	2,293,166	2,508,425	2,807,290	2,606,948	3,366,488	3,154,798	3,011,002
Capital outlay (1)	15,342	10,314	3,668	350,450	997,251	122,670	282,373	425,170	382,472	492,165
Food Services Fund	1,364,823	1,187,441	1,170,921	1,160,434	1,153,903	1,275,493	1,284,725	1,277,065	1,215,116	1,117,219
Community Services Fund	1,779,078	1,977,873	2,030,239	1,791,515	1,484,600	1,599,307	1,542,769	1,570,395	1,606,298	1,710,488
Special Education Center Program Fund	-	-	-	-	-	-	-	2,566,089	2,706,433	3,134,862
Sinking Fund	1,342,877	765,622	2,195,539	2,254,547	-	-	-	-	-	-
Debt service										
Principal	7,455,000	7,050,000	7,365,000	7,365,000	7,825,000	5,850,000	5,395,000	7,530,000	4,052,732	8,125,000
Interest	1,689,040	2,041,571	2,436,105	2,956,970	3,343,720	3,644,377	3,769,475	4,138,025	8,397,829	3,645,585
Capital lease retirement	75,235	75,235	75,234	75,234	31,348	-	-	-	-	-
Other	-	-	1,023,896	65,452	151,487	114,528	113,744	79,808	108,193	215,305
Capital projects (1)	15,365	49	2,722,228	3,264,822	2,162,324	1,343,706	1,118,333	1,050,748	7,817,337	48,870,643
	<u>\$ 71,751,262</u>	<u>\$ 68,639,523</u>	<u>\$ 74,421,266</u>	<u>\$ 71,729,380</u>	<u>\$ 68,064,237</u>	<u>\$ 65,455,576</u>	<u>\$ 67,250,431</u>	<u>\$ 77,331,287</u>	<u>\$ 84,616,236</u>	<u>\$ 126,769,905</u>
Debt services as a percentage of noncapital expenditures	<u>13.10%</u>	<u>13.51%</u>	<u>15.68%</u>	<u>15.80%</u>	<u>17.22%</u>	<u>14.99%</u>	<u>14.03%</u>	<u>15.40%</u>	<u>16.35%</u>	<u>15.39%</u>

(1) Capital outlay expenditures consist of all capital-related expenditures not recorded in the capital projects funds.

(2) Starting in 2014, Employee benefits are reported by function instead of a separate line item. This also reflects General Fund expenditures only

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2008-2017.

**Royal Oak Schools**  
**Fund Level Other Financing Sources and Uses and**  
**Net Change in Fund Balances - Last Ten Fiscal Years**  
**(Unaudited)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Excess of revenues over (under) expenditures	\$ 2,334,910	\$ 2,256,802	\$ (4,776,583)	\$ (1,528,998)	\$ 317,387	\$ 3,871,587	\$ 4,641,002	\$ (1,365,406)	\$ (8,487,406)	\$ (46,965,569)
Other financing sources (uses)										
Proceeds from capital lease	-	-	-	-	340,365	-	-	-	-	-
Proceeds from sale of assets	331,264	2,659,783	1,144,030	1,192,023	2,035,775	877,718	405,924	1,968,372	271,111	200,000
Insurance recoveries	-	300,000	832,317	-	-	-	-	2,000,000	1,184,829	-
Transfers in	393,657	823,284	3,077,282	579,708	1,651,890	4,481,783	3,577,001	2,373,147	9,448,816	3,745,991
Transfers out	(393,657)	(823,284)	(3,077,282)	(579,708)	(1,651,890)	(4,481,783)	(3,577,001)	(2,373,147)	(9,448,816)	(3,745,991)
General long-term debt issued	-	-	44,333,524	-	-	-	2,650,000	-	-	17,200,000
Bond discount/premium	-	-	-	-	-	-	-	-	-	1,037,790
Payments to bond escrow agent	-	-	(44,077,791)	-	-	-	-	-	-	(19,557,010)
Total other financing sources (uses)	331,264	2,959,783	2,232,080	1,192,023	2,376,140	877,718	3,055,924	3,968,372	1,455,940	(1,119,220)
Net change in fund balances	\$ 2,666,174	\$ 5,216,585	\$ (2,544,503)	\$ (336,975)	\$ 2,693,527	\$ 4,749,305	\$ 7,696,926	\$ 2,602,966	\$ (7,031,466)	\$ (48,084,789)

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2008-2017.

**Royal Oak Schools**  
**Property Tax Levies and Collections - Last Ten Fiscal Years**  
**(Unaudited)**

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<u>Fiscal Year</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected within the Fiscal Year of the Levy</u>		<u>Delinquent Taxes Collected</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2008	\$ 29,750,565	\$ 29,640,863	99.63 %	\$ 89,868	\$ 29,730,731	99.93 %
2009	30,929,774	30,781,842	99.52 %	45,217	30,827,059	99.67 %
2010	31,470,829	31,390,959	99.75 %	52,351	31,443,310	99.91 %
2011	30,149,523	30,115,735	99.89 %	34,157	30,149,892	100.00 %
2012	29,646,026	29,597,314	99.84 %	37,812	29,635,126	99.96 %
2013	29,568,887	29,535,282	99.89 %	71,390	29,606,672	100.13 %
2014	29,783,139	29,656,242	99.57 %	43,210	29,699,452	99.72 %
2015	30,163,155	30,118,404	99.85 %	51,058	30,169,463	100.02 %
2016	30,802,157	30,672,298	99.58 %	56,302	30,728,600	99.76 %
2017	31,346,492	31,310,198	99.88 %	61,008	31,371,207	100.08 %

Source: Treasurers' Settlements

**Royal Oak Schools**  
**Taxable Valuation and Actual Value of Taxable Property - Last Ten Fiscal Years**  
**(Unaudited)**

Fiscal Year	Taxable Valuation			Estimated Actual Valuation	Total District Direct Millage Rate	
	Homestead Property	Nonhomestead Property	Total		Homestead Property	Nonhomestead Property
2008	\$ 1,628,952,760	\$ 864,917,530	\$ 2,493,870,290	\$ 4,987,740,580	7.61	22.71
2009	1,716,694,470	804,997,370	2,521,691,840	5,043,383,680	7.41	22.71
2010	1,679,401,510	825,078,121	2,504,479,631	5,008,959,262	7.35	22.71
2011	1,511,914,870	805,337,800	2,317,252,670	4,634,505,340	7.73	22.71
2012	1,458,200,960	791,577,970	2,249,778,930	4,499,557,860	7.73	22.71
2013	1,438,626,420	795,740,360	2,234,366,780	4,468,733,560	7.73	22.71
2014	1,460,042,270	802,008,610	2,262,050,880	4,524,101,760	7.73	22.75
2015	1,491,113,290	819,178,380	2,310,291,670	4,620,583,340	6.19	22.75
2016	1,571,990,170	831,881,780	2,403,871,950	4,807,743,900	6.39	22.75
2017	1,638,497,870	844,904,480	2,483,402,350	4,966,804,700	6.30	22.74

Property taxes in the School District are contingent upon the taxable property values. Taxable value increases are limited by variable caps and other restrictions, which generally cause taxable values to be at or below state equalized values (which are primarily market driven).

Source: Royal Oak Schools and Oakland County Equalization

**Royal Oak Schools**  
**Direct and Overlapping Property Tax Rates - Homestead - Last Ten Fiscal Years**  
**(Unaudited)**

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Fiscal Year	District Direct Rates			State of Michigan	Oakland County	Oakland	Overlapping Rates				
	Operating	Non-Operating	Total		Operating and ISD	Community College	City of Berkley	City of Huntington Woods	City of Madison Heights	City of Royal Oak	City of Troy
2008	2.90	4.71	7.61	6.00	8.61	1.58	12.97	21.10	18.04	11.44	9.28
2009	2.70	4.71	7.41	6.00	8.71	1.58	13.00	21.80	18.16	11.43	9.28
2010	2.64	4.71	7.35	6.00	8.71	1.58	13.08	21.95	18.00	11.69	9.28
2011	3.02	4.71	7.73	6.00	8.71	1.58	14.07	23.56	18.81	11.71	9.40
2012	3.02	4.71	7.73	6.00	8.71	1.58	14.30	25.73	21.87	11.72	10.19
2013	3.02	4.71	7.73	6.00	8.71	1.58	14.49	26.39	22.43	15.20	10.48
2014	2.98	3.75	6.73	6.00	8.32	1.58	17.51	26.83	22.93	15.17	10.52
2015	2.44	3.75	6.19	6.00	8.32	1.58	17.55	26.71	22.97	18.16	10.50
2016	2.64	3.75	6.39	6.00	8.21	1.58	16.98	24.57	22.96	17.68	10.50
2017	2.55	3.75	6.30	6.00	8.13	1.57	15.82	22.38	23.02	17.88	10.40

Source: Oakland County Equalization Department

**Royal Oak Schools**  
**Direct and Overlapping Property Tax Rates - Non-Homestead - Last Ten Fiscal Years**  
**(Unaudited)**

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Fiscal Year	District Direct Rates			State of Michigan	Oakland County	Oakland	Overlapping Rates				
	Operating	Non-Operating	Total		Operating and ISD	Community College	City of Berkley	City of Huntington Woods	City of Madison Heights	City of Royal Oak	City of Troy
2008	18.00	4.71	22.71	6.00	8.61	1.58	12.97	21.10	18.04	11.44	9.28
2009	18.00	4.71	22.71	6.00	8.71	1.58	13.00	21.80	18.16	11.43	9.28
2010	18.00	4.71	22.71	6.00	8.71	1.58	13.08	21.95	18.00	11.69	9.28
2011	18.00	4.71	22.71	6.00	8.71	1.58	14.07	23.56	18.81	11.71	9.40
2012	18.00	4.71	22.71	6.00	8.71	1.58	14.30	25.73	21.87	11.72	10.19
2013	18.00	4.71	22.71	6.00	8.71	1.58	14.49	26.39	22.43	15.20	10.48
2014	18.00	4.75	22.75	6.00	8.91	1.58	17.51	26.83	22.93	15.17	10.52
2015	18.00	4.75	22.75	6.00	9.32	1.58	17.55	26.71	22.97	18.16	10.50
2016	18.00	4.75	22.75	6.00	8.21	1.58	16.98	24.57	22.96	17.68	10.50
2017	18.00	4.74	22.74	6.00	8.13	1.57	15.82	22.38	23.02	17.88	10.40

Source: Oakland County Equalization Department

**Royal Oak Schools**  
**Outstanding Debt by Type - Last Ten Fiscal Years**  
**(Unaudited)**

Fiscal Year	Governmental Activities					Total	Percentage of Personal Income *	Per Capita
	Bonded Debt	Performance Contracting Notes	Bus Notes	Capital Leases				
2008	\$ 87,172,732	\$ -	\$ -	\$ -	\$ -	\$ 87,172,732	0.1351%	1467
2009	83,120,000	-	-	-	-	83,120,000	0.1370%	1406
2010	75,590,000	-	-	-	-	75,590,000	N/A	1277
2011	72,845,000	-	-	-	-	72,845,000	N/A	1240
2012	66,995,000	-	-	-	-	66,995,000	N/A	1133
2013	59,170,000	-	-	314,529	-	59,484,529	N/A	993
2014	51,805,000	-	-	250,737	-	52,055,737	N/A	861
2015	39,075,000	-	-	184,341	-	39,259,341	N/A	648
2016	33,715,000	-	-	115,234	-	33,830,234	N/A	559
2017	26,260,000	-	-	43,306	-	26,303,306	N/A	435

Source: Royal Oak Schools



**Royal Oak Schools**  
**Legal Debt Margin Information - Last Ten Fiscal Years**  
**(Unaudited)**

---

**Legal Debt Margin Calculation for Fiscal Year 2017**

Taxable value	\$ 2,483,402,350
Debt limit (15%) of taxable value	372,510,353
Debt applicable to limit	<u>(30,138,465)</u>
Legal Debt Margin	<u>\$ 342,371,888</u>

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt Limit	\$ 374,080,544	\$378,253,776	\$375,671,945	\$347,587,901	\$337,466,840	\$335,155,017	\$339,307,632	\$346,543,751	\$360,580,793	\$372,510,353
Total net debt applicable to limit	<u>87,172,732</u>	<u>83,120,000</u>	<u>75,590,000</u>	<u>72,845,000</u>	<u>66,995,000</u>	<u>59,170,000</u>	<u>51,805,000</u>	<u>51,805,000</u>	<u>33,715,000</u>	<u>30,138,465</u>
Legal debt margin	<u>\$ 286,907,812</u>	<u>\$295,133,776</u>	<u>\$300,081,945</u>	<u>\$274,742,901</u>	<u>\$270,471,840</u>	<u>\$275,985,017</u>	<u>\$287,502,632</u>	<u>\$294,738,751</u>	<u>\$326,865,793</u>	<u>\$342,371,888</u>
Total net debt applicable to the limit as a percentage of debt limit	23.30%	21.97%	20.12%	20.96%	19.85%	17.65%	15.27%	14.95%	9.35%	8.09%

Source: Oakland County Equalization and Royal Oak Schools

**Royal Oak Schools**  
**Demographic Data - Last Ten Fiscal Years**  
**(Unaudited)**

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<u>Fiscal Year</u>	<u>Estimated Population</u>	<u>Enrollment</u>	<u>Full-Time and Part-Time School District Employees</u>
2008	59,418	5,480	758
2009	59,110	5,445	738
2010	59,188	5,488	635
2011	58,736	5,306	493
2012	59,107	5,449	453
2013	59,910	6,124	453
2014	60,446	5,963	453
2015	60,569	5,915	465
2016	60,508	5,839	483
2017	60,506	5,921	508

Source: Royal Oak Schools and U.S. Census Bureau

**Royal Oak Schools**  
**Demographic and Economic Statistics - Last Ten Calendar Years**  
**(Unaudited)**

Calendar Year	Oakland County Personal Income *	City of Royal Oak				Unemployment Rate **
		Estimated Population	Estimated Total Household Income	Estimated Number of Households	Estimated Income Per Household	
2008	\$ 64,506,257,000	59,418	\$ 1,765,259,350	28,615	\$ 61,690	7.30%
2009	60,677,507,000	59,110	1,634,404,626	27,639	59,134	13.70%
2010	N/A	59,188	N/A	28,063	60,184	12.50%
2011	N/A	58,736	N/A	28,356	62,495	10.90%
2012	68,065,416,000	59,107	1,764,234,797	28,249	62,453	8.80%
2013	70,246,571,000	59,910	1,776,677,544	28,296	62,789	9.10%
2014	73,973,217,000	60,446	N/A	N/A	N/A	8.10%
2015	N/A	60,569	N/A	N/A	64,873	6.80%
2016	N/A	60,508	N/A	29,033	N/A	4.60%
2017	N/A	60,506	N/A	29,122	N/A	3.80%

\* Years 2007 - 2010 are revised figures issued by the U.S. Department of Labor

Source: U.S. Department of Commerce, US Census Bureau, Southeast Michigan Council of Governments, U.S. Department of Labor

N/A: Data is not available

**Royal Oak Schools**  
**Principal Property Taxpayers - Current Year and Nine Years Ago**  
**(Unaudited)**

Taxpayer	2017			2008		
	2016 Tax Year Taxable Value Real and Personal Property	Rank	Percentage of Total Taxable Value	2007 Tax Year Taxable Value Real and Personal Property	Rank	Percentage of Total Taxable Value
Consumers Energy	\$ 27,281,830	1	1.10%	\$ 9,598,180	7	0.38%
DTE/Detroit Edison	24,462,580	2	0.99%	25,048,640	1	1.00%
Beaumont Hospital	9,567,600	3	0.39%	12,389,810	4	0.50%
Meijer	8,524,140	4	0.34%	8,408,670	9	0.34%
H2 Royal Oak, LLC	6,220,910	5	0.25%			
Comcast of the South Inc	7,905,060	6	0.32%			
The Kroger Company of MI	6,305,680	7	0.25%			
Garber Family Partnership	6,003,790	8	0.24%			
Woodland Gardens MI	5,660,270	9	0.23%			
Alidade Main N LLC	5,107,330	10	0.21%			
Form Tech Industries				23,863,120	2	0.96%
Amber Equities LLC				13,587,140	3	0.54%
Flex-N-Gate				11,050,680	5	0.44%
Co-op Services				9,915,970	6	0.40%
National City Bank				8,662,210	8	0.35%
Verizon				6,934,090	10	0.28%
<b>Total principal Taxpayers</b>	<b>107,039,190</b>		<b>4.31%</b>	<b>129,458,510</b>		<b>5.19%</b>
<b>Balance of Valuations</b>	<b>2,376,363,160</b>		<b>95.69%</b>	<b>2,364,411,780</b>		<b>94.81%</b>
<b>Total taxable valuation</b>	<b>\$ 2,483,402,350</b>		<b>100.00%</b>	<b>\$ 2,493,870,290</b>		<b>100.00%</b>

**Source:** City of Royal Oak Assessor

**Royal Oak Schools**  
**Principal Employers - Current Year and Nine Years Ago**  
**(Unaudited)**

<b>Employer</b>	<b>2012*</b>			<b>2008</b>		
	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total County Employment</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total County Employment</b>
William Beaumont Hospital	7,386	1	1.40%	17,869	1	2.48%
Royal Oak School District	520	2	0.10%	699	2	0.10%
City of Royal Oak	354	3	0.07%	350	6	0.05%
Flex-N-Gate Royal Oak	350	4	0.07%	350	5	0.05%
Detroit Zoo	340	5	0.06%	510	3	0.07%
Form Tech Industries LLC	250	6	0.05%	N/A	N/A	N/A
Meijer	221	7	0.04%	250	10	0.35%
Kroger	190	8	0.04%	260	9	0.04%
Comau, Inc	160	9	0.03%	N/A	N/A	N/A
Greenfield Rehab & Nursing Center	151	10	0.03%	N/A	N/A	N/A
Global Automotive System LLC				502	4	0.07%
Hawthorne Metal				350	7	0.05%
Newcor, Inc				300	8	0.04%
			1.88%			3.30%

Source: Oakland County Planning and Economic Development, and State of Michigan Department of Energy, Labor, & Economic Growth

\* Data for 2017 is not available. 2012 data is presented for comparative purposes.

**Royal Oak Schools**  
**Operating Statistics - Last Ten Fiscal Years**  
**(Unaudited)**

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<b>Fiscal Year Ended</b>	<b>Enrollment (1)</b>	<b>Operating Expenditures (2)</b>	<b>Cost per Pupil</b>	<b>Percentage Change</b>
2008	5,424	\$ 55,466,880	\$ 10,226	0.08 %
2009	5,395	54,344,255	10,073	(1.50) %
2010	5,458	54,553,881	9,995	(0.77) %
2011	5,306	50,979,502	9,608	(3.88) %
2012	5,449	48,603,425	8,920	(7.16) %
2013	6,124	47,691,330	7,788	(12.69) %
2014	5,963	49,477,104	8,297	6.55 %
2015	5,915	52,345,478	8,850	6.66 %
2016	5,839	52,638,921	9,015	1.87 %
2017	5,822	56,824,196	9,760	8.27 %

Source: Royal Oak Schools

(1) Enrollment for special education Center Program students is excluded in Years 2008 - 2010.  
Center Programs were discontinued beginning Year 2011.

(2) General Fund expenditures only, excluding other financing sources, capital outlay, and community services

**Royal Oak Schools**  
**Full-Time Equivalent Employees by Type - General Fund - Last Ten Fiscal Years**  
**(Unaudited)**

	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	Percentage Change from 2007-08 to 2016-2017
<b>Administrative</b>											
Building administration	14.5	14.5	14.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	7.41 %
Central administration	8.0	6.0	5.0	6.0	6.0	7.0	6.0	5.0	7.0	7.0	14.29 %
Operational administration	1.0	1.0	1.0	1.0	1.0	1.0	2.0	2.0	2.0	2.0	(50.00)%
	<u>23.5</u>	<u>21.5</u>	<u>20.5</u>	<u>20.5</u>	<u>20.5</u>	<u>21.5</u>	<u>21.5</u>	<u>20.5</u>	<u>22.5</u>	<u>22.5</u>	4.44 %
<b>Instruction and pupil services</b>											
Classroom teachers	254.8	253.2	256.2	253.1	251.0	247.2	266.9	268.4	276.4	283.6	(10.16)%
Counselors	7.0	7.0	7.0	8.0	8.0	8.0	7.8	9.3	9.4	10.3	(32.04)%
Media specialists	-	2.0	1.0	1.0	1.0	1.0	1.0	1.0	2.0	2.0	(100.00)%
Psychologists	5.2	5.2	4.2	4.2	4.0	4.0	4.0	3.8	3.6	4.2	23.81 %
Social workers	6.0	6.0	6.0	4.6	4.6	4.6	4.6	6.6	6.4	6.3	(4.76)%
Pupil support - professional	21.5	21.2	19.8	19.1	20.3	21.2	20.0	27.8	16.3	17.8	20.79 %
Paraprofessionals	71.0	74.1	67.0	46.6	45.0	45.5	43.0	43.0	43.0	44.5	59.55 %
Secretarial	21.5	20.0	21.0	21.0	22.0	22.5	23.5	23.5	23.5	24.0	(10.42)%
Hall supervision	-	-	-	-	-	-	-	(1) 3.0	4.0	6.0	(100.00)%
	<u>387.0</u>	<u>388.7</u>	<u>382.2</u>	<u>357.6</u>	<u>355.9</u>	<u>354.0</u>	<u>370.8</u>	<u>386.4</u>	<u>384.6</u>	<u>398.7</u>	(2.93)%
<b>Business Services</b>											
Custodial	-	-	-	-	-	-	-	(1) 33.5	38.5	42.5	(100.00)%
Maintenance	-	-	-	-	-	-	-	(1) 14.0	15.0	18.0	(100.00)%
Transportation	-	-	-	-	-	-	-	(1) 24.0	24.0	24.5	(100.00)%
Secretarial/clerical	13.0	13.0	12.0	11.0	10.5	9.0	11.0	13.5	14.0	14.0	(7.14)%
Technical	-	-	-	-	(3) 1.5	(2) 5.5	5.5	5.5	7.0	5.5	(100.00)%
	<u>13.0</u>	<u>13.0</u>	<u>12.0</u>	<u>11.0</u>	<u>12.0</u>	<u>14.5</u>	<u>16.5</u>	<u>90.5</u>	<u>98.5</u>	<u>104.5</u>	(87.56)%
<b>Total</b>	<u>423.5</u>	<u>423.2</u>	<u>414.7</u>	<u>389.1</u>	<u>388.4</u>	<u>390.0</u>	<u>408.8</u>	<u>497.4</u>	<u>505.6</u>	<u>525.7</u>	(19.44)%

Source: Royal Oak Schools

(1) The District privatized custodial, maintenance, hall supervision, and transportation services in 2010-11.

(2) The District outsourced technology to Oakland Schools 2012-2013.

(3) The District closed the Print Shop in 2013-2014

**Royal Oak Schools**  
**Teacher Base Salaries - Last Ten Fiscal Years**  
**(Unaudited)**

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Fiscal Year	BA Base Minimum Salary	MA / BA +30 Maximum Salary
2008	\$ 37,884	\$ 80,449
2009	38,452	81,656
2010	38,452	81,656
2011	38,452	81,656
2012	38,452	81,656
2013	38,452	81,656
2014	38,452	81,656
2015	38,452	81,656
2016	38,452	82,473
2017	38,452	82,473

Source: Royal Oak Schools



**Royal Oak Schools**  
**School Building Information - Last Ten Fiscal Years**  
**(Unaudited)**

<u>School</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Elementary:</b>										
Addams (1952)										
Square feet	70,890	70,890	70,890	70,890	70,890	70,890	70,890	70,890	70,890	70,890
Capacity	625	625	625	625	625	625	625	625	625	625
Enrollment	464	414	418	417	452	442	464	464	466	469
Keller (1961)										
Square feet	78,640	78,640	78,640	78,640	78,640	78,640	78,640	78,640	78,640	78,640
Capacity	675	675	675	675	675	675	675	675	675	675
Enrollment	372	361	338	314	379	394	400	402	421	453
Northwood (1923)										
Square feet	42,174	-	-	-	-	-	-	-	-	-
Capacity	400	-	-	-	-	-	-	-	-	-
Enrollment	312	-	-	-	-	-	-	-	-	-
Northwood (2008)										
Square feet	-	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
Capacity	-	475	475	475	475	475	475	475	475	475
Enrollment	-	402	463	463	467	512	475	490	461	463
Oakland (1924)										
Square feet	43,257	43,257	43,257	43,257	43,257	43,257	43,257	43,257	43,257	43,257
Capacity	400	400	400	400	400	400	400	400	400	400
Enrollment	258	282	297	320	334	303	271	289	275	269
Oak Ridge (1951)										
Square feet	51,619	51,619	51,619	51,619	51,619	51,619	51,619	51,619	51,619	51,619
Capacity	475	475	475	475	475	475	475	475	475	475
Enrollment	482	432	435	443	437	458	453	434	421	427
Upton (1951)										
Square feet	35,708	35,708	35,708	35,708	35,708	35,708	35,708	35,708	35,708	35,708
Capacity	325	325	325	325	325	325	325	325	325	325
Enrollment	299	331	356	367	323	316	294	285	284	287

**Royal Oak Schools**  
**School Building Information - Last Ten Fiscal Years**  
**(Unaudited)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Middle:</b>										
ROMS (1928)										
Square feet	277,161	277,161	277,161	277,161	277,161	277,161	277,161	277,161	277,161	277,161
Capacity	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
Enrollment	1,205	1,204	1,172	1,127	1,094	1,049	1,044	1,055	1,138	1,161
<b>High:</b>										
ROHS (1957)										
Square feet	285,508	285,508	285,508	285,508	285,508	285,508	285,508	285,508	285,508	285,508
Capacity	1,998	1,998	1,998	1,998	1,998	1,998	1,998	1,998	1,998	1,998
Enrollment	1,798	1,743	1,713	1,614	1,533	1,441	1,358	1,278	1,225	1,255
<b>Other:</b>										
Oakland Technical Center, SE Campus (1971)										
Square feet	125,735	125,735	125,735	125,735	125,735	125,735	125,735	125,735	125,735	125,735
Capacity	-	-	-	-	-	-	-	-	-	-
Enrollment	-	-	-	-	-	-	-	-	-	-
Community Education Center (1979)										
Square feet	78,583	78,583	78,583	78,583	78,583	78,583	78,583	51,079	51,079	51,079
Capacity	540	540	540	540	540	540	540	540	540	540
Enrollment	179	181	181	186	341	309	327	319	248	211
Addams Early Childhood Center (1952)										
Square feet	25,913	25,913	25,913	25,913	25,913	25,913	25,913	25,913	25,913	25,913
Capacity	250	250	250	250	250	250	250	250	250	250
Enrollment	111	101	103	55	68	77	82	82	82	104

Source: Royal Oak Schools

**Royal Oak Schools**

**Single Audit Report**

**June 30, 2017**



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# **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

## **Independent Auditors' Report**

Members of the Board of Education  
Royal Oak Schools  
Royal Oak, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Oak Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Royal Oak Schools' basic financial statements, and have issued our report thereon dated August 31, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Royal Oak Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Royal Oak Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Royal Oak Schools' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Royal Oak Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.

Saginaw, Michigan  
August 31, 2017



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## **Report on Compliance For Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Grant Guidance**

### **Independent Auditors' Report**

Members of the Board of Education  
Royal Oak Schools  
Royal Oak, Michigan

#### **Report on Compliance for Each Major Federal Program**

We have audited Royal Oak Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Royal Oak Schools' major federal programs for the year ended June 30, 2017. Royal Oak Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Royal Oak Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Royal Oak Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Royal Oak Schools' compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, Royal Oak Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## **Report on Internal Control Over Compliance**

Management of Royal Oak Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Royal Oak Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Royal Oak Schools' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Oak Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Royal Oak Schools' basic financial statements. We issued our report thereon dated August 31, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
August 31, 2017

**Royal Oak Schools**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2016	Federal Funds/ Payments In-kind Received	Expenditures	Adjustments	Accrued (Deferred) Revenue at June 30, 2017	Current Year Cash Transferred to Subrecipient
<b>U.S. Department of Agriculture</b>									
<b>Passed through the Michigan Department of Education</b>									
<b>Child Nutrition Cluster</b>									
National School Breakfast Program:	10.553								
2015-2016 - 161970		\$ 63,376	\$ 57,489	\$ 5,172	\$ 11,059	\$ 5,887	\$ -	\$ -	\$ -
2016-2017 - 171970		<u>56,383</u>	<u>-</u>	<u>-</u>	<u>56,383</u>	<u>56,383</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total National School Breakfast Program		<u>119,759</u>	<u>57,489</u>	<u>5,172</u>	<u>67,442</u>	<u>62,270</u>	<u>-</u>	<u>-</u>	<u>-</u>
National School Lunch Program:									
Cash Assistance	10.555								
2015-2016 - 161960		396,554	356,518	30,596	70,632	40,036	-	-	-
2016-2017 - 171960		<u>360,373</u>	<u>-</u>	<u>-</u>	<u>360,373</u>	<u>360,373</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Cash Assistance		756,927	356,518	30,596	431,005	400,409	-	-	-
Non-cash Assistance:									
Entitlement commodities - 2016-2017		<u>94,514</u>	<u>-</u>	<u>-</u>	<u>94,514</u>	<u>94,514</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total National School Lunch Program		<u>851,441</u>	<u>356,518</u>	<u>30,596</u>	<u>525,519</u>	<u>494,923</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Child Nutrition Cluster</b>		<u>971,200</u>	<u>414,007</u>	<u>35,768</u>	<u>592,961</u>	<u>557,193</u>	<u>-</u>	<u>-</u>	<u>-</u>
CACFP:	10.558								
2015-2016 - 161920		10,719	9,671	-	1,048	1,048	-	-	-
2016-2017 - 171920		<u>11,643</u>	<u>-</u>	<u>-</u>	<u>11,643</u>	<u>11,643</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total CACFP		<u>22,362</u>	<u>9,671</u>	<u>-</u>	<u>12,691</u>	<u>12,691</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total US Department of Agriculture</b>		<u>993,562</u>	<u>423,678</u>	<u>35,768</u>	<u>605,652</u>	<u>569,884</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>U.S. Department of Education</b>									
<b>Passed through the Oakland County ISD</b>									
<b>Special Education Cluster</b>									
IDEA Flowthrough:	84.027A								
Project number 150450-1415		951,059	951,233	6,883	6,883	-	-	-	-
Project number 160450-1516		1,004,326	993,398	134,489	143,423	10,930	-	1,996	-
Project number 170450-1617		<u>1,096,461</u>	<u>-</u>	<u>-</u>	<u>872,095</u>	<u>1,086,596</u>	<u>-</u>	<u>214,501</u>	<u>-</u>
Total IDEA Flowthrough		<u>3,051,846</u>	<u>1,944,631</u>	<u>141,372</u>	<u>1,022,401</u>	<u>1,097,526</u>	<u>-</u>	<u>216,497</u>	<u>-</u>
Handicapped Preschool Initiative:	84.173A								
Project number 160460-1516		43,183	41,313	12,625	14,495	1,870	-	-	-
Project number 170460-1617		<u>42,051</u>	<u>-</u>	<u>-</u>	<u>32,355</u>	<u>42,051</u>	<u>-</u>	<u>9,696</u>	<u>-</u>
Total Handicapped Preschool Initiative		<u>85,234</u>	<u>41,313</u>	<u>12,625</u>	<u>46,850</u>	<u>43,921</u>	<u>-</u>	<u>9,696</u>	<u>-</u>
<b>Total Special Education Cluster</b>		<u>3,137,080</u>	<u>1,985,944</u>	<u>153,997</u>	<u>1,069,251</u>	<u>1,141,447</u>	<u>-</u>	<u>226,193</u>	<u>-</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**Royal Oak Schools**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2016	Federal Funds/ Payments In-kind Received	Expenditures	Adjustments	Accrued (Deferred) Revenue at June 30, 2017	Current Year Cash Transferred to Subrecipient
<b>Passed through the Michigan Department of Education</b>									
Adult Basic Education:	84.002								
Project number 161130-161137		\$ 77,962	\$ 63,631	\$ 10,958	\$ 10,958	\$ -	\$ -	\$ -	\$ -
Project number 171130-171137		60,000	-	-	60,000	60,000	-	-	-
Total Adult Basic Education		<u>137,962</u>	<u>63,631</u>	<u>10,958</u>	<u>70,958</u>	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Title I Cluster</b>									
Title I Part A:	84.010								
Project number 161530-1516		365,223	343,923	92,274	102,393	10,104	(15)	-	-
Project number 171530-1617		328,656	-	-	204,712	268,670	-	63,958	-
Total Title I Part A		<u>693,879</u>	<u>343,923</u>	<u>92,274</u>	<u>307,105</u>	<u>278,774</u>	<u>(15)</u>	<u>63,958</u>	<u>-</u>
<b>Title I Cluster</b>		<u>693,879</u>	<u>343,923</u>	<u>92,274</u>	<u>307,105</u>	<u>278,774</u>	<u>(15)</u>	<u>63,958</u>	<u>-</u>
Title III Part A:	84.365								
Project number 160570-1516		28,259	12,619	6,910	9,545	2,635	-	-	-
Project number 160580-1516		47,704	20,693	3,641	17,344	13,562	(141)	-	-
Project number 170580-1617		27,474	-	-	16,643	21,382	-	4,739	9,329
Total Title III Part A		<u>103,437</u>	<u>33,312</u>	<u>10,551</u>	<u>43,532</u>	<u>37,579</u>	<u>(141)</u>	<u>4,739</u>	<u>9,329</u>
Title II Part A:	84.367								
Project number 160520-1516		220,459	114,274	15,328	25,111	9,574	(209)	-	-
Project number 170520-1617		268,161	-	-	209,669	213,593	-	3,924	-
Total Title II Part A		<u>488,620</u>	<u>114,274</u>	<u>15,328</u>	<u>234,780</u>	<u>223,167</u>	<u>(209)</u>	<u>3,924</u>	<u>-</u>
<b>Total U.S Department of Education</b>		<u>4,560,978</u>	<u>2,541,084</u>	<u>283,108</u>	<u>1,725,626</u>	<u>1,740,967</u>	<u>(365)</u>	<u>298,814</u>	<u>9,329</u>
<b>U.S. Department of Homeland Security</b>									
<b>Passed through MSP/EMHSD</b>									
Public Assistance Grant	97.036	61,464	-	-	61,464	61,464	-	-	-
<b>Total U.S. Department of Homeland Security</b>		<u>61,464</u>	<u>-</u>	<u>-</u>	<u>61,464</u>	<u>61,464</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>U.S. Department of Health and Human Services</b>									
<b>Passed through the Oakland County ISD</b>									
Administrative Outreach Program FY 2017	93.778	14,935	-	-	14,935	14,935	-	-	-
<b>Total U.S. Department of Health and Human Services</b>		<u>14,935</u>	<u>-</u>	<u>-</u>	<u>14,935</u>	<u>14,935</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Federal Awards</b>		<u>\$ 5,630,939</u>	<u>\$ 2,964,762</u>	<u>\$ 318,876</u>	<u>\$ 2,407,677</u>	<u>\$ 2,387,250</u>	<u>\$ (365)</u>	<u>\$ 298,814</u>	<u>\$ 9,329</u>

**Royal Oak Schools**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2017**

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**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Royal Oak Schools under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Royal Oak Schools, it is not intended to and does not present the financial position or changes in net assets of Royal Oak Schools.

**Note 2 - Summary of Significant Accounting Policies**

**Expenditures**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance where certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**Indirect Cost Rate**

Royal Oak Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3 - Reconciliation to the Financial Statements**

Federal revenues per the financial statements	\$ 2,473,712
Less revenue related to prior year expenditures	(365)
Less federal reimbursed interest	<u>(86,097)</u>
Federal revenues per Schedule of Expenditures of Federal Awards	<u>\$ 2,387,250</u>

**Note 4 - Explanation of Adjustments**

The adjustments represent immaterial grant expenditures applicable to the previous year.

**Note 5 - Subrecipients**

The School District provided \$9,329 Title III, Part A (CFDA number 84.365) funds to subrecipients.

**Royal Oak Schools**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2017**

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**Note 6 - Michigan Department of Education Disclosures**

The federal amounts reported on the Grant Auditor Report are in agreement with the schedule of expenditures of federal awards except for the following timing differences of when the deposits were made:

	Receipts per the Grant Auditor Report	Receipts per Schedule	Difference
National School Breakfast Program 161970	\$ 5,887	\$ 11,059	\$ (5,172)
National School Lunch Program 161960	40,036	70,632	(30,596)
 Total	 \$ 45,923	 \$ 81,691	 \$ (35,768)

The amounts reported on the recipient entitlement balance report agree with the schedule of expenditures of federal awards for U.S.D.A. donated food commodities.

**Royal Oak Schools**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
  
- Significant Deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ yes      X   none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
  
- Significant Deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes      X   none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)? \_\_\_\_\_ yes      X   no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
84.027A and 84.173A	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?   X   yes    \_\_\_\_\_ no

**Royal Oak Schools**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS**

There were no findings related to the financial statements which are required to be reported in accordance with governmental auditing standards generally accepted in the United States of America for the year ended June 30, 2017.

**SECTION III - FEDERAL AWARD FINDINGS**

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2017.

**Royal Oak Schools**  
**Summary Schedule of Prior Audit Findings**  
**June 30, 2017**

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**PRIOR AUDIT FINDINGS**

**SECTION IV - GOVERNMENT AUDITING STANDARDS FINDINGS**

There were no findings related to the financial statements which are required to be reported in accordance with governmental auditing standards generally accepted in the United States of America for the year ended June 30, 2016.

**SECTION V - FEDERAL AWARD FINDINGS**

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2016.





August 31, 2017

Management and the Board of Education  
Royal Oak Schools  
800 DeVillen  
Royal Oak, Michigan

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Royal Oak Schools as of and for the year ended June 30, 2017, and have issued our report dated August 31, 2017. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit, and we would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

*Yeo & Yeo, P.C.*

Saginaw, Michigan

## Appendix I

### Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 1, 2017. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School district has adopted Government Accounting Standards Board Statement (GASB) No. 77, *Tax Abatement Disclosures*, effective July 1 2016. The Statement requires disclosures of tax abatement information. Although this Statement was adopted, no amounts were disclosed because management has determined the amounts to be immaterial. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

##### *Accounting Standards and Regulatory Updates*

###### Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

### Regulatory and Other Updates

#### Cybersecurity Posture

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five U.S. companies have suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at [www.nist.gov](http://www.nist.gov).

Placing significant emphasis on evaluating your School District's cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

#### Audit and FID Submission Deadline

The deadline to submit the Financial Information Database (FID) and school district financial audits will be November 1<sup>st</sup>. This will continue to be the deadline for future fiscal years as it is now State Law.

#### Uniform Grant Guidance (Super Circular)

In December 2013, the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements. The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. School districts implemented the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after that date. EDGAR is the source for guidance that school districts will follow. Additional information and resources are available at the following websites:

- OMB [http://www.whitehouse.gov/omb/grants\\_docs](http://www.whitehouse.gov/omb/grants_docs)
- Council on Federal Assistance Reform (COFAR) <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR <http://1.usa.gov/1pOUq2p>
- MDE [http://www.michigan.gov/mde/0,4615,7-140-5236\\_76204---,00.html](http://www.michigan.gov/mde/0,4615,7-140-5236_76204---,00.html)

#### Implementation of Federal Grant Procurement Standards is Delayed

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. If your School District did not previously adopt and implement procurement policies and procedures in accordance with 2 CFR 200 you should go through the appropriate channels to elect and document usage of the additional grace period year. The grace period decision and documentation should go through the same process as the adoptions of procurement policies. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity's procurement policies. If an entity's policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

#### Fiscal Year (FY) 2018 School Aid

The School Aid budget for FY 2018 was not signed until late July. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2018 will increase by a range of \$60 to \$120 using the "2X formula." The increase will be added to the FY 2017 foundation grant resulting in the lowest foundation for FY 2018 being \$7,631 and the maximum state guaranteed foundation being \$8,289.
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is increased by \$120,011,800 to \$499,000,000. Eligibility is expanded from free lunch eligible pupils to include pupils eligible for reduced price lunch, TANF, SNAP, or migrant,

homeless, or pupils in foster care. Hold Harmless and Out of Formula districts are now eligible, but will be capped at 30% of the per pupil allowance. Districts that are currently eligible would receive approximately \$777 per pupil and newly eligible districts would receive approximately \$233 per pupil.

- The per pupil funding under Sections 20f(2) and 20f(4) will be equal to the per pupil funding under those Sections in 2016-17.
- Section 147c is reduced by approximately \$22.0 million to reflect higher rates of return on investments.
- Shared Time Instruction for Nonpublic and Homeschool Pupils Section 23f caps the maximum FTE for which a nonpublic school pupil may be counted in a shared-time program at 0.75 FTE per pupil.

Boilerplate changes include:

- A New Section 160 has been added which requires districts seeking a waiver to begin the school year before Labor Day to hold a public hearing with the MDE in the district before the waiver can be granted.
- A New Section 164g has been added which imposes a penalty on any district using State Aid funds to pay expenses related to legal action against the state.
- A New Section 164h has been added to state that there will be a state school aid penalty for a district or ISD that enters into a collective bargaining agreement that fails to comply with requirements including prohibitions on the automatic deduction of union dues from payroll and racial or religious preferences in hiring.

#### Early Warning

Pursuant to Public Act 109 of 2015, each school district and public school academy that has a General Fund balance less than 5% of total unrestricted general revenue for either of the 2014-2015 or 2015-2016 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI). The budget assumption data collection period begins June 1, 2017 and is open through July 7, 2017. The Department of Treasury will not declare potential fiscal stress based solely on a school district's or public school academy's budget assumption data.

#### Uniform Budgeting and Accounting Act (UBAA)

The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the School District shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

#### Sinking Fund

Effective March 29, 2017, Public Act 319 amended Section 1212 of the School Code (MCL § 380.1212) to allow additional uses for sinking fund proceeds. This amendment applies only to sinking fund millage authorized after this effective date. The new amendment expanded the definition of permissible expenditures that previously did not allow for the purchase of equipment and furnishings. Under the new authorization, such items may be purchased with sinking fund resources, if they are for the following purposes: 1. School security improvements (including any capital improvement or purchase that is designed to act as a deterrent to unauthorized entry of persons or items onto school premises or to otherwise promote security, including, but not limited to, metal detectors, locks, doors, lighting, cameras, and enhancements to entryways) 2. Acquisition and upgrading of technology (including hardware and communication devices that transmit, receive, or compute information for pupil instructional purposes; the initial purchase of operating system software or customized application software, or both,

accompanying the purchase of hardware and communication devices under subdivision; and the costs of design and installation of the hardware, communication devices, and initial operating system software or customized application software).

### Unclaimed Property

Beginning in 2018, the State of Michigan will require the filing of zero balance reports for businesses and governmental agencies who hold property on behalf of others, such as uncashed payroll or vendor checks and other items comprising unclaimed property. This is a revision from the most recent change in 2012, which only encouraged, but did not require, reporting of zero unclaimed property situations. Under the negative attestation requirement, businesses and governmental agencies must ensure they are filing even in situations where entities have no unclaimed property.

Current rules require unclaimed property to be identified as of March 31<sup>st</sup> of each year and reported to the State on or before July 1. Property that has reached its applicable dormancy period (generally one year or three years) as of March 31 must be remitted with and reported on Michigan State Form 2011, *Michigan Holder Transmittal for Annual Report of Unclaimed Property* and the appropriate annual reporting form (there are separate forms for cash & safe deposit boxes and for securities). If the holder (business or government entity) has more than ten items to report, they must use electronic media for the annual report. The due date for this filing is July 1 (or the next work day if the 1<sup>st</sup> is on a weekend).

These rules remain unchanged, except that beginning in 2018, the negative attestation requirement will go into effect. Free software is available on the State of Michigan web site at <http://www.michigan.gov/treasury/>. The web site is a valuable resource for information regarding the law, filing requirements and related penalties, including the 33 page *Manual for Reporting Unclaimed Property*.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Management has determined that the effects of the uncorrected misstatement detailed below is immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

There were passed adjustments relating to the prior year State Aid revenue of \$29,289 that was recognized during the current fiscal year.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

### *Management's Consultations with Other Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Reports*

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Grant Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

### *Report on Required Supplementary Information*

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's contributions, and budgetary comparison information, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding 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.

### *Report on Other Supplementary Information*

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## *Comprehensive Annual Financial Report*

The School District's audited financial statements are included in their comprehensive annual financial report. Our responsibility for the other information contained in the comprehensive annual financial report does not extend beyond the financial information identified in our audit report. We do not have an obligation to perform any procedures to corroborate the other information and considered whether such information, or the manner of its presentation was materially inconsistent with information, or manner of presentation, appearing in the financial statements. Nothing came to our attention that caused us to believe that such information or its manner of presentation, was materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.



Appendix II  
Matters for Management's Consideration

In planning and performing our audit of the financial statements of Royal Oak Schools as of and for the year ended June 30, 2017, we considered Royal Oak Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of a matter for management's consideration that is an opportunity for strengthening internal controls. This letter does not affect our report dated August 31, 2017, on the financial statements of Royal Oak Schools. Our comment and recommendation regarding that matters is:

**Expenditure Reimbursement**

We noted through our review of expenditure transactions there were employee reimbursement requests that were not provided to the business office in a timely manner, in accordance with established policies. The policy requires reimbursement requests to be made on a bi-monthly basis, or sooner when practical. Expenditures selected occurred up to four months prior to the date they were submitted for reimbursement. While the amounts tested were immaterial, the significance of timely reimbursement requests is paramount to proper grant accounting, where compliance is most important (period of performance).

We recommend all employees adhere to established policies for reimbursement requests. Furthermore, special attention should be considered for transactions near year-end to ensure expenditures can be recorded timely in the correct period.