

School District of the City of Hazel Park

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

School District of the City of Hazel Park

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Independent Auditor's Report

To the Board of Education
School District of the City of Hazel Park

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 the School District of the City of Hazel Park as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the School District of the City of Hazel Park's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Education
School District of the City of Hazel Park

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 the School District of the City of Hazel Park as of June 30, 2017 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

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

Other Supplemental Information

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

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

To the Board of Education
School District of the City of Hazel Park

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2017 on our consideration of the School District of the City of Hazel Park's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District of the City of Hazel Park's internal control over financial reporting and compliance.

Plante & Moran, PLLC

August 29, 2017

School District of the City of Hazel Park

Management's Discussion and Analysis

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

Using this Annual Report

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

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

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Schedule of Proportionate Share of the Net Pension Liability

Schedule of the School District's Pension Plan Contributions

Other Supplemental Information

School District of the City of Hazel Park

Management's Discussion and Analysis (Continued)

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

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

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

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Special Education Center Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

School District of the City of Hazel Park

Management's Discussion and Analysis (Continued)

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

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

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2017 and 2016:

TABLE I

	Governmental Activities	
	June 30	
	2017	2016
	(in millions)	
Assets		
Current and other assets	\$ 14.9	\$ 18.0
Capital assets	50.2	52.0
Deferred outflows of resources	7.3	6.3
Total assets	72.4	76.3
Liabilities		
Current liabilities	14.4	18.2
Long-term liabilities	129.8	137.2
Deferred inflows of resources	8.5	4.7
Total liabilities	152.7	160.1
Net Position		
Net investment in capital assets	(8.0)	(6.3)
Restricted	5.5	4.9
Unrestricted (deficit)	(77.8)	(82.5)
Total net position	<u>\$ (80.3)</u>	<u>\$ (83.9)</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was \$(80.3) million at June 30, 2017. Capital assets, net of related debt totaling \$(8.0) million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining \$(77.8) million of net position was unrestricted.

School District of the City of Hazel Park

Management's Discussion and Analysis (Continued)

The \$(77.8) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years ended June 30, 2017 and 2016.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2017	2016
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.4	\$ 0.1
Operating grants and contributions	19.5	17.9
General revenue:		
Property taxes	7.2	7.2
State foundation allowance	21.7	20.8
Other	0.6	0.5
Total revenue	49.4	46.5
Functions/Program Expenses		
Instruction	26.5	27.2
Support services	14.6	13.7
Athletics	0.5	-
Food services	1.5	0.1
Community services	0.2	0.2
Interest on long-term debt	2.5	2.5
Total functions/program expenses	45.8	43.7
Increase in Net Position	3.6	2.8
Net Position - Beginning of year	(83.9)	(86.7)
Net Position - End of year	<u><u>\$ (80.3)</u></u>	<u><u>\$ (83.9)</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$45.8 million. Certain activities were partially funded from those who benefited from the programs (\$0.4 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$19.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$7.2 million in taxes, \$21.7 million in state foundation allowance, and \$0.6 with our other revenue, i.e., interest and general entitlements.

The School District experienced an increase in net position of \$3.6 million from 2016 to 2017.

School District of the City of Hazel Park

Management's Discussion and Analysis (Continued)

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

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$0.6 million, which is an improvement of \$0.7 million from last year. The primary reasons for the reduction in the deficit are as follows:

In the General Fund, the fund balance deficit decreased \$0.3 million to \$(5.6) million. The change is mainly due to the following:

- An increase in foundation allowance revenue provided by the State of \$110 per pupil from \$7,614 in fiscal year 2016 to \$7,724 in fiscal year 2017 along with a 1.6 percent increase in blended student enrollment.
- The School District's work with the School Fiscal Accountability Division of the Michigan Treasury officials to compile monthly financial reporting consisting of financial statements and cash flows in their deficit elimination under an approved Enhanced Deficit Elimination Plan (EDEP).

The Special Education Center Programs Fund experienced a fund balance decrease of \$(0.1) million in 2017 to \$0.2 million. The School District maintains fund balance in this fund in compliance with required fund balance levels under its PA 18 Agreement with Oakland Schools.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$0.4 million. Millage rates continued to be 16.0 mills in 2017 to provide sufficient funds to meet bonded debt requirements. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue related debt service. Debt Service Funds fund balances are restricted since they can only be used to pay debt service obligations.

The combined Capital Projects Funds fund balance remained at \$1.1 million in 2017. The School District collected \$0.3 million from the voter-approved sinking fund millage. This millage is available to fund specific capital projects allowed by state law and approved by the voters. The School District also continued to spend down the remaining funds from the 2012 voter-approved bonds for technology and facility improvements.

School District of the City of Hazel Park

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

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

There were significant revisions made to the 2016-2017 General Fund original budget. Budgeted revenue was increased by \$1.1 million due to an unexpected change in certain categorical revenue from the State and an unanticipated increase in foundation allowance payments due to actual student enrollment being greater than original estimates.

Budgeted expenditures were also increased \$2.2 million to account for the increase in salaries and purchased professional services resulting from the School District's revised operating plan due to the fluctuations in revenue. The amount of transfers to other funds established in the amended budget was \$0.7 million and represents support provided by the General Fund to other functions.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the School District had \$50.2 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$1.8, or 4 percent, from last year.

	2017	2016
Land	\$ 165,000	\$ 165,000
Construction in progress	-	-
Buildings and building improvements	72,065,350	72,065,350
Buses and other vehicles	456,901	456,901
Furniture and equipment	7,116,066	7,060,330
Total capital assets	79,803,317	79,747,581
Less accumulated depreciation	(29,630,078)	(27,754,550)
Net capital assets	<u>\$ 50,173,239</u>	<u>\$ 51,993,031</u>

This year's additions of \$55,736 included furniture and equipment. No debt was issued for these additions.

No new major capital projects are planned for the 2017-2018 fiscal year. The School District anticipates continuing the implementation of a multi-year facility improvement plan during the year. During the 2017-2018 year, the School District will complete sinking fund capital projects consisting of office renovations at Webb Elementary School, playground improvements at three schools, and carpet replacements at three schools. More detailed information about capital assets can be found in the notes to the financial statements.

School District of the City of Hazel Park

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$70.7 million in outstanding long term debt. This amount represents a net decrease \$2.8 million, or 4 percent, from last year. Long-term debt at year end consisted of the following:

	2017	2016
General obligation bonds	\$ 47,735,000	\$ 50,170,000
School Bond Loan Fund	20,562,721	20,416,301
City of Hazel Park installment payment	231,000	264,000
Severance incentive	70,000	450,000
Compensated absences	2,101,638	2,193,559
Total	<u>\$ 70,700,359</u>	<u>\$ 73,493,860</u>

At the end of this year, the School District had \$47.7 million in bonds outstanding, which is a reduction of \$2.4 million compared to the previous year.

The School District borrows from the School Loan Revolving Fund in order to make debt service payments in excess of the 13.0 mill tax levy. The outstanding balance excluding interest is \$15.2 million at June 30, 2017. Accrued interest is an additional \$5.4 million. Principal and interest are considered long term.

Other obligations include employee compensated absences and severance incentive. More detailed information about long-term debt is included in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Elected officials and administration consider many factors when setting the School District's 2018 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018 fiscal year is 10 percent and 90 percent of the February 2017 and September 2018 student counts, respectively. The 2017-2018 budget was adopted in June 2017, based on an estimate of students that will be enrolled in September 2017 and an increase in the foundation allowance of \$109 per student to \$7,833. Approximately 72 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2017-2018 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2017-2018 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

School District of the City of Hazel Park

Management's Discussion and Analysis (Continued)

Enhanced Deficit Elimination Plan

The School District has been operating under an approved Deficit Elimination Plan (DEP) for many years due to the accumulated annual fund balance deficits in the School District's General Fund. The School District is currently under the oversight of the School Fiscal Accountability Division of the Michigan Department of Treasury and is operating under an approved Enhanced Deficit Elimination Plan (EDEP) and Financial Recovery Agreement, which identifies remedial measures, conditions, reporting, and approval requirements of the School District until the fund balance deficit is eliminated. The School District anticipates elimination of the fund balance deficit by June 2020.

Contacting the School District's Management

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

School District of the City of Hazel Park

Statement of Net Position June 30, 2017

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 2,890,392
Receivables:	
Accounts receivable	459
Due from other governmental units	5,928,492
Inventories	27,877
Prepaid costs	91,761
Restricted assets (Note 3)	5,991,596
Capital assets - Net (Note 5)	50,173,239
Total assets	65,103,816
Deferred Outflows of Resources -	
Deferred outflows related to pensions (Note 9)	7,308,622
Total assets and deferred outflows of resources	72,412,438
Liabilities	
Accounts payable	855,739
Accrued payroll-related liabilities	4,432,854
State aid anticipation note (Note 10)	8,537,374
Other accrued liabilities	328,941
Due to other governmental units	180,559
Unearned revenue (Note 4)	43,839
Noncurrent liabilities (Note 7):	
Due within one year	2,794,244
Due in more than one year	67,906,115
Net pension liability (Note 9)	59,059,858
Total liabilities	144,139,523
Deferred Inflows of Resources - Deferred inflows related to pensions and revenue in support of pension payments made subsequent to measurement date (Note 9)	8,577,394
Total liabilities and deferred inflows of resources	152,716,917
Net Position	
Net investment in capital assets	(8,048,664)
Restricted:	
Debt service	4,656,357
Capital projects	876,931
Unrestricted deficit	(77,789,103)
Total net position	<u><u>\$ (80,304,479)</u></u>

School District of the City of Hazel Park

Statement of Activities Year Ended June 30, 2017

Functions/Programs	Program Revenue			Governmental Activities - Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government - Governmental activities:				
Instruction	\$ 26,543,810	\$ 4,420	\$ 10,927,798	\$ (15,611,592)
Support services	14,609,780	459	7,235,060	(7,374,261)
Athletics	525,642	33,684	-	(491,958)
Food services	1,434,408	72,670	1,288,920	(72,818)
Community services	219,691	299,130	39,606	119,045
Interest	2,407,466	-	-	(2,407,466)
Other	63,319	-	-	(63,319)
Total primary government	<u>\$ 45,804,116</u>	<u>\$ 410,363</u>	<u>\$ 19,491,384</u>	(25,902,369)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				2,605,762
Property taxes, levied for debt service				4,299,753
Property taxes, levied for capital projects				267,428
State aid not restricted to specific purposes				21,662,985
Interest and investment earnings				187,860
Other				272,769
Total general revenue				29,296,557
Extraordinary Item - Insurance proceeds				164,492
Change in Net Position				3,558,680
Net Position - Beginning of year				(83,863,159)
Net Position - End of year				<u>\$ (80,304,479)</u>

School District of the City of Hazel Park

Governmental Funds Balance Sheet June 30, 2017

	General Fund	Special Education Fund Center Programs Fund	Debt Service General Fund Obligation	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 2,305,568	\$ 481,833	\$ -	\$ 102,991	\$ 2,890,392
Receivables:					
Accounts receivable	459	-	-	-	459
Due from other governmental units	5,264,090	573,455	-	90,947	5,928,492
Due from other funds (Note 6)	224,218	7,644	-	19,488	251,350
Inventories	-	-	-	27,877	27,877
Prepaid costs	91,761	-	-	-	91,761
Restricted assets (Note 3)	-	-	4,525,839	1,465,757	5,991,596
Total assets	\$ 7,886,096	\$ 1,062,932	\$ 4,525,839	\$ 1,707,060	\$ 15,181,927
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 732,715	\$ 803	\$ -	\$ 118,871	\$ 852,389
Accrued payroll-related liabilities	3,911,348	753,206	-	4,544	4,669,098
State aid anticipation note (Note 10)	8,537,374	-	-	-	8,537,374
Other accrued liabilities	92,383	-	-	-	92,383
Due to other governments	180,559	-	-	-	180,559
Due to other funds (Note 6)	22,838	148,660	-	83,202	254,700
Unearned revenue (Note 4)	41,210	-	-	2,629	43,839
Total liabilities	13,518,427	902,669	-	209,246	14,630,342
Fund Balances (Deficit)					
Nonspendable - Inventory and prepaid items	91,761	-	-	27,877	119,638
Restricted:					
Capital projects	-	-	-	1,050,028	1,050,028
Debt service	-	-	4,525,839	367,076	4,892,915
Special education	-	160,263	-	-	160,263
Assigned - Capital projects	-	-	-	49,412	49,412
Unassigned deficit	(5,724,092)	-	-	3,421	(5,720,671)
Total fund balances (deficit)	(5,632,331)	160,263	4,525,839	1,497,814	551,585
Total liabilities and fund balances (deficit)	\$ 7,886,096	\$ 1,062,932	\$ 4,525,839	\$ 1,707,060	\$ 15,181,927

School District of the City of Hazel Park

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

Fund Balance Reported in Governmental Funds **\$ 551,585**

Amounts reported for governmental activities in the statement
of net position are different because:

Capital assets used in governmental activities are
not financial resources and are not reported
in the funds:

Cost of capital assets	\$ 79,803,317	
Accumulated depreciation	<u>(29,630,078)</u>	50,173,239

Deferred outflows related to pension payments made subsequent to the measurement date	7,308,622
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Long-term liabilities are not due and payable in
the current period and are not reported in
the governmental funds:

Bonds payable including premium and deferred charges	(68,297,721)	
Compensated absences	(1,865,394)	
Installment payment	(231,000)	
Severance incentive	<u>(70,000)</u>	(70,464,115)

Accrued interest payable is not included as a liability in governmental funds	(236,558)
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Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities	(59,059,858)
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Deferred inflows related to pension investment returns, changes in assumptions, and revenue in support of pension payments made subsequent to measurement date are not reported in the governmental funds	<u>(8,577,394)</u>
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Net Position of Governmental Activities **\$ (80,304,479)**

School District of the City of Hazel Park

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

	General Fund	Special Education Fund Center Programs Fund	Debt Service General Fund Obligation Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Local sources	\$ 3,080,254	\$ -	\$ 174,201	\$ 4,789,480	\$ 8,043,935
State sources	28,245,069	2,057,507	-	66,329	30,368,905
Federal sources	2,242,753	-	-	1,304,753	3,547,506
Intergovernmental	1,897,742	5,323,532	-	24,065	7,245,339
Total revenue	35,465,818	7,381,039	174,201	6,184,627	49,205,685
Expenditures					
Current:					
Instruction	22,141,129	4,093,236	-	-	26,234,365
Support services	12,849,821	2,332,781	-	30,978	15,213,580
Athletics	550,009	-	-	-	550,009
Food services	-	-	-	1,371,306	1,371,306
Community services	59,474	-	-	94,283	153,757
Debt service:					
Principal	33,000	-	205,000	2,230,000	2,468,000
Interest	-	-	88,556	2,183,878	2,272,434
Other	-	-	2,309	24,349	26,658
Capital outlay	120,740	-	-	248,992	369,732
Payments to sub-grantee	36,661	-	-	-	36,661
Total expenditures	35,790,834	6,426,017	295,865	6,183,786	48,696,502
Excess of Revenue (Under) Over Expenditures	(325,016)	955,022	(121,664)	841	509,183
Other Financing Sources (Uses)					
Transfers in (Note 6)	1,108,090	78,000	540,377	-	1,726,467
Transfers out (Note 6)	(618,377)	(1,108,090)	-	-	(1,726,467)
Extraordinary Item - Insurance proceeds	164,492	-	-	-	164,492
Net Change in Fund Balances	329,189	(75,068)	418,713	841	673,675
Fund Balance (Deficit) - Beginning of year	(5,961,520)	235,331	4,107,126	1,496,973	(122,090)
Fund Balance (Deficit) - End of year	<u>\$ (5,632,331)</u>	<u>\$ 160,263</u>	<u>\$ 4,525,839</u>	<u>\$ 1,497,814</u>	<u>\$ 551,585</u>

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

School District of the City of Hazel Park

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

Net Change in Fund Balances - Total Governmental Funds	\$ 673,675
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as

expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (1,875,528)	
Capitalized capital outlay	<u>55,736</u>	(1,819,792)

Repayment of bond principal and installment payable is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

2,468,000

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid

(135,032)

Change in pension expense related to deferred items

1,880,277

Compensated absences are recorded when earned in the statement of activities. In the current year, more was paid out than was earned; repayment of severance incentive is an expenditure in the governmental funds, but not in the statement of activities

498,933

Revenue in support of pension contributions made subsequent to the measurement date

(7,381)

Change in Net Position of Governmental Activities	<u>\$ 3,558,680</u>
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School District of the City of Hazel Park

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2017

	Student Activities	Trust Funds
Assets		
Cash and investments (Note 3)	\$ 274,586	\$ 42,493
Due from other funds (Note 6)	2,350	1,000
Total assets	<u>\$ 276,936</u>	43,493
Liabilities		
Accounts payable	\$ 8,789	-
Due to student activities	268,147	-
Total liabilities	<u>\$ 276,936</u>	-
Net Position - Restricted		<u>\$ 43,493</u>

School District of the City of Hazel Park

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

	<u>Trust Funds</u>
Additions	\$ 1,580
Deductions	<u>201,459</u>
Change in Net Position	(199,879)
Net Position - Beginning of year	<u>243,372</u>
Net Position - End of year	<u><u>\$ 43,493</u></u>

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and Significant Accounting Policies

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

Reporting Entity

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

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

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

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

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

The School District reports the following major governmental funds:

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

Special Education Center Programs Fund - The Special Education Center Programs Fund is used to record special education millage revenue from the intermediate school district, state revenue related to special education, and disbursements associated with special education center programs administered by the School District on behalf of the intermediate school district.

Debt Service General Fund Obligation Fund - The Debt Service General Fund Obligation Fund accounts for limited tax bonds and is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's nonmajor special revenue funds include Food Services and Community Services - Child Care. Revenue sources for the Food Services include sales to customers and dedicated grants from state and federal sources. Revenue for the Child Care program consists primarily of tuition charged to users. Any operating deficit generated by these activities is the responsibility of the General Fund.

Capital Projects Funds - The Sinking Fund, 2012 Building and Site Project, and General Operations Funds are used to record the bond proceeds and other revenue, the disbursement of money specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs.

Debt Service Funds - The Qualified Debt and Unqualified Debt funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on bonds outstanding.

Student Activity Funds - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

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

Trust Funds - The Trust Funds are used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

Assets, Liabilities, and Net Position or Equity

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

Pooled investment income from the General Fund, Debt Service Funds, Capital Projects Funds, Special Revenue Funds, and Fiduciary Funds is generally allocated to each fund using a weighted average of balance for the principal invested.

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. The taxes are payable without interest on or before September 14 and without penalty on or before the following February 14. Taxes become delinquent on the March 1 following the date of levy. Delinquent property taxes are collected by the county.

The School District receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) granted by cities within the boundaries of the School District. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities. For the fiscal year ended June 30, 2017, the School District's property tax revenue under these programs was minimal.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund is recorded as inventory and deferred revenue until used.

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

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

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction and fixed asset acquisition of conservation improvements. The property taxes levied in the Debt Service Funds are required to be set aside for future principal and interest payments on bonded debt. The property taxes levied in the Sinking Fund are required to be set aside for allowable expenditures. These amounts have been classified as restricted assets.

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

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

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

Compensated Absences - Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation and accumulated sick leave benefits upon termination of employment under specified formulas and conditions. A liability for these amounts is reported in governmental funds as it becomes due for payment.

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

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

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

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

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District only has one item that qualifies for reporting in this category, which is the deferred outflow related to the pension plan.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District's deferred inflows relate to the pension plan in the amount of \$6,835,386 and state funding in support of pension plan payments in the amount of \$1,742,008.

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

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education or superintendent, who is authorized by policy approved by the Board of Education to make assignments.

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

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

- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all Special Revenue Funds.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the School District amended the General Fund and Special Education Center Programs Fund budgets to reflect changes in funding from state and federal sources.

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

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

The required supplemental information - budgetary comparison schedules are presented on the same basis of accounting used to prepare the budget, which includes certain items having classifications that differ from the combining statement of revenue, expenditures, and changes in fund balances.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. As a result, fund balance has not been committed or assigned.

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

	<u>Budget</u>	<u>Actual</u>
General Fund - Instruction - Adult/Continuing Education	\$ 287,865	\$ 395,588

Fund Deficits - Under Michigan law, school districts are required to maintain positive fund balance in each fund. The School District has accumulated fund balance deficit in the General Fund, with a deficit fund balance of \$5,632,331. The School District is currently operating under an approved Deficit Elimination Plan with the Michigan Departments of Education and Treasury. The approved plan calls for the elimination of the General Fund deficit by June 30, 2020. Additionally, the School District provides monthly financial reporting to the Departments of Education and Treasury as required by the approved Deficit Elimination Plan.

Capital Projects Fund Compliance - The Sinking Fund records capital project activities funded with the Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code.

Note 3 - Deposits and Investments

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

The School District has designated two banks for the deposit of its funds.

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

The investment policy adopted by the board, in accordance with state statutes, has authorized investment on the allowable investments noted above.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$4,920,189 had \$4,569,950 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

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

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Maturities	Rating	Rating Organization
Federal Home Loan Bank Discount Loans	\$ 1,893,776	11/08/2017	N/A	N/A
United States Treasury Bill	2,588,456	7/13/2017	A-1 +	Standard & Poors
Total investments	\$ 4,482,232			

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

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

Note 4 - Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, there was \$43,839 of unearned revenue primarily related to grant payments received prior to meeting all eligibility requirements.

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 5 - Capital Assets

Capital asset activity of the School District was as follows:

Governmental Activities	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated - Land	\$ 165,000	\$ -	\$ -	\$ 165,000
Capital assets being depreciated:				
Buildings and improvements	72,065,350	-	-	72,065,350
Furniture and equipment	7,060,330	55,736	-	7,116,066
Buses	456,901	-	-	456,901
Subtotal	79,582,581	55,736	-	79,638,317
Accumulated depreciation:				
Buildings and improvements	22,579,180	1,627,972	-	24,207,152
Furniture and equipment	5,044,549	226,978	-	5,271,527
Buses	130,821	20,578	-	151,399
Subtotal	27,754,550	1,875,528	-	29,630,078
Net capital assets being depreciated	51,828,031	(1,819,792)	-	50,008,239
Net capital assets	\$ 51,993,031	\$ (1,819,792)	\$ -	\$ 50,173,239

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

Governmental activities:

Instruction	\$ 1,631,709
Support services	112,532
Community services	75,021
Food services	56,266

Total governmental activities \$ 1,875,528

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Special Education Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 148,660	\$ 75,558	\$ 224,218
Special Education Fund	-	-	7,644	7,644
Nonmajor Governmental Funds	19,488	-	-	19,488
Student Activities	2,350	-	-	2,350
Trust Funds	1,000	-	-	1,000
Total	\$ 22,838	\$ 148,660	\$ 83,202	\$ 254,700

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

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

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

Fund Advanced To	Fund Advanced From		Total
	General Fund	Special Education Fund	
General Fund	\$ -	\$ 1,108,090	\$ 1,108,090
Special Education Center Program Fund	78,000	-	78,000
Debt Retirement Fund - General Fund Obligation	540,377	-	540,377
Total	<u>\$ 618,377</u>	<u>\$ 1,108,090</u>	<u>\$ 1,726,467</u>

Operating transfers from the General Fund to the Debt Retirement Fund represent the general obligation payments for principal and interest on the 2010 Energy Bonds and funding escrow accounts for the 2002 and 2003 QZAB bonds, which are accounted for in the Debt Service General Obligation Fund. Transfers from the General Fund to the Special Education Fund represent the General Fund's obligations to the Special Education Fund to cover costs in excess of state aid and tuition revenue received from Oakland Schools. Transfers from the Special Education Fund to the General Fund reflect indirect costs and rent paid by the county Special Education Center to the School District.

Note 7 - 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. Qualified bonds are fully guaranteed by the State of Michigan. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

The School District's bonds payable are liquidated by the various Debt Service Funds. The other long-term obligations are liquidated primarily by the General Fund.

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Qualified Zone Academy Bond:					
2002 Energy Conservation Bond	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000	\$ -
2003 Energy Conservation Bond	3,000,000	-	-	3,000,000	-
2010 Energy Conservation Improvement Bond	2,385,000	-	205,000	2,180,000	210,000
Common Debt Obligations:					
2011 Refunding Bond	18,030,000	-	1,890,000	16,140,000	1,895,000
2012 Refunding Bond	17,765,000	-	-	17,765,000	-
2012 School Building and Site Bond	6,990,000	-	340,000	6,650,000	350,000
School Bond Loan Fund	6,518,820	206,467	-	6,725,287	-
School Loan Revolving Fund	13,897,481	439,953	500,000	13,837,434	-
Total bonds payable	70,586,301	646,420	2,935,000	68,297,721	2,455,000
Other obligations (General Fund):					
Severance incentive	450,000	-	380,000	70,000	70,000
Installment payment - City of Hazel Park	264,000	-	33,000	231,000	33,000
Compensated absences	2,193,559	-	91,921	2,101,638	236,244
Total governmental activities	<u>\$ 73,493,860</u>	<u>\$ 646,420</u>	<u>\$ 3,439,921</u>	<u>\$ 70,700,359</u>	<u>\$ 2,794,244</u>

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

<u>Years Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,488,000	\$ 1,706,471	\$ 6,194,471
2019	5,518,000	1,632,560	7,150,560
2020	2,588,000	1,519,003	4,107,003
2021	2,648,000	1,402,029	4,050,029
2022	2,723,000	1,281,183	4,004,183
2023-2027	14,311,000	4,803,688	19,114,688
2028-2032	15,690,000	1,939,624	17,629,624
Total	<u>\$ 47,966,000</u>	<u>\$ 14,284,558</u>	<u>\$ 62,250,558</u>

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 7 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

2011 Refunding Bond: \$25,500,000 issue of bonds due in annual installments ranging from \$1,895,000 to \$2,130,000 through May 1, 2025, interest at rates from 2.625 percent to 5.00 percent	\$ 16,140,000
2012 Refunding Bond: \$17,765,000 issue of bonds due in annual installments ranging from \$2,300,000 to \$2,730,000 starting on May 1, 2026 through May 1, 2032, interest at rates from 3.50 percent to 4.75 percent	17,765,000
2012 Building and Site Bond: \$7,950,000 issue of bonds due in annual installments ranging from \$350,000 to \$565,000 through May 1, 2032, interest at rates from 3.00 percent to 4.00 percent	6,650,000
2010 Energy Conservation Improvement Bond: \$3,315,000 issue of bonds due in annual installments ranging from \$210,000 to \$280,000 through May 1, 2026, interest at rates from 3.00 percent to 4.125 percent	2,180,000
2002 Qualified Zone Academy Bond - Energy Conservation Series: \$2,000,000 issue with a maturity on November 12, 2017. This bond qualifies under Section 1397E (d) (4) of the Internal Revenue Code of 1986 and has a 0 interest rate	2,000,000
2003 Qualified Zone Academy Bond - Energy Conservation Series: \$3,000,000 issue with a maturity on July 15, 2018. This bond qualifies under Section 1397E (d) (4) of the Internal Revenue Code of 1986 and has a zero interest rate	<u>3,000,000</u>
Total bonded debt	<u>\$ 47,735,000</u>

Installment Payment - In July 2014, the School District entered into an agreement with the City of Hazel Park, Michigan to repay the amount owed of \$330,000 related to police services that had gone unpaid from 2008 to 2014. The School District is required to pay \$33,000 per year. At June 30, 2017, there was \$231,000 remaining to be paid.

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 7 - Long-term Debt (Continued)

School Bond Loan - The school bond loan payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest at an annual rate of 3.13323 percent has been assessed for the year ended June 30, 2017. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 13 mills. The School District is required to levy mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

School Loan Revolving Fund - The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in accordance with Section 9 of Act No. 92 of the Public Acts of 2005, as amended. Interest rates went into effect beginning October 1, 2005 pursuant to Public Act 92. Interest at an annual rate of 3.13323 percent has been assessed for the year ended June 30, 2017. Repayment begins as soon as annual tax collections exceed annual debt service payment requirements. The predetermined mandatory final loan repayment date is May 1, 2038. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and manages its property and casualty risk through participation in the MASB-SEG Property/Casualty Pool, Inc. (the "Pool").

As a member of the Pool, the School District's contributions are combined with other members to provide coverage for liability and property claims. Any funds not needed to pay claims and maintain prudent services are available for distribution to the members or credit toward future member contributions, as determined by the Pool's board of directors. Alternatively, the Pool's board of directors may increase liability limits and other additional services to members.

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 8 - Risk Management (Continued)

The School District manages workers' compensation cost through participation in the Middle Cities Workers' Compensation Fund (the "Fund"). Premiums from participant members in each fund year are combined to provide all members with coverage for claims. The premiums and interest earned thereon are used to pay claims, administrative expenses, and to purchase reinsurance. Distribution to participants each year may be made only from members' surplus of that fund year, subject to approval by the State Insurance Bureau. In the event of a deficit in a fund year, assessments could be made against participants of that year. The Fund currently fully funds the loss fund to protect members from additional assessments in any fund year.

Note 9 - Michigan Public School Employees' Retirement System

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

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

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

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

The range of rates is as follows:

School District

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

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 9 - Michigan Public School Employees' Retirement System (Continued)

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

The School District's required and actual contributions to the plan for the year ended June 30, 2017 totaled \$5,679,219 which includes the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual contributions include an allocation of \$1,742,008 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2017.

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

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

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

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

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

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2017, the School District reported a liability of \$59,059,858 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, which used update procedures to roll forward the estimated liability to September 30, 2016. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the School District's proportion was 0.236721 percent.

For the year ended June 30, 2017, the School District recognized pension expense of \$3,599,294, inclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 736,042	\$ (139,973)
Changes of assumptions	923,355	-
Net difference between projected and actual earnings on pension plan assets	981,574	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	20,088	(6,695,413)
The School District's contributions subsequent to the measurement date	4,647,563	-
Total	<u>\$ 7,308,622</u>	<u>\$ (6,835,386)</u>

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 9 - Michigan Public School Employees' Retirement System (Continued)

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

<u>Years Ending June 30</u>	<u>Amount</u>
2018	\$ (1,564,755)
2019	(1,641,951)
2020	(394,886)
2021	<u>(572,735)</u>
Total	<u>\$ (4,174,327)</u>

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

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

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 - 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost-of-living pension adjustments	3 percent annual noncompounded for MIP members

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

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 9 - Michigan Public School Employees' Retirement System (Continued)

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

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

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

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

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the School District calculated using the discount rate of 7.00 - 8.00 percent, depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (6.0 - 7.0 percent) or 1.00 percentage point higher (8.0 - 9.0 percent) than the current rate:

1.00 Percent Decrease (6.0 - 7.0 Percent)	Current Discount Rate (7.0 - 8.0 Percent)	1.00 Percent Increase (8.0 - 9.0 Percent)
\$ 76,054,231	\$ 59,059,858	\$ 44,731,967

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

Payable to the Pension Plan - At June 30, 2017, the School District reported a payable of \$773,861 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

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

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 9 - Michigan Public School Employees' Retirement System (Continued)

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were \$922,461, \$878,017, and \$742,647, respectively. In addition, a portion ranging from 35-100 percent of the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

Note 10 - State Aid Anticipation Note

On August 22, 2016, the School District borrowed \$9,055,000 in state aid anticipation notes. The notes bear interest at rates ranging from 0.76 percent to 1.22 percent annually and are due on August 21, 2017. At June 30, 2017, the School District has accrued interest of \$92,383 on these notes and the principal balance outstanding is \$8,537,374. Subsequent to year end, this obligation was repaid.

Subsequent to year end on August 21, 2017, the School District borrowed \$10,348,000 in state aid anticipation notes. The notes bear interest at rates ranging from 1.27 percent to 1.49 percent annually and are due on July 20, 2018 and August 20, 2018.

Note 11 - Contingent Liabilities

In June 2017, the School District was named as a defendant in a lawsuit filed by another school district related to students enrolled in the School District through a vendor alternative education program operated by a third party at a location within the plaintiff school district's boundaries during the 2008-2013 school years. This case was originally litigated in Macomb County Circuit Court in 2011 and was dismissed without prejudice in 2014 for exhaustion of potential administrative remedies. The plaintiff refiled the suit in June 2017 to reinstate the previous claims and capture claims that have arisen during the time when the administrative remedies were being exhausted. Plaintiffs are seeking judgement against the School District in excess of \$4,500,000, representing their value of \$4,175,081 for state aid received by the School District over the years, plus attorney fees. The case is currently being handled by legal counsel obtained by the School District's insurance carrier with consultation by the School District's legal counsel, and the probability of an unfavorable outcome is unknown at this time.

School District of the City of Hazel Park

Notes to Financial Statements June 30, 2017

Note 12 - Upcoming Accounting Pronouncements

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

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

Required Supplemental Information

School District of the City of Hazel Park

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 2,666,737	\$ 3,136,654	\$ 3,080,254	\$ (56,400)
State sources	27,303,788	27,897,380	28,245,069	347,689
Federal sources	2,806,384	2,810,350	2,242,753	(567,597)
Other financing sources	1,904,323	1,966,410	1,897,742	(68,668)
Total revenue	34,681,232	35,810,794	35,465,818	(344,976)
Expenditures				
Current:				
Instruction:				
Basic program	15,949,008	17,115,807	17,270,385	154,578
Added needs	4,011,543	4,724,161	4,553,165	(170,996)
Adult/Continuing education	280,097	287,865	395,588	107,723
Support services:				
Pupil	2,787,724	2,986,075	2,912,378	(73,697)
Instructional staff	1,735,627	1,719,085	1,691,305	(27,780)
General administration	659,057	573,851	591,563	17,712
School administration	1,548,056	1,563,959	1,579,996	16,037
Business	1,336,940	943,899	867,245	(76,654)
Operations and maintenance	3,497,297	3,675,864	3,871,418	195,554
Pupil transportation services	308,713	427,218	414,453	(12,765)
Central	702,580	896,360	945,744	49,384
Other	495,533	594,376	568,459	(25,917)
Community services	74,850	70,891	59,474	(11,417)
Debt service	33,000	33,000	33,000	-
Payments to sub-grantee	-	36,661	36,661	-
Total expenditures	33,420,025	35,649,072	35,790,834	141,762
Excess of Revenue Over (Under)				
Expenditures	1,261,207	161,722	(325,016)	(486,738)
Other Financing Sources (Uses)				
Transfers in	1,268,853	1,120,018	1,108,090	(11,928)
Transfers out	(927,270)	(741,485)	(618,377)	123,108
Extraordinary Item - Insurance proceeds	-	165,502	164,492	(1,010)
Net Change in Fund Balance	1,602,790	705,757	329,189	(376,568)
Fund Balance (Deficit) - Beginning of year	(5,961,520)	(5,961,520)	(5,961,520)	-
Fund Balance (Deficit) - End of year	<u>\$ (4,358,730)</u>	<u>\$ (5,255,763)</u>	<u>\$ (5,632,331)</u>	<u>\$ (376,568)</u>

School District of the City of Hazel Park

Required Supplemental Information Budgetary Comparison Schedule Special Education Center Programs Fund Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
State sources	\$ 2,341,599	\$ 2,284,167	\$ 2,057,507	\$ (226,660)
Other financing sources	5,685,976	5,316,624	5,323,532	6,908
Total revenue	8,027,575	7,600,791	7,381,039	(219,752)
Expenditures				
Current:				
Instruction	4,032,807	3,931,206	4,093,236	162,030
Support services:				
Pupil	1,821,203	1,840,373	1,608,596	(231,777)
Instructional staff	474,452	513,509	463,156	(50,353)
Pupil transportation services	374,102	250,707	261,029	10,322
Capital outlay	-	7,644	-	(7,644)
Other	443,049	138,440	-	(138,440)
Total expenditures	7,145,613	6,681,879	6,426,017	(255,862)
Excess of Revenue Over Expenditures	881,962	918,912	955,022	36,110
Other Financing Sources (Uses)				
Transfers in	386,891	201,106	78,000	(123,106)
Transfers out	(1,268,853)	(1,120,018)	(1,108,090)	11,928
Net Change in Fund Balance	-	-	(75,068)	(75,068)
Fund Balance - Beginning of year	235,331	235,331	235,331	-
Fund Balance - End of year	<u>\$ 235,331</u>	<u>\$ 235,331</u>	<u>\$ 160,263</u>	<u>\$ (75,068)</u>

School District of the City of Hazel Park

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

	2016	2015	2014
School District's proportion of the net pension liability	0.23672 %	0.26071 %	0.27591 %
School District's proportionate share of the net pension liability	\$ 59,059,858	\$ 63,678,695	\$ 60,772,312
School District's covered employee payroll	19,124,023	20,700,075	23,143,841
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	308.83 %	307.63 %	262.59 %
Plan fiduciary net position as a percentage of the total pension liability	63.01 %	62.92 %	66.20 %

School District of the City of Hazel Park

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 5,429,765	\$ 5,389,770	\$ 5,644,934
Contributions in relation to the statutorily required contribution	5,429,765	5,389,770	5,644,934
Contribution deficiency (excess)	-	-	-
School District's covered employee payroll	19,519,713	18,414,841	22,250,708
Contributions as a percentage of covered employee payroll	27.82 %	29.27 %	25.37 %

School District of the City of Hazel Park

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

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

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

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

Other Supplemental Information

School District of the City of Hazel Park

	Special Revenue Funds		Debt Service Funds	
	Food Services Fund	Community Services - Child Care Fund	Unqualified Debt	Qualified Debt
Assets				
Cash and investments	\$ 6,214	\$ 32,554	\$ -	\$ -
Receivables	73,576	2,622	-	-
Due from other funds	-	-	-	8
Inventories	27,877	-	-	-
Restricted assets	-	-	337,937	52,531
Total assets	\$ 107,667	\$ 35,176	\$ 337,937	\$ 52,539
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 52,021	\$ 193	\$ -	\$ -
Accrued payroll liabilities	-	4,544	-	-
Due to other funds	52,158	-	-	23,400
Unearned revenue	2,629	-	-	-
Total liabilities	106,808	4,737	-	23,400
Fund Balances				
Nonspendable - Inventory	27,877	-	-	-
Restricted:				
Capital projects	-	-	-	-
Debt service	-	-	337,937	29,139
Assigned - Capital projects	-	-	-	-
Unassigned	(27,018)	30,439	-	-
Total fund balances	859	30,439	337,937	29,139
Total liabilities and fund balances	\$ 107,667	\$ 35,176	\$ 337,937	\$ 52,539

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

Capital Projects Funds			Total Nonmajor Governmental Funds
Sinking Fund	2012 Building and Site Project	General Operations	
\$ -	\$ -	\$ 64,223	\$ 102,991
-	-	14,749	90,947
-	10,628	8,852	19,488
-	-	-	27,877
889,905	185,384	-	1,465,757
\$ 889,905	\$ 196,012	\$ 87,824	\$ 1,707,060
\$ 12,974	\$ 22,915	\$ 30,768	\$ 118,871
-	-	-	4,544
-	-	7,644	83,202
-	-	-	2,629
12,974	22,915	38,412	209,246
-	-	-	27,877
876,931	173,097	-	1,050,028
-	-	-	367,076
-	-	49,412	49,412
-	-	-	3,421
876,931	173,097	49,412	1,497,814
\$ 889,905	\$ 196,012	\$ 87,824	\$ 1,707,060

School District of the City of Hazel Park

	Special Revenue Funds		Debt Service Funds	
		Community Services - Child		
	Food Services Fund	Care Fund	Unqualified Debt	Qualified Debt
Revenue				
Local sources	\$ 75,041	\$ 124,722	\$ 803,156	\$ 3,514,653
State sources	-	-	11,705	50,722
Federal sources	1,304,753	-	-	-
Governmental - Intergovernmental	9,316	-	-	-
Total revenue	1,389,110	124,722	814,861	3,565,375
Expenditures				
Current:				
Support services:				
Business	-	-	-	-
Operations and maintenance	-	-	-	-
Food services	1,371,306	-	-	-
Community services	-	94,283	-	-
Debt service:				
Principal	-	-	340,000	1,890,000
Interest	-	-	249,052	1,934,826
Other	-	-	-	24,349
Capital outlay	17,359	-	-	-
Total expenditures	1,388,665	94,283	589,052	3,849,175
Net Change in Fund Balances	445	30,439	225,809	(283,800)
Fund Balances - Beginning of year	414	-	112,128	312,939
Fund Balances - End of year	\$ 859	\$ 30,439	\$ 337,937	\$ 29,139

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

Capital Projects Fund			Total Nonmajor Governmental Funds
Sinking Fund	2012 Building and Site Project	General Operations	
\$ 270,665	\$ 947	\$ 296	\$ 4,789,480
3,902	-	-	66,329
-	-	-	1,304,753
-	-	14,749	24,065
274,567	947	15,045	6,184,627
2,631	-	-	2,631
-	-	28,347	28,347
-	-	-	1,371,306
-	-	-	94,283
-	-	-	2,230,000
-	-	-	2,183,878
-	-	-	24,349
18,482	188,694	24,457	248,992
21,113	188,694	52,804	6,183,786
253,454	(187,747)	(37,759)	841
623,477	360,844	87,171	1,496,973
\$ 876,931	\$ 173,097	\$ 49,412	\$ 1,497,814

School District of the City of Hazel Park

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

	2002 QZAB	2003 QZAB	2010 Energy Conservation Improvement Bond	2011 Refunding Bond	2012 Refunding Bond	2012 School Building and Site Bonds	Total
June 30	Principal	Principal	Principal	Principal	Principal	Principal	
2018	\$ 2,000,000	\$ -	\$ 210,000	\$ 1,895,000	\$ -	\$ 350,000	\$ 4,455,000
2019	-	3,000,000	215,000	1,910,000	-	360,000	5,485,000
2020	-	-	225,000	1,960,000	-	370,000	2,555,000
2021	-	-	230,000	2,005,000	-	380,000	2,615,000
2022	-	-	240,000	2,055,000	-	395,000	2,690,000
2023	-	-	250,000	2,080,000	-	405,000	2,735,000
2024	-	-	260,000	2,105,000	-	420,000	2,785,000
2025	-	-	270,000	2,130,000	-	435,000	2,835,000
2026	-	-	280,000	-	2,300,000	450,000	3,030,000
2027	-	-	-	-	2,395,000	465,000	2,860,000
2028	-	-	-	-	2,480,000	485,000	2,965,000
2029	-	-	-	-	2,555,000	505,000	3,060,000
2030	-	-	-	-	2,615,000	520,000	3,135,000
2031	-	-	-	-	2,690,000	545,000	3,235,000
2032	-	-	-	-	2,730,000	565,000	3,295,000
Total principal	\$2,000,000	\$ 3,000,000	\$ 2,180,000	\$16,140,000	\$17,765,000	\$ 6,650,000	\$ 47,735,000
Principal payments due	November 12, 2017	July 15, 2018	May 1	May 1	May 1	May 1	
Interest payments due	N/A	N/A	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	
Interest rate	N/A	N/A	3% to 4.125%	2.625% to 5%	3.5% to 4.75%	3% to 4%	
Original issue	\$2,000,000	\$ 3,000,000	\$ 3,315,000	\$25,500,000	\$17,765,000	\$ 7,950,000	\$ 59,530,000

School District of the City of Hazel Park

**Federal Awards
Supplemental Information
June 30, 2017**

School District of the City of Hazel Park

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

Independent Auditor's Report

To the Board of Education
School District of the City of Hazel Park

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of Hazel Park (the "School District") 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. We issued our report thereon dated August 29, 2017, which contained unmodified opinions on the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to August 29, 2017.

The accompanying schedule of expenditures of federal awards is presented for the purpose 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

August 29, 2017

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 Auditor's Report

To Management and the Board of Education
School District of the City of Hazel Park

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of Hazel Park (the "School District") 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, and have issued our report thereon dated August 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered School District of the City of Hazel Park's 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 the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's 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 School District'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.

To Management and the Board of Education
School District of the City of Hazel Park

Compliance and Other Matters

As part of obtaining reasonable assurance about whether School District of the City of Hazel Park's 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Finding 2017-001.

School District's Response to Finding

School District of the City of Hazel Park's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

August 29, 2017

**Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance**

Independent Auditor's Report

To the Board of Education
School District of the City of Hazel Park

Report on Compliance for Each Major Federal Program

We have audited the School District of the City of Hazel Park's (the "School District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017. School District of the City of Hazel Park's major federal programs are identified in the summary of auditor's 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 each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of School District of the City of Hazel Park's 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* (the "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 School District of the City of Hazel Park's 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 School District of the City of Hazel Park's compliance.

To the Board of Education
School District of the City of Hazel Park

Opinion on Each Major Federal Program

In our opinion, School District of the City of Hazel Park 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 School District of the City of Hazel Park 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 School District of the City of Hazel Park's 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 the School District's 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 a 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.

Plante & Morse, PLLC

August 29, 2017

School District of the City of Hazel Park

Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Program Title/Project Number/Subrecipient Name	Grant/Project Number	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2016	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2017
Clusters:								
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education - Noncash assistance (Commodities) - Entitlement commodities - 2016-17								
	N/A	10.555	\$ 135,934	\$ -	\$ -	\$ 135,934	\$ 135,934	\$ -
Cash assistance:								
National School Breakfast Program 2015-16	161970	10.553	25,552	-	-	25,552	25,552	-
National School Breakfast Program 2016-17	171970	10.553	261,925	-	-	241,988	261,925	19,937
National School Lunch Program 2015-16	161960	10.555	93,428	-	-	93,428	93,428	-
National School Lunch Program 2016-17	171960	10.555	747,698	-	-	700,010	747,698	47,688
National School Lunch Program - Afterschool Snacks 2016-17	171980	10.555	15,833	-	-	15,027	15,833	806
Summer Food Service Program (SFSP) Admin 2015-16	161900	10.559	1,965	384	384	1,965	1,581	-
Summer Food Service Program (SFSP) Operating 2015-16	160900	10.559	23,256	4,532	4,532	23,256	18,724	-
Summer Food Service Program (SFSP) Admin 2016-17	171900	10.559	-	-	-	-	314	314
Summer Food Service Program (SFSP) Operating 2016-17	170900	10.559	-	-	-	-	3,765	3,765
Total Child Nutrition Cluster			1,305,591	4,916	4,916	1,237,160	1,304,754	72,510
Special Education Cluster - U.S. Department of Education - Passed through the Oakland County ISD:								
IDEA, Part B 1516	160450	84.027	777,773	777,347	99,939	100,365	426	-
IDEA, Part B 1617	170450	84.027	774,410	-	-	673,599	751,343	77,744
Total IDEA, Part B			1,552,183	777,347	99,939	773,964	751,769	77,744
Preschool Incentive:								
IDEA Preschool 2015-16	160460	84.173	15,813	15,813	4,213	4,213	-	-
IDEA Preschool 2016-17	170460	84.173	13,808	-	-	12,108	13,808	1,700
Total Preschool Incentive			29,621	15,813	4,213	16,321	13,808	1,700
Total Special Education Cluster			1,581,804	793,160	104,152	790,285	765,577	79,444
Medicaid Cluster - Michigan Department of Community Health - Passed through the Oakland County ISD - Medicaid Cluster								
	N/A	93.778	8,000	-	-	8,000	8,000	-

See Notes to Schedule of Expenditures
of Federal Awards.

School District of the City of Hazel Park

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2017

Program Title/Project Number/Subrecipient Name	Grant/Project Number	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2016	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2017
Other federal awards:								
U.S. Department of Education -								
Passed through the Michigan Department of Education:								
Adult Education:								
ABE Instruction 2015-16	161130 161147	84.002	\$ 62,400	\$ 56,587	\$ 56,587	\$ 56,597	\$ 10	\$ -
ABE Instruction 2016-17	171130 171147	84.002	48,000	-	-	48,000	48,000	-
Institutional Programs 2015-16	161190 161147	84.002	30,000	30,000	30,000	30,000	-	-
Institutional Programs 2016-17	171190 171147	84.002	30,000	-	-	30,000	30,000	-
English Literacy/Civics 2016-17	161120 165147	84.002	22,220	19,825	19,825	19,825	-	-
English Literacy/Civics 2016-17	171120 175147	84.002	22,200	-	-	21,678	22,200	522
Total Adult Education			214,820	106,412	106,412	206,100	100,210	522
Title I, Part A, Improving Basic Programs:								
Title I, Part A 1516	161530	84.010	1,306,652	1,035,083	358,678	531,189	172,511	-
Title I, Part A 1617	171530	84.010	1,033,650	-	-	699,440	765,102	65,662
Total Title I, Part A			2,340,302	1,035,083	358,678	1,230,629	937,613	65,662
Title I, Part D, Prevention and Intervention:								
Title I, Part D 1516	161700	84.013	115,330	96,901	96,901	113,327	16,426	-
Title I, Part D 1617	171700	84.013	45,827	-	-	45,827	45,827	-
Total Title I, Part D			161,157	96,901	96,901	159,154	62,253	-

See Notes to Schedule of Expenditures
of Federal Awards.

School District of the City of Hazel Park

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2017

Program Title/Project Number/Subrecipient Name	Grant/Project Number	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2016	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2017
Other federal awards (continued):								
Title II Part A: Improving Teacher Quality:								
Title II, Part A 1516	160520	84.367	\$ 479,453	\$ 196,210	\$ 83,810	\$ 199,165	\$ 115,355	\$ -
Title II, Part A 1617	170520	84.367	440,129	-	-	134,074	178,030	43,956
Total Title II Part A			919,582	196,210	83,810	333,239	293,385	43,956
Title III: English Language Acquisition:								
Title III 1516	160580	84.365	76,563	31,298	31,298	41,831	10,533	-
Title III 1617	170580	84.365	61,541	-	-	56,361	58,479	2,118
Total Title III			138,104	31,298	31,298	98,192	69,012	2,118
Total noncluster programs passed through the Michigan Department of Education			3,773,965	1,465,904	677,099	2,027,314	1,462,473	112,258
Department of Justice - Passed through the National Institute of Justice Research, Evaluation and Development - NIJ Research Grant 2016	2016-CK-bx-0010	16.560	32,000	-	-	17,000	-	(17,000)
U.S National Foundation of the Arts and the Humanities - Passed through the Michigan Council for Arts and Cultural Affairs - MCACA Grant Program 2017	17AE3492RS	45.025	11,758	-	-	6,702	6,702	-
Total federal awards			<u>\$ 6,713,118</u>	<u>\$ 2,263,980</u>	<u>\$ 786,167</u>	<u>\$ 4,086,461</u>	<u>\$ 3,547,506</u>	<u>\$ 247,212</u>

See Notes to Schedule of Expenditures
of Federal Awards.

School District of the City of Hazel Park

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of School District of the City of Hazel Park (the "School District") 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* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein 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. No payments to subrecipients were made during the fiscal year.

The School District has elected not to use the 10 percent *de minimus* indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Grant Auditor Report

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Note 4 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of the Uniform Guidance.

School District of the City of Hazel Park

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☒ Yes ☐ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)? ☐ Yes ☒ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title IA
	Special Education Cluster:
84.027	IDEA
84.173	Preschool

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

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

School District of the City of Hazel Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings

Reference

Number

Finding

2017-001 **Finding Type** - Material noncompliance with laws and regulations

Criteria - The Michigan Uniform Budget and Accounting Act prohibits the School District from depleting fund balance beyond that which is approved by the board. The School District is prohibited from incurring a General Fund budget deficit.

Condition - Entering the June 30, 2017 fiscal year, the School District had a deficit fund balance in the General Fund. During the June 30, 2017 fiscal year, the deficit was reduced but a deficit continued to exist at June 30, 2017.

Context - While the financial position improved, a deficit fund balance in the General Fund remained at June 30, 2017.

Cause - Actual June 30, 2017 General Fund balance is at a deficit due to prior years' expenditures exceeding prior years' revenue. The financial outcome for the fiscal year ended June 30, 2017 resulted in revenue exceeding expenditures.

Effect - The School District continues to operate under a deficit elimination plan monitored by the Michigan Department of Education and Michigan Department of Treasury which requires a positive fund balance to be achieved by June 30, 2020.

Recommendation - We recommend the School District adhere to its deficit elimination plan by increasing student counts as well as identify and execute cost containment initiatives to restore positive fund balance.

Views of Responsible Officials and Planned Corrective Actions - The School District has an expected budget surplus for the 2018 fiscal year of \$1.0 million, which will reduce the deficit from \$5.6 million to \$4.6 million on June 30, 2018. Furthermore, the School District will continue to closely monitor spending within budgetary limits, as required by the EDEP.

Section III - Federal Program Audit Findings

None

School District of the City of Hazel Park

Summary Schedule of Prior Audit Findings Year Ended June 30, 2017

Prior Year Finding Number	Fiscal Year in Which the Finding Initially Occurred	Federal Program, CFDA Number and Name	Original Finding Description	Status/Partial Corrective Action (as Applicable)	Planned Corrective Action (If Finding Not Corrected)
2016-001	June 30, 2014		General Fund had a fund deficit	The School District of the City of Hazel Park adopted a budget for the year ended June 30, 2016 with expenditures in excess of estimated revenue and available surplus and has expended funds in excess of their available resources.	The School District has an approved deficit elimination plan on file with the Michigan Departments of Education and Treasury. The School District also has a Financial Recovery Agreement in place with the Michigan Treasury. It expects to eliminate the General Fund deficit by June 2020 (see Finding 2017-001)



HAZEL PARK
SCHOOLS

Ford Administration Building
1620 E. Elza, Avenue, Hazel Park, Michigan 48030 ♦ Phone 248-658-5200 ♦ Fax 248-544-5443

Corrective Action Plan

<u>Finding Number</u>	<u>Responsible Person</u>	<u>Management Views</u>	<u>Corrective Action</u>	<u>Anticipated Completion Date</u>
2017-001	Board of Education, Superintendent, Assistant Superintendent of Business & Operations	The district is operating under an approved Enhanced Deficit Elimination Plan (EDEP), approved by the Michigan Treasury in 2016. The district is required to file a new EDEP with Treasury by December 31, 2017 which will reflect the final 2017 financial results and updated 2018 fiscal year budget.	School District has an expected budget surplus for the 2018 fiscal year of \$1.0 million, which will reduce the deficit from \$5.6 million to \$4.6 million on June 30, 2018. Furthermore, the School District will continue to closely monitor spending within budgetary limits, as required by the EDEP.	Ongoing. Expected deficit elimination by June, 2020.

School District of the City of Hazel Park

**Report to the Board of Education
June 30, 2017**

To the Board of Education
School District of the City of Hazel Park

We have recently completed our audit of the basic financial statements of the School District of the City of Hazel Park (the "School District") as of and for the year ended June 30, 2017. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items which impact the School District:

	Page
Results of the Audit	1-4
Other Recommendations	5-6
Informational Items	7-20

We are grateful for the opportunity to be of service to the School District of the City of Hazel Park. We would also like to extend our thanks to Mr. Dan Romzek and Ms. Josie Pettita and the entire business office for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

August 29, 2017

Results of the Audit

August 29, 2017

To the Board of Education
School District of the City of Hazel Park

We have audited the financial statements of the School District of the City of Hazel Park (the "School District") as of and for the year ended June 30, 2017 and have issued our report thereon dated August 29, 2017. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 24, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the School District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated August 29, 2017 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 16, 2017.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note 1 to the financial statements.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 estimate affecting the financial statements was the School District's share of the MPSERS pension plan net pension liability recorded on the government-wide statements for the implementation of GASB Statement No. 68. The School District's estimate as of June 30, 2017 is \$59 million and is based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose 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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

August 29, 2017

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our 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 of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 29, 2017.

Management Consultations with Other Independent 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.

As required by OMB 2 CFR 200 (the "Uniform Guidance"), we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with the Uniform Guidance dated August 29, 2017.

This information is intended solely for the use of the Board of Education and management of the School District of the City of Hazel Park and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Eric Formberg

Other Recommendations

The School District of the City of Hazel Park

Other Recommendations

Change in Administrative Team

Subsequent to year end, it was identified that the assistant superintendent of business & operations had accepted a position outside of the School District. Whenever there is a significant change in the business office, it is imperative to be mindful of the processes and controls that are in place and that must continue throughout the transitional period. Additionally, we recognize the importance of the assistant superintendent's position. We compliment the School District for engaging an interim assistant superintendent for the position to provide the needed flexibility in order to fill the open position with the best available candidate. Identifying and hiring an individual with a strong financial background as well as the ability to manage operations will be essential given the deficit position the School District is in the process of eliminating, while continuing to focus on improved educational outcomes for students.

Budget Monitoring and Oversight

It is noted that the School District finished the year with General Fund financial results that did not fully meet budgeted expectations. Although General Fund revenue did exceed General Fund expenditures, the actual budget surplus was less than the projected surplus by approximately 1 percent of budgeted expenditures. The School District should continue to focus on its review of routine expenditures as well as continuing to formalize its monitoring procedures in an effort to continue to hit budget targets and mitigate and avoid overspending.

Food Service Program

The School District managed its Food Service Fund in-house during the current year, after one year of outsourcing these management responsibilities. The Food Service Fund ended the year with revenue in excess of expenditures. The School District should be commended for the positive financial outcome experienced in this first-year program.

It is also noted that, under the community eligibility provision, all district students are entitled to meals at no cost to the student. We recommend that the district continue to promote this program as a benefit to the local community at-large.

Additionally, during the course of the audit, the cash handling procedures performed by the food service program were reviewed. While the procedures in place appear to be effectively designed for accountability, it was identified that one aspect of the procedures utilized by the School District to reconcile cash was not fully operating as designed. It is noted that the School District is currently working with its vendor to resolve this issue.

Student Activity Accounts

The business office automated its process by which accounting for student activity accounts was performed for the 2016-17 fiscal year. This automation was identified by business office staff as an area of increased efficiency and improved controls. We recommend that the business office continue to identify areas where its processes and procedures can continue to be improved.

Athletic Department

During the course of the audit, the cash handling procedures performed by the athletic department were reviewed. The procedures in place appear to have improved controls over cash handling.

Informational Items

The School District of the City of Hazel Park

Informational Items

Fund Balance

During the 2016-2017 fiscal year, the School District showed financial improvement by reducing its deficit, but continues to face financial challenges even with some improvements in enrollment. The outlook for 2017-2018 and beyond suggests future funding increases for operations will not be significant. This continues to put substantial pressure on the School District's operating budgets and efforts to eliminate the General Fund fund deficit. During the 2016-2017 school year, the School District's General Fund revenue exceeded expenditures by approximately \$330,000. This resulted in reducing the General Fund deficit to approximately \$5.6 million at June 30, 2017. We encourage the School District to adhere to its approved budget and deficit elimination plan; we are cognizant that the School District is focused on continuing to meet the state requirements set before it in an effort to create sustainable financial health.

State Aid Funding

State Aid and the Foundation Allowance

State of Michigan funding for public schools continued to focus on several recurring themes for the fiscal year ended June 30, 2017: limited increases in the foundation allowance; additional funding boosts for districts at the minimum foundation; continued student count blending formula; and additional resources dedicated to assisting with funding districts' retirement/postretirement healthcare obligation (MPERS). One change worth noting was the increase in the number of required school days to 180, up from 175 days, but without a change in the number of required hours of instruction. Many districts were already providing 180 days of instruction, and for those districts, the change did not have an impact.

2016-2017 Foundation: For the 2016-2017 fiscal year, the base foundation increased by \$60, from \$8,169 to \$8,229. The State continued its use of the "2X formula", providing districts at the minimum foundation with an increase of \$120 per pupil to \$7,511. The School District's foundation allowance was increased to \$7,724. In the 2016-2017 State Aid Act, a minimum funding provision continued (Section 20f). This section recognizes that the funding shift toward paying the growing MPERS expense could significantly harm some districts. Just as in 2015-2016, this categorical guarantees at least a \$25 per pupil increase after giving account to the funding changes. For many districts, the increase in the per pupil foundation was significantly offset by the previous elimination of Best Practice and Performance funding. The School District's net increase exceeded the \$25 minimum and no additional funding was provided under this section. This provision continues for 2017-2018.

2017-2018 Foundation: For the 2017-2018 fiscal year, the base foundation, once again, increases by \$60, from \$8,229 to \$8,289. Additionally, using the "2X formula", the minimum foundation allowance increases by \$120 per pupil to \$7,631. Based on these changes, your School District will receive a \$120 increase in its foundation allowance, representing an increase of 1.55 percent. New for 2017-2018, an additional per pupil allocation, Section 22n, was created for students counted in high school. For those students, a new categorical providing additional funding of \$25 per pupil was created. This funding is not rolled into the foundation calculation.

The School District of the City of Hazel Park

Informational Items (Continued)

Pupil Membership Blend for 2016-2017 and 2017-2018: The method for counting students was the same for 2016-2017 and for 2017-2018. The funding formula uses calendar year counts with a weighting of 90 percent of the Fall count and 10 percent of the February count. 2016 calendar year counts were used for the 2016-2017 fiscal year funding and 2017 calendar year counts are used for the 2017-2018 fiscal year funding. One significant change for 2017-2018 was an enrollment count cap of .75 for students enrolled in a shared time program. As a result, the School District cannot generate more than a .75 FTE for a student participating in a shared time program.

At-Risk Funding: For 2017-2018, several changes were made to the funding and use of At-Risk funds. A few key items include: an increase of about \$120 million allocated to At-Risk (approximately a 30 percent increase), use of funds to support third grade reading proficiency and eighth grade math proficiency, definition of eligible pupils expanded to include all pupils considered economically disadvantaged, and inclusion of Hold Harmless and Out of Formula districts in the At-Risk funding formula for the first time, but at 30 percent of the funding that what would otherwise be available.

MPERS Cost Support: Retirement system contributions are a significant part of a district's labor costs. The contribution rate the School District is required to pay continues to rise, though the growth rate has slowed. The School District has no ability to influence the rate and no choice regarding its participation in the program. To aid a district in meeting its obligation, the 2016-2017 State Aid Act continued to include funding to help pay for some of the increased cost. The categorical aid is formula driven using the School District's MPERS payroll participation data. This funding is provided in two separate sections of the State Aid Act: Section 147a and section 147c. The School District received a total of \$269,726 of 147a and \$2,390,241 of 147c categorical aid to help offset the impact of its retirement costs. Section 147c was designed to fund approximately 10 percent of covered payroll and does not increase district resources. Instead, the funding is recognized as revenue and then returned directly to the retirement system. In general terms, this means that the total cost of the retirement system contributions in 2016-2017, representing approximately 36 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for approximately a 26 percent contribution to the retirement system. The School District budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact the state revenue provided is based on prior year school district payroll information.

This retirement funding approach will continue into 2017-2018. However, there are key changes that will impact retirement contributions. The first is the fact that the assumed rate of return within the retirement plan will be decreasing to 7.5 percent from 8 percent. When this assumption is reduced, it has the net effect of increasing the value of the retirement obligation for the plan. This then increases the required contributions to fund the plan. A total of \$48 million has been provided in 147a to pay school districts to offset the impact of this change. Second, for staff hired on or after February 1, 2018, the default employee election will be into a defined contribution (DC) plan; however, an employee can elect the hybrid plan within a specified timeframe. District contributions and state support are also modified for employees electing the DC plan. This will create a change in the School District's cost of the benefit for employees new to the retirement system in February 2018. Additional funding is provided under a new State Aid Act, Section 147e, to help support the shift to the new design.

The School District of the City of Hazel Park

Informational Items (Continued)

Other State Aid Act Changes Impacting 2017-2018

The amendments to the State Aid Act made several other changes impacting school districts. Several changes we identified that could impact the School District include the following:

Partnership Model - Section 21h provides new funding to assist districts assigned by the MDE to participate in a partnership to improve student achievement, including funds for professional development, increased instructional time, mentors, and other costs impacting student achievement.

MEAP/M-STEP - The MDE is required to make the Kindergarten Entry Assessment (KEA) available to districts in 2017-2018.

Repayments to State - If a district is overpaid by the State of Michigan, it is required to repay the State. If the repayment creates a hardship, a request for extending payments can be made. In 2017-2018, the amount of time the MDE may grant for a district to repay any overpayments has increased from four to nine years.

Enrollment after Fall Count Day - After the 2016-2017 School Aid amendments were passed, which eliminated the ability to prorate a pupil enrolled after the count day, a supplemental appropriation (HB 5291) was passed, reinstating the opportunity to prorate a student added after the count day. For 2017-2018, the ability to prorate student count for pupils added after the count day continues.

Transparency Reporting Requirements - These content posting requirements continue and include, but are not limited to, deficit elimination plans, enhanced deficit elimination plans, district credit card information, budget information, procurement and reimbursement policies, and out-of-state travel information. Transparency reports must be updated on the district's website within 15 days of the change.

Adult Education - Several changes were made to the funding formula and eligibility requirements. From now to 2019-2020, funding will shift toward allocations to prosperity regions and subregions. As a result, for districts with significant adult education programs, a careful review of the changes will be important for planning future operations.

State Aid Planning Considerations for 2018-2019 and Beyond

Michigan's economy is steady but, based on Revenue Estimating Conference predictions, there are financial challenges ahead for the State. As we have seen by the School Aid Fund, revenue continues to grow at a slow pace, but the General Fund projections are at a slower pace. The governor's executive recommendations and legislative actions have provided some increases for general operations but, for many districts, actual increases to support general school operations have been at or below inflation rates. In the last few years, increases have been concentrated in early childhood, At-Risk, and in funding for the increasing retirement obligation. While the final State Aid Act amendments provided additional funds for operations in 2017-2018, because of the elimination of performance funding and best practices, for many the net increase in funding was \$25/pupil from the levels in place when best practice and performance were provided. In addition, since the 2017-2018 amendments to the State Aid Act were not signed until July 2018, it is possible the revenue estimates used in the initial 2017-2018 school district budget may need to be revised. As the legislature and governor continue to modify tax policy, plan for State General Fund resource needs, modify the retirement system benefits, and revisit School Aid Fund resource allocations, the growth and availability of School Aid Fund resources to fund K-12 operations is likely to continue to be less than the rate of inflation.

The School District of the City of Hazel Park

Informational Items (Continued)

Clearly, the key issue facing the future of school funding is the need to cover the cost of the retirement system. For 2017-2018, modifications to the retirement system have projected to create significant increased costs. While it appears the legislature has provided resources through the School Aid Fund to cover the cost, it means those resources are not available to fund other K-12 operations. The funding theme in the future will likely continue to be how to use School Aid Fund resources to cover the retirement obligation. Funding this obligation will continue to impact the School District's ability to receive additional resources to fund general education initiatives, and monitoring legislative action in this area will be important in predicting future resource available for the School District.

Careful planning will continue to be key for the School District to create a cost structure that is sustainable. The use of budget modeling will be essential, especially as the School District looks to determine actual state funding available to fund operations. In addition, it is important to segregate resources required to fund specific activities, such as federal funding, special education, or At-Risk, when assessing the resources available to fund continuing operations. We recommend the School District fully analyze the projected revenue available to fund operations when entering into multi-year expenditure agreements.

School Aid Fund Dynamics

In the last six years, public education has seen more change in the substance of school funding than in the last 14 years. Proposal A, as passed, was a K-12 funding mechanism. Prior to 2011, there were a series of small changes to the funding model. Some activities, previously funded with the State's General Fund, were moved to school aid. General Fund earmarks for the School Aid Fund have been reduced since 1994. Prorations became commonplace as the School Aid Fund's ability to generate new revenue slowed. Over time, some categorical revenue was eliminated and some was created. During the downturn, federal funds were added on a temporary basis to supplement state funding shortfalls. Essentially, the changes were viewed as incremental modifications.

Beginning with the 2011-2012 amendments to the State Aid Act, we experienced a redefinition of the funding model. Districts experienced a \$470 per-pupil funding cut which actually "revalued" the foundation and created a new base. Along with the governor's education initiatives, the concepts of "best practice" and "rewarding" student performance were entered into the funding scheme, and then removed. Furthermore, the increased cost of the retirement system diverted funds that would have been available to fund operations. Most significantly, the funding for higher education was moved from the General Fund into the School Aid Fund along with a restructuring of tax policy. This comprehensive view and approach to the management and funding of education created a new definition of reality for Michigan schools. This new reality continued into the amendments to the State Aid Act for 2017-2018.

Implications from the restructure of the State's funding approach are substantial and impact how a district will be able to generate additional state funding into the future. The additional revenue identified after the May 2017 Revenue Estimating Conference created a 2X funding formula increase of \$60-\$120 per pupil, similar to the previous year. As part of the restructure, a funding floor categorical allocation was added. It provides a minimum per-pupil increase of \$25 per pupil. Once again, more funds were also set aside to provide additional contributions to the retirement system. It is clear, based on future projections from the retirement system, including the implications from the restructure of the hybrid plan and the reduction in the assumed rate of return, that the increased costs of the system will absorb significant resources from the School Aid Fund or from district operating budgets. Based on the funding priorities from this legislative session, it appears the focus will continue to be on the costs of the retirement system, and real dollar increases to fund general operations are likely to be limited.

The School District of the City of Hazel Park

Informational Items (Continued)

As the School District continues to evaluate and select its operational and educational initiatives, it will be increasingly important to monitor the implications from legislative action. As the governor and legislature move forward with their education agenda and attempt to balance it with growing General Fund needs, it is likely there will be new elements producing a significant impact on the funds received by the School District from the State. The key question will continue to be “what resources will be available for the School District to fund its recurring operations?”

Transparency Reporting

Public Act 5 of 2015 requires the following transparency reporting on the School District’s website:

- Budgets and budget amendments must be posted within 15 days of their adoption (formerly 30 days)
- The School District’s written policy governing procurement of supplies, materials, and equipment
- The School District’s written policy establishing specific categories of reimbursable expenses
- The School District’s accounts payable check register for the most recent fiscal year or a statement of the total amount of expenses incurred by board members of district employees that were reimbursed by the School District for the most recent fiscal year
- Any deficit elimination or enhanced deficit elimination plan the School District was required to submit
- Identification of all credit cards maintained by the School District as district credit cards, the identity of all individuals authorized to use each credit card, the credit limit on each credit card, and the dollar limit, if any, for each individual’s authorized use of the credit card

In addition, the School District is also required to provide the following:

- Pie charts for personnel expenditures and district expenditures
- Links to collective bargaining agreements, healthcare plans, bids, and financial statement audit report
- Compensation and benefits for the superintendent and employees with salaries over \$100,000
- Amounts for dues, lobbying, and out-of-state travel

Noncompliance with the requirements could result in withholding of 10 percent of state aid otherwise owned to the School District. The Michigan Department of Education regularly reviews district websites to determine if the requirements are met. Maintaining this information requires the School District to maintain additional processes and commit or redirect staff resources.

Food Service Fund Bad Debt Policy Requirements

The School District should ensure that its policies include guidelines on the treatment of bad debt in the School Meals Program. Per 2 CFR §200.426, bad debts arising from uncollectible accounts are unallowable costs. Given that these costs are unallowable, any bad debts should be transferred out of the Nonprofit School Food Service Fund.

The Michigan Department of Education has clarified its position on this topic in Administrative Policy No. 6 (school year 2016-2017). A distinction is made between delinquent debt and bad debt. An account is deemed to be bad debt when it is uncollectable at the end of the school year in which the debt was incurred. Any costs incurred to collect on these bad debts would also be unallowable. On the other hand, delinquent accounts that occur periodically during the year are not considered bad debt until an assessment is done at the end of the school year. With this definition of bad debt, an adjustment to the School Food Service Fund is not needed until the end of each fiscal year.

The School District of the City of Hazel Park

Informational Items (Continued)

Once an account is determined to be bad debt, a nonfederal funding source must reimburse the School Food Service Fund for the total amount of the bad debt. The district has discretion on how it will handle the bad debt once it is transferred out of the School Food Service Fund. Additional collection procedures may take place, but they cannot be at the expense of Food Service. Any future collections on the bad debt would belong to the fund into which it was transferred (i.e., the General Fund). The School District should also make sure the Point of Sale system reflects any adjustments for bad debt transferred.

The School District should have a written policy to address food service bad debt. This should be included in the School District's meal charge policy as required under the Healthy, Hunger-Free Kids Act of 2010. Additional guidance can be found in *USDA Memo SP 46-2016 Unpaid Meal Charged: Local Meal Charge Policies*.

Preapproval for Purchase of Equipment

In a memo dated March 28, 2014, the USDA clarified requirements found in OMB guidance (2 CFR Part 225, Appendix B, section 15 - equipment and other capital expenditures) for Child Nutrition Program grantees and subgrantees. School Food Authorities (SFAs) are required to obtain prior written approval of their awarding agency before incurring the cost of a capital expenditure. For purposes of obtaining prior approval, equipment is defined as any item of nonexpendable personal property with a useful life of a year or longer and an acquisition cost which equals or exceeds the federal per-unit capitalization threshold of \$5,000, or a lower threshold set by the State or local-level regulations.

To help mitigate administrative burden of the approval process, the USDA has extended flexibility to state agencies to allow for implementation of a "preapproved" list and criteria for capital assets that would typically be purchased by SFAs (ovens, steamers, refrigerators, etc.). If an SFA wishes to purchase equipment not on this list, it must submit a request for approval to the state agency prior to purchasing the item. If an equipment purchase is identified as unallowable, state agencies could disallow the purchase and implement debt collection procedures.

During the 2015 fiscal year, the MDE released a preapproved list of equipment. The listing can be accessed by following this link: http://www.michigan.gov/documents/mde/Admin_Policy_13_554300_7.pdf

An LEA wishing to purchase equipment from its food service fund that is not included within this listing must complete and submit a request form, which is available on the MDE School Nutrition Programs website, to obtain the required preapproval.

GASB Statement No. 75 - Postemployment Benefits Other Than Pensions (OPEB)

Effective for the School District's June 30, 2018 financial statements is GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This upcoming GASB addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the government-wide financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement is expected to have a similar impact on the statement of net position as did GASB No. 68 when it was adopted in 2015. Just like GASB No. 68, it is not expected to have an impact on the modified accrual funds (General Fund), and should not impact the School District's budget process. The statement also enhances accountability and transparency through revised note disclosures and required supplementary (or supplemental) information (RSI).

The School District of the City of Hazel Park

Informational Items (Continued)

GASB Statement No. 77 - Tax Abatement Disclosures

GASB Statement No. 77, *Tax Abatements*, is effective for the first time in the School District's June 30, 2017 financial statements. GASB No. 77 is unique in that there will be no accounting impact to the School District's financial statements; however, there will be a new disclosure in the notes to the financial statements. The disclosure focuses on the amount of property tax revenue that was forgone due to tax abatements that were entered into by the taxing authorities within the boundaries of the School District. The School District will have to work with the local taxing authorities in order to obtain the taxable value of the properties within district boundaries for which a tax abatement may apply and then it will be up to the School District to calculate the impact on property tax revenue. The School District is also required to disclose whether any of the lost property tax revenue will be reimbursed by other governmental agencies.

IT ITEMS

Cyber Security

Public schools are not exempt from cyberattacks in which systems and critical data are compromised. School systems store personal information of staff, underage students, and students' parents in addition to other confidential data. It is important that schools protect themselves from both external and internal threats whether they are intentional or accidental threats. For example, ransomware attacks are on the rise and gain media attention with their ability to cripple an organization, including schools and universities. It may be the hacks of large, multi-million companies that we see exposed on the evening news, but public schools can be an enticing target with the amount of data and limited budget to protect themselves.

Here are some questions to think about regarding cybersecurity issues:

- Do you receive a lot of junk email?
- Are you allowed to access risky or unsafe websites?
- Have you attended any security awareness trainings?
- In the event of an incident, are you familiar with who should be contacted?
- Is there a plan in place in the event of a breach and student records are lost?

Because of the many access points within a school district's IT environment, continued assessment of cybersecurity issues is an essential part of the district's overall data security assessment.

Electronic Cash Receipts

Managing cash collections has always been a challenge for school districts. During the year, cash is collected in multiple locations for a myriad purposes. Insuring the cash is collected, receipted, deposited, and applied to the correct activity is time consuming and can yield inaccuracies. It also presents a unique fraud risk that can leave the district vulnerable to theft. More and more schools have been looking for methods to improve this process. Online payment systems provide a real opportunity for schools in this area.

The School District of the City of Hazel Park

Informational Items (Continued)

Since the internet has become accessible to more people, schools have been looking to further enhance their communication distribution channel. Many districts now allow users to make payments to the district online. Using this technology, the district can increase the speed of collection, improve recordkeeping, reduce the burden at the service delivery site, improve accountability, provide user access to payment history, and utilize a single system for electronic receipts.

Online payment systems can be used for numerous functions within the district; potential uses for the system include the following:

- Athletic gate receipts
- Field trip fees
- Schools store purchases
- After-school program fees
- And many more

Several deployment options exist for online payment systems. These solutions can be integrated into the district's website and directly managed by the district's IT department, provided as a stand-alone solution via a third-party vendor, or provided via an integrated module as a component of the district's Student Information System or Financial Management System. Additional complexity is presented when determining the environment in which the solution is run, specifically whether it operates on the district's infrastructure or in the cloud. Regardless of the solution and deployment model, certain key factors must be given consideration:

- **Security:** Any organization handling payment card transactions has a responsibility to ensure that the solution is compliant with Payment Card Industry (PCI) standards and that transactional data is secure. The specifics of that responsibility vary based on the solution and model with which it has been deployed. In a model where the online payment system is running in the district's environment, the district must ensure that not only is the system itself secure, but any elements of technical infrastructure that will handle transactional data are also appropriately secure. In a cloud-based solution, the responsibility for compliance is transitioned to the vendor providing the solution; however, the district still has a responsibility to perform the due diligence necessary to ensure that the vendor is compliant with PCI standards.
- **Costs:** The various deployment options for online payment systems present different cost structures that must be considered. Purchasing a solution often represents a higher initial cost with lower long-term maintenance costs, while cloud solutions typically require lower initial costs and higher long-term costs.
- **Integration:** Regardless of the solution and deployment model selected, integration into the district's financial management system is also a key consideration to ensure that receipts are applied to the correct activity or account.

While it is unlikely the remote location cash receipts can be eliminated, it is likely that once implemented, an online payment system can significantly reduce staff burden and accounting risks inherent in the cash collection process.

The School District of the City of Hazel Park

Informational Items (Continued)

Multi-line Phone Systems and Enhanced 911

For the past several years, the State of Michigan has been seeking to adopt legislation regarding the capabilities of multi-line telephone systems (MLTS) to provide location information on where calls originate from when calling 911 for emergency services. Under the new legislation, any call placed to 911 must include specific location information to emergency dispatchers, beyond the basic address information that has been provided in the past. This information is to include detail on the location of the origination of the call within the building from which it was dialed. An example follows:

	Requirement Prior to New Legislation	Requirement Under New Legislation
Originating Number	Main Phone Number (248)555-1000	Actual Originating Number or Extension (248)555-1234 or (248)555-1000 ext. 1234
Customer's Name	Anytown School District	Anytown School District
Address	Address of Primary Switching Equipment 123 Main St.	Address of Call Origination 123 Main St. - Building B
Location	Not Required	Physical Location of Originating Phone West Wing, 2 nd Floor, Room 201
City and State	City and State of Primary Switching Equipment Anytown, MI 12345	City and State of Originating Phone Anytown, MI 12345

This example highlights a critical challenge that many districts are facing, in particular those districts that operate aging phone systems. Many older phone systems are not capable of storing specific location information for all phones, nor are they capable of automatically sending that information to emergency dispatchers when a 911 call is placed, resulting in districts being compelled to invest in new phone systems.

The new legislation is currently planned to be enforced beginning December 31, 2019. While enforcement has already been deferred several times, this is a critical item that should be included in your budget planning to ensure that the School District is compliant.

The School District of the City of Hazel Park

Informational Items (Continued)

Cost Saving Observations and Suggestions

As part of the audit process, we attempt to identify opportunities to help the School District optimize its resources. The following are some areas of potential benefit to the School District:

Energy Costs

School districts are continuously monitoring energy costs and reviewing different opportunities to reduce these costs. School districts continue to face challenges in managing energy usage and reducing energy costs. Effective April 20, 2017, Act No. 341 was passed which could inhibit the School District's ability to utilize Electric Choice, which has proven to be a significant cost saver to the School District. The act keeps a 10 percent cap on energy choice and establishes a 15 percent renewable requirement by 2021. The School District should evaluate if this act will have a significant impact on its energy costs and continue to look for ways to reduce energy costs.

Allowable Use of School Funds

In April 2015, a new law was passed on the allowable use of school funds. This law defines items on which the School District cannot expend its funds. It states a person shall not use district funds or other public funds for purchasing alcoholic beverages, jewelry, gifts, fees for golf, or any item the purchase or possession of which is illegal. However, this does not prohibit the use of funds for a trophy or plaque for award recognition of an employee, as long as the purchase does not exceed \$100. Violation of this law is a misdemeanor. Often, school districts are requesting clarification on the types of transactions the district is allowed to execute. This law serves to answer some of those questions, but likely not all. The School District should carefully review this law and its processes for approving purchases to ensure it is in compliance with its requirements.

Sinking Funds

In November 2016, a long-awaited amendment to the Sinking Fund Law was approved by the governor, and took effect in March 2017. The State of Michigan Sinking Fund legislation (Sec 1212) was amended to expand what levied dollars are authorized to pay for, as well as placing new limits on the number of mills allowed and the duration those mills can be levied.

Authorized purchases under the law now include:

- 1) Acquisition or upgrading of technology (consistent with the definition of technology under 1351a bond programs)
- 2) School security improvement, which includes capital improvements, as well as mobile telephone applications to provide the capability for personnel to communicate on-site and connect to 911

The tax levied cannot exceed 3 mills (was 5 mills), and the levy cannot exceed 10 years (was 20 years).

This was exciting news for districts that are planning to put sinking fund millage requests out to their communities for vote. Unfortunately, the law amendment is not retroactive and the attractive amendments apply only on a prospective basis (new sinking funds approved by voters after March 2017). Districts that already have a sinking fund in place have an opportunity to potentially layer on an additional sinking fund and take advantage of the new authorized purchases. If you are considering the School District's ability to utilize a sinking fund in the future, or want to strategize how a new sinking fund may work best in conjunction with an existing one, please contact us.

The School District of the City of Hazel Park

Informational Items (Continued)

Federal Programs

Written Procedures for Grants - Required for District Federal Grant Participation

As part your annual single audit, we are required to assess the written procedures that exist related to the specific compliance requirements for the federal programs that are selected for testing. The Federal Uniform Guidance, which was effective during the 2014-2015 school year, outlines various requirements related to written procedures and policies. It is important for the School District to be aware of the comprehensive list of required written (board) policies and (administrative) procedures required for federal grant participation. These requirements are described in 2 CFR Part 200 and include the following:

- Written Cash Management Procedures [§200.302(b)(6)]: To implement the requirements of §200.305 payment
- Written Allowability Procedures [§200.302(b)(7)]: To determine the allowability of costs in accordance with Subpart E- Cost Principles
- Written Travel Policy [§200.474(b)]: To ensure costs incurred by employees for travel are reasonable and allowable
- Written Conflict of Interest Policy [§200.318(c)]*: To maintain standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts
- Written Procurement Procedures [§200.319(c)]*: To ensure that all solicitations include the following requirements:
 - i. Incorporate clear and accurate descriptions of technical requirements for the material product or service to be procured
 - ii. Identify all requirements which must be fulfilled
 - iii. Ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition
- Written Procedures for Conducting Technical Evaluations of Proposals and Selecting Participants [§200.320(d)(3)]*: To maintain a method for evaluation proposals received

*In the Federal Register published on September 10, 2015 (Vol. 80, No. 175), the procurement procedures noted above were formally delayed via an initial two-year grace period. On May 17, 2017, the OMB extended the delay of implementation for an additional year. Therefore, the School District is not required to implement these requirements until July 1, 2018. However, if the extended delay is elected, the School District *must* document this in writing.

The School District should be aware that the aforementioned requirements for written procedures are more extensive in nature than those required for a financial statement audit, which focuses on key controls related to grants management. The Michigan Department of Education has indicated that districts that do not have the requisite written policies and procedures in place may be excluded from future participation in the grants program. In addition, absence of policies and procedures required under the Uniform Guidance could result in single audit findings.

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Informational Items (Continued)

We encourage the School District to review its policies and procedures to ensure that the items listed above have been addressed and are easily accessible for use and in the event of a fiscal monitoring. Many, if not all, of the items may already be addressed in various forms throughout the School District's policies and procedures; however it is important the School District be aware of where the written documentation resides. If any items are not currently addressed, we recommend the School District establish the required procedures and document them accordingly.

If you would like further guidance on the requirements related to written policies and procedures, please let us know; we would be happy to provide you with some guidance and resources. Additionally, a group consisting of personnel from various districts throughout the state, audit firms, and MDE representatives was formed to update the model procedures manual. Once completed, the manual will be available on the Michigan School Business Officials website. This tool will provide information about the changes required and how to utilize the manual to assist with customizing your existing policies and procedures.

Procurement Methods

Procurement reform under the Uniform Guidance requires revisions to district purchasing policies and practices when using federal funds. In addition, the Uniform Guidance requires districts to maintain standards of conduct covering conflicts of interest and to maintain specific written procedures for procurement transactions and bid evaluation. The new procurement standards include the following five methods as outlined in 2 CFR Part 200:

- Micro-purchases [§200.320(a)]: acquisition of supplies or services that does not exceed the Micro-Purchase Threshold (outlined in §200.67 Micro-purchase)
- Small purchases [§200.320(b)]*: procurement of services, supplies, or other property that does not exceed the Simplified Acquisition Threshold (outlined in §200.88 Simplified Acquisition Threshold)
- Sealed bids [§200.320(c)]*: bids are publicly solicited for a fixed price contract and awarded to the lowest bidder

In order for sealed bidding to be feasible, the following conditions should be present [§200.320(c)(1)]:

- i. A complete, adequate, and realistic specification or purchase description is available
- ii. Two or more responsible bidders are willing and able to compete effectively for the business
- iii. The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.

If sealed bids are used, the following requirements apply [§200.320(c)(2)]:

- i. Bids must be solicited from an adequate number of known suppliers and the invitation for bids must be publicly advertised
- iv. The invitation for bids must define the items or services and include any specifications and pertinent attachments
- v. All bids will be opened at the time and place prescribed in the invitation for bids
- vi. A firm fixed price contract award will be made in writing to the lowest responsive and responsible bidder
- vii. Any or all bids may be rejected if there is a sound documented reason

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Informational Items (Continued)

- Competitive proposals [§200.320(d)]: offers are solicited for either a fixed price or cost-reimbursement contract. This method is typically used when it is not appropriate to use the sealed bids methods. The following requirements apply to this method:
 - i. Requests for proposals must be publicized and identify all evaluation factors
 - ii. Proposals must be solicited from an adequate number of qualified sources
 - iii. The nonfederal entity must have a written method for conducting technical evaluations of the proposals received and for selecting recipients
 - iv. Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered
 - v. The nonfederal entity may use competitive proposal procedures for qualifications-based procurement of architectural/engineering professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected
- Noncompetitive proposals [§200.320(f)]: procurement through solicitation of a proposal from only one source. This method may be used only when one or more of the following circumstances apply:
 - i. The item is available only from a single source
 - ii. The public exigency or emergency for the requirement will not permit a delay
 - iii. Authorized by the federal awarding agency or pass-through in response to a written request
 - iv. After solicitation of a number of sources, competition is determined inadequate

* Purchases made using either the small purchase, sealed bids, or competitive proposals methods should also consider any state and local purchasing requirements. The State of Michigan Bid Threshold (MCL 380.1274) would apply to purchases of goods. The School District cannot increase the mandated thresholds; however, school district policies could be more restrictive than the federal requirements. The School District should ensure that all relevant thresholds are considered when drafting and implementing policy revisions.

Provisions of the Uniform Guidance allowed entities to elect a delay in the adoption of the procurement provisions and for school districts, the required implementation date is July 1, 2018. However, the School District has completed its revisions to policies and procedures and completed the implementation phase as required by the Uniform Guidance.