School District of the City of Hazel Park

Financial Report
with Supplemental Information
June 30, 2018

Contents

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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, 2018 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.

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, 2018 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.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, as of July 1, 2017, the School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The School District's unrestricted net position has been restated as of July 1, 2017 as a result of this change in accounting principle. Our opinion is not modified with respect to this matter.

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedule, the schedules of the School District's proportionate share of the net pension and OPEB liabilities, 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 an opinion 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2018 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

September 11, 2018

This section of 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, 2018. 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 financial statements. These statements are organized so the reader can understand the 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 statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. 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 Financial Statements

Required Supplemental Information

Budgetary Information for Major Funds

Schedule of Proportionate Share of the Net Pension Liability

Schedule of Pension Contributions

Schedule of Proportionate Share of the Net OPEB Liability

Schedule of OPEB Contributions

Other Supplemental Information

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

One of the most important questions asked about the School District is, "As a whole, what is the School District’s financial condition as a result of the year’s activities?" The statement of net position and the statement of activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year’s revenue and expenses are taken into account regardless of when cash is received or paid.

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

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

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

The School District’s fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Special Education Center Programs Fund 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).

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 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.

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 and for its trust fund. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. The following table provides a summary of the School District's net position as of June 30, 2018 and 2017:

	Governmental Activities	
	2018	2017
	(in millions)	
Assets		
Current and other assets	$ 16.4	$ 14.9
Capital assets	49.1	50.2
Total assets	65.5	65.1
Deferred Outflows of Resources	13.2	7.3
Liabilities		
Current liabilities	16.1	14.4
Noncurrent liabilities	65.9	70.7
Net pension liability	60.0	59.1
Net OPEB liability	20.4	-
Total liabilities	162.4	144.2
Deferred Inflows of Resources	11.9	8.5
Net Position		
Net investment in capital assets	(1.7)	(8.0)
Restricted:		
Food services	0.2	5.5
Debt service	3.0	-
Capital projects	0.8	-
Unrestricted (deficit)	(97.9)	(77.8)
Total net position	**$ (95.6)**	**$ (80.3)**

The above analysis focuses on net position. The change in net position of the School District's governmental activities is discussed below. The School District's net position was $(95.6) million at June 30, 2018. Net investment in capital assets totaling $(1.7) million compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position ($(97.9) million) was unrestricted.

The $(97.9) 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 condensed statement of activities below, which shows the changes in net position for the years ending June 30, 2018 and 2017.

	Governmental Activities	
	2018	2017
	(in millions)	
Revenue		
Program revenue:		
Charges for services	$ 0.4	$ 0.4
Operating grants	20.8	19.5
General revenue:		
Taxes	7.7	7.2
State aid not restricted to specific purposes	22.8	21.7
Other	0.8	0.4
Total revenue	52.5	49.2
Expenses		
Instruction	27.9	26.6
Support services	14.5	14.6
Athletics	0.4	0.5
Food services	1.5	1.4
Community services	0.3	0.2
Payments to subgrantee	0.1	-
Debt service	2.4	2.4
Total expenses	47.1	45.7
Extraordinary Item	-	0.1
Change in Net Position	5.4	3.6
Net Position - Beginning of year, as previously reported	(80.3)	(83.9)
Cumulative Effect of Change in Accounting	(20.7)	-
Net Position - Beginning of year	(101.0)	(83.9)
Net Position - End of year	**$ (95.6)**	**$ (80.3)**

As reported in the statement of activities, the cost of all of our governmental activities this year was $47.1 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 ($20.8 million). We paid for the remaining "public benefit" portion of our governmental activities with $7.7 million in taxes, $22.8 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements).

The School District experienced an increase in net position of $5.4 million. Key reasons for the change in net position were due to the School District's General Fund, Food Service Fund, and Sinking Fund all ended the 2017-18 fiscal year with operating surpluses. Significant mid-year budget reductions in the General Fund also help reduce operating costs.

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.

As required by the Governmental Accounting Standards Board (GASB), the School District adopted GASB Statement No. 75. This standard required the inclusion of the School District's proportionate share of the Michigan Public School Employees' Retiree Health Care Plan within the School District's financial statements effective July 1, 2017. The effect of the adoption was to decrease July 1, 2017 beginning net position by $20.7 million and to include the net OPEB liability and related deferred inflows and outflows of resources in the June 30, 2018 financial statements. All governments participating in the plan were required to adopt this new standard.

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of $0.5 million, which is a decrease of $0.1 million from last year.

In the General Fund, our principal operating fund, the fund balance increased $1.5 million, thus reducing the deficit fund balance to $(4.1) million. The change is mainly due to reduced operating costs and higher than expected revenue.

The Special Education Center Programs Fund experienced a fund balance increase of $0.3 million in 2018 to $0.5 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 fund balance of our debt service funds decreased $1.6 million. Millage rates continued to be 15.0 mills in 2018 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.

Combined, the fund balance of our capital project funds decreased $0.4 million. The decrease is due to completion of Sinking Fund projects in 2017-2018 that began in the previous year. Also, the 2012 Building and Site Project Fund is nearing completion and some final project costs were incurred in 2017-2018. This project is approximately 99 percent complete at the end of the year. Costs were incurred in the Ed Max Project fund for the first time in the 2017-2018 fiscal year. Costs for this project are reimbursed by Oakland Schools.

Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2018. 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 2017-2018 General Fund original budget. Budgeted revenue was increased $2.0 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 greater than original estimates.

Budgeted expenditures were also increased $2.0 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 $0.8 million and represents support provided by the General Fund to other functions.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the School District had $49.1 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 $1.0 million, or 2.0 percent, from last year.

	Governmental Activities	
	2018	2017
Land	$ 165,000	$ 165,000
Buildings and improvements	46,968,789	47,858,198
Furniture and equipment	1,705,500	1,844,539
Buses and other vehicles	295,124	305,502
Total capital assets - Net of accumulated depreciation	$ 49,134,413	$ 50,173,239

This year's additions of $0.8 million included buildings and improvements, furniture and equipment, and buses and other vehicles. Major capital projects are planned for the 2018-2019 fiscal year. We anticipate capital additions will be comparable to this year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had $43.3 million in bonds outstanding versus $47.7 million in the previous year - a change of 9.3 percent. Those bonds consisted of the following:

	2018	2017
General obligation bonds	$ 43,280,000	$ 47,735,000
School Bond Loan Fund	6,936,298	6,725,287
School Loan Revolving Fund	13,609,709	13,837,434
City of Hazel Park installment payment	198,000	231,000
Severance incentive	-	70,000
Compensated absences	1,800,680	1,865,394
Total	$ 65,824,687	$ 70,464,115

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District’s boundaries. If the School District issues “qualified debt” (i.e., debt backed by the State of Michigan), such obligations are not subject to this debt limit. The School District’s outstanding unqualified general obligation debt of $5.0 million is significantly below this statutorily imposed limit.

Other obligations include employee compensated absences and severance incentive. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2018-2019 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 2018-2019 budget was adopted in June 2018 based on an estimate of students who will enroll in September 2018. Approximately 60.8 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2018-2019 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.

Since the School District's revenue is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to the School District. The State periodically holds a revenue-estimating conference to estimate revenue. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation, including a foundation allowance increase of $220 per pupil. To be conservative, the School District only budgeted $100 of the $220 per pupil increase in the most recent board approved budget. The additional $120 per pupil will be used to offset any decreases in enrollment that may occur.

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 2030.

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.

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets	
Cash and investments (Note 4)	$ 5,406,577
Receivables:	
Property taxes receivable	199,810
Accounts receivable	10,757
Due from other governmental units	6,511,402
Inventories	27,877
Prepaid costs	57,900
Restricted assets (Note 4)	4,164,383
Capital assets - Net (Note 6)	49,134,413
Total assets	65,513,119
Deferred Outflows of Resources	
Deferred pension costs (Note 10)	12,052,138
Deferred OPEB costs (Note 10)	1,101,453
Total deferred outflows of resources	13,153,591
Liabilities	
Accounts payable	1,347,294
Accrued payroll-related liabilities and other	4,926,237
State aid anticipation note (Note 11)	9,752,579
Unearned revenue (Note 5)	54,000
Noncurrent liabilities:	
Due within one year (Note 8)	5,768,000
Due in more than one year (Note 8)	60,056,687
Net pension liability (Note 10)	60,016,167
Net OPEB liability (Note 10)	20,442,638
Total liabilities	162,363,602
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to the measurement date (Note 10)	2,408,161
Deferred pension cost reductions (Note 10)	8,787,160
Deferred OPEB cost reductions (Note 10)	691,110
Total deferred inflows of resources	11,886,431
Net Position	
Net investment in capital assets	(1,686,455)
Restricted:	
Food services	200,042
Debt service	3,033,254
Capital projects	757,803
Unrestricted deficit	(97,887,967)
Total net position	**$ (95,583,323)**

Statement of Activities

Year Ended June 30, 2018

		Program Revenue		Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Primary government - Governmental activities:				
Instruction	$ 27,924,153	$ 2,880	$ 11,414,269	$ (16,507,004)
Support services	14,532,601	-	7,849,949	(6,682,652)
Athletics	454,029	28,698	-	(425,331)
Food services	1,485,218	48,654	1,557,268	120,704
Community services	256,074	281,459	23,663	49,048
Payments to subgrantee	53,762	-	-	(53,762)
Interest	2,338,271	-	-	(2,338,271)
Other debt costs	24,420	-	-	(24,420)
Total primary government	**$ 47,068,528**	**$ 361,691**	**$ 20,845,149**	(25,861,688)

General revenue:	
Taxes:	
Property taxes, levied for general purposes	2,779,128
Property taxes, levied for debt service	4,384,669
Property taxes, levied for capital projects	552,371
State aid not restricted to specific purposes	22,800,740
Interest and investment earnings	68,879
Penalties, interest, and other taxes	20,839
Other	675,000
Total general revenue	31,281,626
Change in Net Position	5,419,938
Net Position - Beginning of year, as previously reported	(80,304,479)
Cumulative Effect of Change in Accounting	(20,698,782)
Net Position - Beginning of year	(101,003,261)
Net Position - End of year	**$ (95,583,323)**

Governmental Funds Balance Sheet

June 30, 2018

	General Fund	Special Education Center Programs Fund	Debt Service General Fund Obligation	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments (Note 4)	$ 4,678,877	$ 461,724	$ -	$ 265,976	$ 5,406,577
Receivables:					
Property taxes receivable	199,810	-	-	-	199,810
Accounts receivable	10,757	-	-	-	10,757
Due from other governmental units	5,736,861	672,264	-	102,277	6,511,402
Due from other funds (Note 7)	23,400	7,644	-	19,488	50,532
Inventories	-	-	-	27,877	27,877
Prepaid costs	57,900	-	-	-	57,900
Restricted assets (Note 4)	-	-	2,826,818	1,337,565	4,164,383
Total assets	**$ 10,707,605**	**$ 1,141,632**	**$ 2,826,818**	**$ 1,753,183**	**$ 16,429,238**
Liabilities					
Accounts payable	$ 953,811	$ 16,591	$ -	$ 375,892	$ 1,346,294
Due to other funds (Note 7)	20,488	-	-	31,044	51,532
Accrued payroll-related liabilities and other	4,075,691	620,854	-	4,619	4,701,164
State aid anticipation note (Note 11)	9,752,579	-	-	-	9,752,579
Unearned revenue (Note 5)	54,000	-	-	-	54,000
Total liabilities	14,856,569	637,445	-	411,555	15,905,569
Fund Balances					
Nonspendable - Inventory and prepaid items	57,900	-	-	27,877	85,777
Restricted:					
Debt service	-	-	2,826,818	431,509	3,258,327
Capital projects	-	-	-	857,942	857,942
Special education	-	504,187	-	-	504,187
Food service	-	-	-	172,165	172,165
Assigned - Capital projects:					
Capital projects	-	-	-	1,208	1,208
Unassigned deficit	(4,206,864)	-	-	(149,073)	(4,355,937)
Total fund balances	(4,148,964)	504,187	2,826,818	1,341,628	523,669
Total liabilities and fund balances	**$ 10,707,605**	**$ 1,141,632**	**$ 2,826,818**	**$ 1,753,183**	**$ 16,429,238**

See notes to financial statements.

Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

	June 30, 2018
Fund Balances Reported in Governmental Funds	$ 523,669
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	80,586,037
Accumulated depreciation	(31,451,624)
Net capital assets used in governmental activities	49,134,413
Bonds payable and installment payments are not due and payable in the current period and are not reported in the funds	(64,024,007)
Accrued interest is not due and payable in the current period and is not reported in the funds	(225,073)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Compensated absences	(1,800,680)
Net pension liability and related deferred inflows and outflows	(56,751,189)
Net OPEB liability and related deferred inflows and outflows	(20,032,295)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds	(2,408,161)
Net Position of Governmental Activities	**$ (95,583,323)**

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2018

	General Fund	Special Education Center Programs Fund	Debt Service General Fund Obligation	Nonmajor Funds	Total Governmental Funds
Revenue					
Local sources	$ 3,650,583	$ -	$ 55,227	$ 5,724,942	$ 9,430,752
State sources	30,037,298	1,986,497	-	94,362	32,118,157
Federal sources	2,272,053	-	-	1,557,268	3,829,321
Intergovernmental	1,565,291	5,562,865	-	-	7,128,156
Total revenue	37,525,225	7,549,362	55,227	7,376,572	52,506,386
Expenditures					
Current:					
Instruction	24,097,335	3,571,790	-	-	27,669,125
Support services	11,624,616	2,511,000	-	43,595	14,179,211
Athletics	478,176	-	-	-	478,176
Food services	-	-	-	1,430,572	1,430,572
Community services	71,911	-	-	121,864	193,775
Debt service:					
Principal	33,000	-	2,350,000	2,105,000	4,488,000
Interest	-	-	160,629	2,205,841	2,366,470
Other debt costs	-	-	70	24,350	24,420
Capital outlay	37,448	11,807	-	1,601,536	1,650,791
Payments to subgrantee	53,762	-	-	-	53,762
Total expenditures	36,396,248	6,094,597	2,510,699	7,532,758	52,534,302
Excess of Revenue Over (Under) Expenditures	1,128,977	1,454,765	(2,455,472)	(156,186)	(27,916)
Other Financing Sources (Uses)					
Transfers in (Note 7)	1,110,841	-	756,451	-	1,867,292
Transfers out (Note 7)	(756,451)	(1,110,841)	-	-	(1,867,292)
Total other financing sources (uses)	354,390	(1,110,841)	756,451	-	-
Net Change in Fund Balances	1,483,367	343,924	(1,699,021)	(156,186)	(27,916)
Fund Balances (Deficit) - Beginning of year	(5,632,331)	160,263	4,525,839	1,497,814	551,585
Fund Balances (Deficit) - End of year	**$ (4,148,964)**	**$ 504,187**	**$ 2,826,818**	**$ 1,341,628**	**$ 523,669**

See notes to financial statements.

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, 2018

Net Change in Fund Balances Reported in Governmental Funds	$ (27,916)
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:	
Capitalized capital outlay	782,720
Depreciation expense	(1,821,546)
Revenue in support of pension contributions made subsequent to the measurement date	2,376,122
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	4,504,714
Interest expense is recognized in the government-wide statements as it accrues	11,485
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(405,641)
Change in Net Position of Governmental Activities	**$ 5,419,938**

Fiduciary Funds
Statement of Fiduciary Net Position

June 30, 2018

	Trust Accounts	Student Activities
Assets		
Cash and investments (Note 4)	$ 34,370	$ 274,103
Due from other funds (Note 7)	1,000	-
Total assets	35,370	**$ 274,103**
Liabilities		
Accounts payable	-	$ 10,822
Due to student activities	-	263,281
Total liabilities	-	**$ 274,103**
Net Position	**$ 35,370**	

See notes to financial statements.

Fiduciary Funds
Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2018

	Trust Funds
Additions	$ 3,688
Deductions	11,811
Change in Net Position Held in Trust	(8,123)
Net Position - Beginning of year	43,493
Net Position - End of year	**$ 35,370**

Note 1 - Nature of Business

The School District of the City of Hazel Park (the "School District") is a school district in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The School District of the City of Hazel Park (the “School District”) follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. In accordance with governmental accounting principles, no component units are required to be reported within these financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. 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 and its component units, as applicable. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

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 or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes, unrestricted intergovernmental receipts, and other items not properly included among program revenue are reported instead as general revenue.

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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.

Fund Accounting

The School District accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the School District to show the particular expenditures for which specific revenue is used.

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital project funds. The School District reports the following funds as "major" governmental funds:

- The General Fund is the primary operating fund. It accounts for all financial resources of the School District other than those specifically assigned to another fund.

Note 2 - Significant Accounting Policies (Continued)

- 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.
- 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 nonmajor governmental 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, General Operations Funds, and Edison Max Capital Projects Fund are used to record the bond proceeds and other revenue, the disbursement of money specifically designated for acquiring or constructing 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.
- *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.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

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.

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting.

Note 2 - Significant Accounting Policies (Continued)

Specific Balances and Transactions

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, 2018, 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.

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.

Note 2 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Buildings and improvements	20-50
Buses and other vehicles	5-10
Furniture and other equipment	5-20

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 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 expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The debt service funds are generally used to liquidate governmental long-term debt.

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 that applies to future periods and 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 and OPEB costs.

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 reports deferred inflows related to revenue in support of pension contributions made subsequent to the measurement date and deferred pension and OPEB plan cost reductions.

Net Position

Net position of the School District is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

Sometimes, the School District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Note 2 - Significant Accounting Policies (Continued)

Fund Balance Flow Assumptions

Sometimes, the School District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the School District that can commit fund balance by passing a resolution. Once passed, the limitation imposed by the resolution remains in place until a similar action is taken (the passing of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The School District has, by resolution, authorized the Board of Education or superintendent to assign fund balance. The superintendent may also assign fund balance to cover a gap between estimated revenue and expenditures in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Nonspendable fund balance amounts are not in spendable form or are legally or contractually required to be maintained intact.

Pension and Other Postemployment Benefit (OPEB) Plans

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

Note 2 - Significant Accounting Policies (Continued)

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.

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.

Adoption of New Accounting Pronouncements

As of July 1, 2017, the School District adopted GASB 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 Michigan Public School Employees' Retirement System (MPSERS). The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

In accordance with the statement, the School District has reported a net OPEB liability of $21,562,454, deferred outflows of financial resources for OPEB contributions of $1,511,905 made subsequent to the measurement date, and deferred inflows of financial resources for revenue received from State Aid in support of OPEB contributions of $648,233 that was received subsequent to the measurement date, as the effects of these changes in accounting principles on the School District's net position as of July 1, 2017.

Upcoming Accounting Pronouncement

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement 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.

Note 3 - 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. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District amended the General Fund budget to reflect changes in funding from state and federal sources.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restrictions, commitments, or assignments of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the School District incurred expenditures in the General Fund and Special Education Center Programs Fund which were in excess of the amounts budgeted, as follows:

	Budget	Actual
General - Support services - Pupil	$ 2,190,910	$ 2,327,013
Special Education - Support services - Operations and maintenance	-	11,807

The School District reported expenditures significantly under budget within the line item for the payments to subgrantee. The budget line item included approximately $452,000 of retirement expenditures related to the Section 147c(2) state revenue. The actual amounts of these related costs are reported within the instruction and support services expenditures as opposed to payments to subgrantees.

Fund Deficits and Management's Plan

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 $4,148,964. 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, 2030. Additionally, the School District provides monthly financial reporting to the Departments of Education and Treasury, as required by the approved Deficit Elimination Plan.

Additionally, the School District has accumulated a fund balance deficit in the EDISON MAX Capital Project Fund of $173,697.

Capital Projects Fund Compliance

The Sinking Fund Capital Projects Fund records capital project activities funded with 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 4 - 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, certificates of deposit, 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 and investments are in accordance with statutory authority.

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

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

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 had $7,295,482 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized.

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 investment policy states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. At June 30, 2018, 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 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.. 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.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices. At June 30, 2018, the School District does not have investments with custodial credit risk as the district investments are in U.S. agency bonds and/or U.S. Treasury securities. Total U.S. Treasury bill investments, rated A-1+ by Standard & Poor's, total $2,792,687 and mature on July 12, 2018.

Note 4 - Deposits and Investments (Continued)

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 investment 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 investment policy prohibit investments in foreign currency.

Note 5 - 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 $54,000 of unearned revenue related to grant payments received prior to meeting all eligible requirements.

Note 6 - Capital Assets

Capital asset activity of the School District was as follows:

Governmental Activities

	Balance July 1, 2017	Reclassifications	Additions	Balance June 30, 2018
Capital assets not being depreciated - Land	$ 165,000	$ -	$ -	$ 165,000
Capital assets being depreciated:				
Buildings and improvements	72,065,350	24,259	710,649	72,800,258
Furniture and equipment	7,116,066	(24,259)	47,340	7,139,147
Buses and other vehicles	456,901	-	24,731	481,632
Subtotal	79,638,317	-	782,720	80,421,037
Accumulated depreciation:				
Buildings and improvements	24,207,152	1,236	1,600,058	25,808,446
Furniture and equipment	5,271,527	(38,402)	186,379	5,419,504
Buses and other vehicles	151,399	37,166	35,109	223,674
Subtotal	29,630,078	-	1,821,546	31,451,624
Net capital assets being depreciated	50,008,239	-	(1,038,826)	48,969,413
Net capital assets	$ 50,173,239	$ -	$ (1,038,826)	$ 49,134,413

Note 6 - Capital Assets (Continued)

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

Governmental activities:	
Instruction	$ 1,584,745
Support services	109,293
Community services	72,862
Food services	54,646
Total governmental activities	$ 1,821,546

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

	Primary Government			
	Fund Due From			
Fund Due To	General Fund	Special Education Center Programs Fund	Nonmajor Funds	Total
General Fund	$ -	$ -	$ 23,400	$ 23,400
Special Education Center Programs Fund	-	-	7,644	7,644
Nonmajor governmental funds	19,488	-	-	19,488
Trust Funds	1,000	-	-	1,000
Total	$ 20,488	$ -	$ 31,044	$ 51,532

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:

Receiving Fund (Transfer In)	Paying Fund (Transfer Out)	Amount
Debt Retirement Fund - General Fund Obligation	General Fund	$ 756,451
General Fund	Special Education Fund	1,110,841
	Total	$ 1,867,292

Operating transfers from the General Fund to the Debt Retirement Fund represents 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 Special Education Fund to the General Fund reflect indirect costs and rent paid by the county Special Education Center to the School District.

Note 8 - 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.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 47,735,000	$ -	$ (4,455,000)	$ 43,280,000	$ 5,485,000
School Bond Loan Fund	6,725,287	211,011	-	6,936,298	-
School Loan Revolving Fund	13,837,434	432,275	(660,000)	13,609,709	-
Installment payment - City of Hazel Park	231,000	-	(33,000)	198,000	33,000
Compensated absences	1,865,394	(64,714)	-	1,800,680	250,000
Severance incentive	70,000	-	(70,000)	-	-
Total governmental activities long-term debt	$ 70,464,115	$ 578,572	$ (5,218,000)	$ 65,824,687	$ 5,768,000

General Obligation Bonds

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. All of the School District's bonds are qualified and thus fully guaranteed by the State of Michigan. General obligations outstanding at June 30, 2018 are as follows:

Governmental Activities	Remaining Annual Installments	Interest Rate(s) (Percent)	Maturing	Outstanding
2011 Qualified Refunding Bond - $25,500,000	$1,910,000 - $2,130,000	3.75 - 5.00	May 1, 2025	$ 14,245,000
2012 Qualified Refunding Bond - $17,765,000	$2,300,000 - $2,730,000	3.50 - 4.75	May 1, 2032	17,765,000
2012 Qualified Building and Site Bond - $7,950,000	$360,000 - $565,000	3.00 - 4.00	May 1, 2032	6,300,000
2010 Energy Conservation Improvement Bond - $3,315,000	$215,000 - $280,000	3.375 - 4.125	May 1, 2026	1,970,000
2003 Qualified Zone Academy Bond - Energy Conservation Series - $3,000,000	N/A	N/A	July 15, 2018	3,000,000
Total bonded debt				$ 43,280,000

Note 8 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

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

	Governmental Activities		
Years Ending December 31	Principal	Interest	Total
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	2,768,000	1,182,284	3,950,284
2024-2028	14,508,000	4,250,687	18,758,687
2028-2032	12,725,000	1,310,341	14,035,341
Total	$ 43,478,000	$ 12,578,087	$ 56,056,087

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, 2018, there was $198,000 remaining to be paid.

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 ranging from 3.10 to 3.18 percent has been assessed for the year ended June 30, 2018. 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 ranging from 3.10 to 3.18 percent has been assessed for the year ended June 30, 2018. 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 9 - 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.

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 10 - Michigan Public School Employees' Retirement System

Plan Description

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

The System is administered by the Office of Retirement Services (ORS). 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, Michigan 48909.

Benefits Provided

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

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 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 to 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.

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

Depending on the member’s date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

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.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of each retiree healthcare recipient. Depending on the member’s date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

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.

Under the OPEB plan, 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. Participating employers are required to contribute at that rate.

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to the retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

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

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

The range of rates is as follows:

	Pension	OPEB
October 1, 2017 - January 31, 2018	13.54% - 17.89%	7.42% - 7.67%
February 1, 2018 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The School District's required and actual pension contributions to the plan for the year ended June 30, 2018 were $6,295,475, which include the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual pension contributions include an allocation of $2,408,161 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, 2018. For the year ended June 30, 2018, the contributions also include a one-time payment to the School District received under Section 147c(2) of the State Aid act, which the School District then remitted as a contribution to the plan.

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2018 were $1,1,452,960, which include the School District's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2018, the School District reported a liability of $60,016,167 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. 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 and 2016, the School District's proportion was 0.231595 and 0.236721 percent, respectively.

Net OPEB Liability

At June 30, 2018, the School District reported a liability of $20,442,638 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2018 was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The School District’s proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District’s proportion was 0.230848 percent.

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

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

For the year ended June 30, 2018, the School District recognized pension expense of $3,891,585, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2018, 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	$ 521,581	$ (294,487)
Changes in assumptions	6,575,248	-
Net difference between projected and actual earnings on pension plan investments	-	(2,869,168)
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	12,684	(5,623,505)
The School District's contributions to the plan subsequent to the measurement date	4,942,625	-
Total	$ 12,052,138	$ (8,787,160)

The $2,408,161 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2019	$ (1,235,823)
2020	(11,116)
2021	(163,127)
2022	(267,581)
Total	$ (1,677,647)

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

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the School District recognized OPEB expense of $1,369,132.

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ (217,654)
Net difference between projected and actual earnings on OPEB plan investments	-	(473,456)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	7,935	-
Employer contributions to the plan subsequent to the measurement date	1,093,518	-
Total	$ 1,101,453	$ (691,110)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and therefore will not be included in future OPEB expense):

Years Ending	Amount
2019	$ (165,235)
2020	(165,235)
2021	(165,235)
2022	(165,235)
2023	(22,235)
Total	$ (683,175)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2017 is based on the results of an actuarial valuation as of September 30, 2016 and rolled forward. The total pension and OPEB liability was determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal cost actuarial cost method
Investment rate of return - Pension	7.00% - 7.50%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.50%	Net of investment expenses based on the groups
Salary increases	3.50% - 12.30%	Including wage inflation of 3.50 percent
Healthcare cost trend rate	7.50%	Year 1 graded to 3.5 percent year 12
Mortality basis		RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00 - 7.50 percent as of September 30, 2017 depending on the plan option. The discount rate used to measure the total OPEB liability was 7.50 percent as of September 30, 2017. 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 district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

The long-term expected rate of return on pension plan and OPEB 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 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.60 %
Private equity pools	18.00	8.70
International equity pools	16.00	7.20
Fixed-income pools	10.50	(0.10)
Real estate and infrastructure pools	10.00	4.20
Real return, opportunistic, and absolute pool	15.50	5.00
Short-term investment pools	2.00	(0.90)
Total	100.00 %	

MPSERS approved a decrease in the discount rate for the September 30, 2017 annual actuarial valuation for the pension plan and the OPEB plan to 7.05 percent and 7.15 percent, respectively. As a result, the actuarial computed employer contributions, the net pension liability, and net OPEB liability will increase for the measurement period ending September 30, 2018.

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 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 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50 percent)	Current Discount Rate (7.50 percent)	1 Percent Increase (8.50 percent)
Net pension liability of the School District	$ 78,181,103	$ 60,016,167	$ 44,722,447

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

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the School District, calculated using the current discount rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50 percent)	Current Discount Rate (7.50 percent)	1 Percent Increase (8.50 percent)
Net OPEB liability of the School District	$ 23,944,237	$ 20,442,638	$ 17,470,876

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Tend Rate

The following presents the net OPEB liability of the School District, calculated using the current healthcare cost trend rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50 percent)	Current Discount Rate (7.50 percent)	1 Percent Increase (8.50 percent)
Net OPEB liability of the School District	$ 17,312,166	$ 20,442,638	$ 23,997,070

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2018, the School District reported a payable of $1,051,947 and $170,427 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2018.

Note 11 - State Aid Anticipation Note

On August 21, 2017, the School District borrowed $10,348,000 in state anticipation notes. The notes bear interest at rates ranging from 1.27 percent and 1.49 percent annually and are due on July 20, 2018 and August 20, 2018. At June 30, 2018, the School District has accrued interest of $124,457 on these notes and the principal balance outstanding is $9,752,579 and was paid in full subsequent to year end.

Subsequent to year end on August 20, 2018, the School District borrowed $11,885,000 in state aid anticipation notes. The notes bear interest at rates ranging from 1.75 percent to 2.50 percent annually and are due on August 20, 2019.

Note 12 - 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 judgment 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.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule
General Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local and intergovernmental sources	$ 4,665,209	$ 5,595,589	$ 5,215,874	$ (379,715)
State sources	28,600,278	29,357,475	30,037,298	679,823
Federal sources	2,247,233	2,516,544	2,272,053	(244,491)
Total revenue	35,512,720	37,469,608	37,525,225	55,617
Expenditures				
Current:				
Instruction:				
Basic programs	16,811,216	17,886,193	17,896,532	10,339
Added needs	5,042,478	5,828,522	5,841,488	12,966
Adult/Continuing education	209,036	378,598	359,315	(19,283)
Support services:				
Pupil	2,855,005	2,190,910	2,327,013	136,103
Instructional staff	1,438,956	1,688,924	1,564,025	(124,899)
General administration	569,270	549,180	568,667	19,487
School administration	1,605,029	1,666,813	1,666,542	(271)
Business	957,053	830,146	751,762	(78,384)
Operations and maintenance	3,352,917	3,439,732	3,471,114	31,382
Pupil transportation services	422,170	395,750	397,556	1,806
Central	869,720	902,615	885,128	(17,487)
Other	47,812	33,281	30,257	(3,024)
Athletics	534,383	489,101	478,176	(10,925)
Community services	104,082	79,808	71,911	(7,897)
Debt service - Principal	33,000	33,000	33,000	-
Payments to subgrantee	26,642	495,172	53,762	(441,410)
Total expenditures	34,878,769	36,887,745	36,396,248	(491,497)
Excess of Revenue Over Expenditures	633,951	581,863	1,128,977	547,114
Other Financing Sources (Uses)				
Transfers in	1,101,832	1,149,100	1,110,841	(38,259)
Transfers out	(747,068)	(767,594)	(756,451)	11,143
Total other financing sources	354,764	381,506	354,390	(27,116)
Net Change in Fund Balance	988,715	963,369	1,483,367	519,998
Fund Balance (Deficit) - Beginning of year	(5,632,331)	(5,632,331)	(5,632,331)	-
Fund Balance (Deficit) - End of year	**$ (4,643,616)**	**$ (4,668,962)**	**$ (4,148,964)**	**$ 519,998**

See notes to required supplemental information.

Required Supplemental Information
Budgetary Comparison Schedule
Major Special Revenue Fund
Special Education Center Programs Fund

Year Ended June 30, 2018

	Original Budget	Actual	(Under) Over Original Budget
Revenue			
State sources	$ 2,284,167	$ 1,986,497	$ (297,670)
Other financing sources	5,047,059	5,562,865	515,806
Total revenue	7,331,226	7,549,362	218,136
Expenditures			
Current:			
Instruction - Added needs	3,668,865	3,571,790	(97,075)
Support services:			
Pupil	1,877,120	1,707,024	(170,096)
Instructional staff	526,367	560,667	34,300
School administration	-	288	288
Operations and maintenance	-	11,807	11,807
Pupil transportation services	262,417	242,671	(19,746)
Capital outlay	2,200	350	(1,850)
Other	99,114	-	(99,114)
Total expenditures	6,436,083	6,094,597	(341,486)
Excess of Revenue Over Expenditures	895,143	1,454,765	559,622
Other Financing Sources (Uses)			
Transfers in	206,689	-	(206,689)
Transfers out	(1,101,832)	(1,110,841)	(9,009)
Total other financing uses	(895,143)	(1,110,841)	(215,698)
Net Change in Fund Balance	-	343,924	343,924
Fund Balance - Beginning of year	160,263	160,263	-
Fund Balance - End of year	**$ 160,263**	**$ 504,187**	**$ 343,924**

See notes to required supplemental information.

Required Supplemental Information
Schedule of Proportionate Share of the Net Pension Liability
Michigan Public School Employees' Retirement System

Last Four Plan Years

Plan Years Ended September 30

	2017	2016	2015	2014
School District's proportion of the net pension liability	0.23160 %	0.23672 %	0.26071 %	0.27591 %
School District's proportionate share of the net pension liability	$ 60,016,167	$ 59,059,858	$ 63,678,695	$ 60,772,312
School District's covered employee payroll	$ 19,579,704	$ 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	306.52 %	308.83 %	307.63 %	262.59 %
Plan fiduciary net position as a percentage of total pension liability	63.96 %	63.01 %	62.92 %	66.15 %

See notes to required supplemental information.

Required Supplemental Information
Schedule of Pension Contributions
Michigan Public School Employees' Retirement System

Last Four Fiscal Years

Years Ended June 30

	2018	2017	2016	2015
Statutorily required contribution	$ 5,842,518	$ 5,429,765	$ 5,389,770	$ 5,644,934
Contributions in relation to the statutorily required contribution	5,842,518	5,429,765	5,389,770	5,644,934
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**
School District's Covered Employee Payroll	$ 19,028,045	$ 19,519,713	$ 18,414,841	$ 22,250,708
Contributions as a Percentage of Covered Employee Payroll	30.70 %	27.82 %	29.27 %	25.37 %

See notes to required supplemental information.

Required Supplemental Information
Schedule of Proportionate Share of the Net OPEB Liability
Michigan Public School Employees' Retirement System

Last Plan Year

Plan Year Ended September 30

	2017
School District's proportion of the net OPEB liability	0.23085 %
School District's proportionate share of the net OPEB liability	$ 20,442,638
School District's covered employee payroll	$ 19,579,704
School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	104.41 %
Plan fiduciary net position as a percentage of total OPEB liability	36.53 %

See notes to required supplemental information.

Required Supplemental Information
Schedule of OPEB Contributions
Michigan Public School Employees' Retirement System

Last Fiscal Year

Year Ended June 30

	2018
Statutorily required contribution	$ 1,374,343
Contributions in relation to the statutorily required contribution	1,374,343
Contribution Deficiency	**$ -**
School District's Covered Employee Payroll	$ 19,028,045
Contributions as a Percentage of Covered Employee Payroll	7.22 %

See notes to required supplemental information.

Pension Information

Ultimately, 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

There were no changes of benefit assumptions in 2017.

Covered Payroll

The employers' covered payroll to be reported in the required supplemental information is defined by GASB No. 82, *Pension Issues - An Amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based, and by GASB No. 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For the School District, covered payroll represents payroll on which contributions to both plans are based.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

There were no changes of benefit assumptions in 2017.

Covered Payroll

The employers' covered payroll to be reported in the required supplemental information is defined by GASB No. 82, *Pension Issues - An Amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based, and by GASB No. 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For the School District, covered payroll represents payroll on which contributions to both plans are based.

Other Supplemental Information

	Special Revenue Funds		Debt Service Funds	
	Food Services Fund	Community Services - Child Care Fund	Unqualified Debt	Qualified Debt
Assets				
Cash and investments	$ 236,600	$ 29,376	$ -	$ -
Receivables - Due from other governmental units	102,277	-	-	-
Due from other funds	-	-	-	8
Inventories	27,877	-	-	-
Restricted assets	-	-	431,509	46,792
Total assets	**$ 366,754**	**$ 29,376**	**$ 431,509**	**$ 46,800**
Liabilities				
Accounts payable:				
Accounts payable	$ 166,712	$ 133	$ -	$ 23,400
Retainage payable	-	-	-	-
Due to other funds	-	-	-	23,400
Accrued payroll-related liabilities and other	-	4,619	-	-
Total liabilities	166,712	4,752	-	46,800
Fund Balances				
Nonspendable - Inventory and prepaid items	27,877	-	-	-
Restricted:				
Debt service	-	-	431,509	-
Capital projects	-	-	-	-
Food service	172,165	-	-	-
Assigned - Capital projects	-	-	-	-
Unassigned deficit	-	24,624	-	-
Total fund balances (deficit)	200,042	24,624	431,509	-
Total liabilities and fund balances	**$ 366,754**	**$ 29,376**	**$ 431,509**	**$ 46,800**

June 30, 2018

Capital Project Funds				
Sinking Fund	2012 Building and Site Project	General Operations	EDISON MAX Capital Projects	Total
$ -	$ -	$ -	$ -	$ 265,976
-	-	-	-	102,277
-	10,628	8,852	-	19,488
-	-	-	-	27,877
769,753	89,511	-	-	1,337,565
$ 769,753	**$ 100,139**	**$ 8,852**	**$ -**	**$1,753,183**
$ 11,950	$ -	$ -	$ 159,302	$ 361,497
-	-	-	14,395	14,395
-	-	7,644	-	31,044
-	-	-	-	4,619
11,950	-	7,644	173,697	411,555
-	-	-	-	27,877
-	-	-	-	431,509
757,803	100,139	-	-	857,942
-	-	-	-	172,165
-	-	1,208	-	1,208
-	-	-	(173,697)	(149,073)
757,803	100,139	1,208	(173,697)	1,341,628
$ 769,753	**$ 100,139**	**$ 8,852**	**$ -**	**$1,753,183**

	Special Revenue Funds		Debt Service Funds	
	Food Services Fund	Community Services - Child Care Fund	Unqualified Debt	Qualified Debt
Revenue				
Local sources	$ 60,102	$ 116,049	$ 464,201	$ 3,935,423
State sources	94,362	-	-	-
Federal sources	1,557,268	-	-	-
Total revenue	1,711,732	116,049	464,201	3,935,423
Expenditures				
Current:				
Support services	-	-	-	-
Food services	1,430,572	-	-	-
Community services	-	121,864	-	-
Debt service:				
Principal	-	-	210,000	1,895,000
Interest	-	-	160,629	2,045,212
Other debt costs	-	-	-	24,350
Capital outlay	81,977	-	-	-
Total expenditures	1,512,549	121,864	370,629	3,964,562
Net Change in Fund Balances	199,183	(5,815)	93,572	(29,139)
Fund Balances - Beginning of year	859	30,439	337,937	29,139
Fund Balances (Deficit) - End of year	**$ 200,042**	**$ 24,624**	**$ 431,509**	**$ -**

Year Ended June 30, 2018

Capital Project Funds				
Sinking Fund	2012 Building and Site Project	General Operations	EDISON MAX Capital Projects	Total
$ 560,271	$ 721	$ -	$ 588,175	$ 5,724,942
-	-	-	-	94,362
-	-	-	-	1,557,268
560,271	721	-	588,175	7,376,572
-	-	43,595	-	43,595
-	-	-	-	1,430,572
-	-	-	-	121,864
-	-	-	-	2,105,000
-	-	-	-	2,205,841
-	-	-	-	24,350
679,399	73,679	4,609	761,872	1,601,536
679,399	73,679	48,204	761,872	7,532,758
(119,128)	(72,958)	(48,204)	(173,697)	(156,186)
876,931	173,097	49,412	-	1,497,814
$ 757,803	**$ 100,139**	**$ 1,208**	**$ (173,697)**	**$ 1,341,628**

Other Supplemental Information
Schedule of Bonded Indebtedness

June 30, 2018

Year Ended June 30	2003 QZAB Principal	2010 Energy Conservation Improvement Bond Principal	2011 Refunding Bond Principal	2012 Refunding Bond Principal	2012 School Building and Site Bonds Principal	Total
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 remaining payments	**$ 3,000,000**	**$ 1,970,000**	**$ 14,245,000**	**$ 17,765,000**	**$ 6,300,000**	**$ 43,280,000**
Principal payments due	July 15, 2018	May 1	May 1	May 1	May 1	
Interest payments due	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	3.375% to 4.125%	3.75% to 5%	3.5% to 4.75%	3% to 4%	
Original issue	**$ 3,000,000**	**$ 3,315,000**	**$ 25,500,000**	**$ 17,765,000**	**$ 7,950,000**	