

Royal Oak Schools

Financial Statements

June 30, 2018



Comprehensive Annual Financial Report

of

Royal Oak Schools

Royal Oak, Michigan

As prepared by the Finance Department

For the Fiscal Year Ended June 30, 2018

Mary Beth Fitzpatrick
Superintendent of Schools

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Executive Director, Finance & Operations

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INTRODUCTORY SECTION



Board of Education
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September 5, 2018

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

Dear Board Members:

This letter of transmittal is intended to provide an overview of the financial condition of Royal Oak Schools from the perspective of the Superintendent and the Executive Director, Finance & Operations. It serves as an introduction to our Comprehensive Annual Financial Report for the fiscal year which ended June 30, 2018. The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes the District's organizational chart, a list of principal officials and this transmittal letter. The financial section includes the Management's Discussion and Analysis, the Independent Auditor's Report, district-wide financial statements, fund financial statements and notes to the financial statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. For an additional narrative about the financial performance of the District, please direct your attention to the Management's Discussion and Analysis.

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

The District

Royal Oak Schools is a suburban district located two miles north of the City of Detroit. It is a fiscally independent school district governed by a seven-member elected Board of Education. In fiscal year 2018, the District operated six K-5 elementary schools, one 6-8 middle school, one 9-12 senior high school, an early childhood center, a community education center, an alternative high school, an administration building and a maintenance/transportation facility. The district provided shared services to private and parochial schools located within the bounds of the district.

Student Services Provided

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

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

Accounting System and Budgetary Control

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

State School Finance System

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

Royal Oak Schools has, for a number of years, experienced significant declines in enrollment as the demographics of the community have shifted. In the 2017-18 Royal Oak Schools saw an increase in student enrollment of just over 10 pupils. This was the second increase for the District in two years. Student enrollment projections are prepared by an outside firm and indicate a flat to slow increase in student enrollment over the next several years.

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

Revenue Base

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

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

| | <u>Amount</u> | <u>Percentage of Total</u> |
|------------------------------|----------------------|----------------------------|
| Local Sources | \$ 21,003,123 | 34.36% |
| State Sources | \$ 34,105,594 | 55.80% |
| Federal Sources | \$ 1,663,102 | 2.72% |
| <u>Interdistrict Sources</u> | <u>\$ 4,354,650</u> | <u>7.12%</u> |
| <u>Total Revenue</u> | <u>\$ 61,126,469</u> | <u>100.00%</u> |

Local Sources are comprised mainly of local property taxes, facility rentals, and miscellaneous fees. Property tax revenue is a function of two variables: taxable valuation of property located in the District and the millage rate. The real and personal property within the District is assessed at the rate of 50% of true cash value. However, there is a cap on the annual growth in taxable valuation. This annual growth is limited to the rate of inflation or 5%, whichever is less. In November 2017 residents of the Royal Oak School District approved a Non-Homestead Millage Rate Restoration of .8 mills. This was due to property rate values growing faster than inflation so that the District could collect the entire 18.0000 mills on the Non-Homestead property. In 2017-18, the operating millage rate for Royal Oak homeowners was 2.4702 mills and 18.0000 mills for businesses.

A comparison of 2017-18 General Fund revenue to the prior year reveals the following:

| | <u>2017-18</u> | <u>2016-17</u> | <u>Increase (Decrease)</u> | <u>(Decrease) By Source</u> |
|------------------------------|----------------------|----------------------|--------------------------------|---------------------------------|
| Local Sources | \$ 21,003,123 | \$ 20,581,666 | \$ 421,457 | 2.05% |
| State Sources | \$ 34,105,594 | \$ 32,386,390 | \$ 1,719,204 | 5.31% |
| Federal Sources | \$ 1,663,102 | \$ 1,817,732 | \$ (154,630) | -8.51% |
| <u>Interdistrict Sources</u> | <u>\$ 4,354,650</u> | <u>\$ 4,080,207</u> | <u>\$ 274,443</u> | <u>6.73%</u> |
| <u>Total Revenues</u> | <u>\$ 61,126,469</u> | <u>\$ 58,865,995</u> | <u>\$ 2,260,474</u> | <u>3.84%</u> |

The increase in Local Sources of \$421,457 is mostly attributed to the rise in property taxes collected on non-homestead properties and an increase in facilities rentals.

The net increase in State Sources of \$1,719,204 was primarily the result of the 10 student increase to enrollment, new funding for the District through At Risk funding and increase in 147c MPERS UAAL rate stabilization allocation.

The net decrease in Federal Sources of \$154,630 is attributable to the decrease in federal funding allocations.

The increase in Interdistrict Sources of \$274,443 was due to the increase in county distributions of Public Act (PA) 18. PA 18 is a special education millage rate levied on all of Oakland County, collected by the Oakland Intermediate School District, and distributed to all Local Education Agencies.

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

Expenditures

Expenditures and Other Financing (Sources) Uses for the General Fund totaled \$61,104,144 for the year ended June 30, 2018. The amount of expenditures for various functions and the percent of the total expenditures are as follows:

| <u>Function</u> | <u>Amount</u> | <u>% of Total</u> |
|--|-----------------------------|-----------------------|
| Instruction: | | |
| Basic Programs | \$ 27,694,712 | 45.32% |
| Added Needs | \$ 7,815,996 | 12.79% |
| Continuing Education | \$ 292,236 | 0.48% |
| Total Instruction | <u>\$ 35,802,944</u> | <u>58.59%</u> |
| Support Services: | | |
| Pupil Services | \$ 4,959,956 | 8.12% |
| Instructional Services | \$ 2,338,967 | 3.83% |
| General Administration | \$ 562,678 | 0.92% |
| School Administration | \$ 3,088,633 | 5.05% |
| Business Services | \$ 8,567,905 | 14.02% |
| Central Staff | \$ 1,858,317 | 3.04% |
| Athletic Activities | \$ 816,009 | 1.34% |
| Other | \$ 72,174 | 0.12% |
| Total Support Services | <u>\$ 22,264,639</u> | <u>36.44%</u> |
| Payments to other governmental units | \$ 1,203,937 | 1.97% |
| Community Services | \$ 1,280,877 | 2.10% |
| Capital Outlay | \$ 1,524 | 0.00% |
| Debt Service | \$ 43,887 | 0.07% |
| Total Expenditures | <u>\$ 60,597,808</u> | <u>99.17%</u> |
| Other Financing Uses | <u>\$ (506,336)</u> | <u>-0.83%</u> |
| Total Expenditures and Other Financing Sources Uses | <u><u>\$ 61,104,144</u></u> | <u><u>100.00%</u></u> |

A comparison of 2017-18 General Fund expenditures to the prior year is as follows:

| Function | 2017-18 | 2016-17 | Increase (Decrease) | % Increase (Decrease) By Source |
|--|---------------|---------------|------------------------|---------------------------------------|
| Instruction: | | | | |
| Basic Programs | \$ 27,694,712 | \$ 25,926,178 | \$ 1,768,534 | 6.82% |
| Added Needs | \$ 7,815,996 | \$ 7,006,048 | \$ 809,948 | 11.56% |
| Continuing Education | \$ 292,236 | \$ 201,577 | \$ 90,659 | 44.97% |
| Total Instruction | \$ 35,802,944 | \$ 33,133,803 | \$ 2,578,482 | 7.78% |
| Support Services: | | | | |
| Pupil Services | \$ 4,959,956 | \$ 4,700,118 | \$ 259,838 | 5.53% |
| Instructional Services | \$ 2,338,967 | \$ 2,184,700 | \$ 154,267 | 7.06% |
| General Administration | \$ 562,678 | \$ 648,453 | \$ (85,775) | -13.23% |
| School Administration | \$ 3,088,633 | \$ 2,901,153 | \$ 187,480 | 6.46% |
| Business Services | \$ 8,567,905 | \$ 9,173,251 | \$ (605,346) | -6.60% |
| Central Staff | \$ 1,858,317 | \$ 1,855,851 | \$ 2,466 | 0.13% |
| Athletic Activities | \$ 816,009 | \$ 763,345 | \$ 52,664 | 6.90% |
| Other | \$ 72,174 | \$ 41,582 | \$ 30,592 | 73.57% |
| Total Support Services | \$ 22,264,639 | \$ 22,268,453 | \$ (3,814) | -0.02% |
| Payments to other governmental units | \$ 1,203,937 | \$ 1,346,705 | \$ (142,768) | -10.60% |
| Community Services | \$ 1,280,877 | \$ 1,265,541 | \$ 15,336 | 1.21% |
| Capital Outlay | \$ 1,524 | \$ 15,342 | \$ (13,818) | -90.07% |
| Debt Service | \$ 43,887 | \$ 75,235 | \$ (31,348) | -41.67% |
| Total Expenditures | \$ 60,597,808 | \$ 58,105,079 | \$ 2,492,729 | 4.29% |
| Other Financing Uses | \$ (506,336) | \$ (343,571) | \$ (162,765) | 47.37% |
| Total Expenditures and Other Financing Sources Uses | \$ 61,104,144 | \$ 58,448,650 | \$ 2,655,494 | 4.54% |

The most significant dollar changes from 2016-17 to 2017-18 can be explained as follows:

The 7.78% increase in total instruction is in large part attributable to the increase in retirement costs. The district was required to make contributions in the amount of \$4,022,045 to the Michigan Public School Employee Retirement System (MPSERS). This amount represents the additional employer contributions attributed to the unfunded accrued liability (UAAL) rate, which was approximately 13.98% for the year. This expenditure was offset by corresponding state revenue referred to as 147c MPSERS UAAL Rate Stabilization. Essentially the state held us harmless; however, the state still required local education agencies to account for the expense. Additionally, the collective bargaining agreements with the Royal Oak Education Association (ROEA) and the Royal Oak Educational Support Association (ROESA) included salary step increments for all eligible bargaining unit members. Benefit rates had minimal effect on the increase in expenses for the fiscal year.

The 10.6% decrease in Payments to Other Governmental Units reflects the Districts commitment to bringing our special education students back from center based programs, thus reducing our expense for tuition.

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

The decrease in debt service is due to paying off the long term District-wide copier lease.

Overall expenditures increase was 4.54% from the previous fiscal year.

Fund Balance

The District ended fiscal year 2018 in stable financial condition; however, we remain cautious as the State continues to discuss the funding system of K-12 education. The General Fund's fund balance of \$14,541,448 achieves the stated goal of 15% of expenditures and other financing uses. A conscious effort was made a number of years ago to establish an adequate fund balance level to assist with cash flow needs, prevent borrowing, provide adequate reserves during economic downturns, and provide for unforeseen emergencies. Our District has achieved this goal; however, the current financial challenges and uncertainty of school funding have made the goal of maintaining stable fund equity a significant challenge. It should also be noted that a portion of the fund balance is assigned for specific uses. These include assignments for the subsequent year's budget and compensated absences. The unassigned fund balance of \$12.3 million at the end of fiscal year 2018 represents 20% of expenditures and other financing uses.

Debt Service

In the 2014-2015 the District refunded our 2005 Debt. The savings to the tax payers over the life of the new bonds is \$3,969,283. The District continues to meet its debt service obligations by levying a local debt retirement millage and using funds on hand. The millage levied in fiscal year 2018 was 3.25 mills, 0.5 mills less than the previous year. The total fund balance in the debt retirement funds of \$1,321,157 along with anticipated tax revenues is adequate to meet our future years debt obligation and interest payments provided our property tax values remain relatively stable.

Fiscal Planning

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

A comprehensive evaluation of all buildings' infrastructure needs was performed a number of years ago and was updated in 2017-18 fiscal year. This facility assessment included an evaluation of the electrical and mechanical systems, roofing, plumbing, site, sidewalks, parking lots, heating and cooling, as well as life safety issues.

In November 2012, the Royal Oak Community approved a 1 mill sinking fund that provides a dedicated revenue source to renovate our facilities. These renovations will support and improve the construction and renovation projects that occurred in 2018.

In November 2017 the voters of Royal Oak supported a \$59.9 million dollar bond. The first series of bonds in the amount of \$23,725,000 were sold in January 2018 and with interest and principal paid over 10 years. Work began in the spring of 2018 on the athletic plaza at Royal Oak High School. Projects will take place at all District facilities and will continue through 2022.

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

Since student enrollment is so critical to the District's financial well being, several short and long term initiatives have been developed to address this key issue. These include engaging the services of a marketing agency to continue our comprehensive advertising campaign. Once again, the District was a successful participant in the Schools of Choice Program during fiscal 2018. This program allows students residing in other Oakland County districts to enroll in our District. This program has enabled the

District to generate revenue to maintain programs despite a decline in resident students. For fiscal year 2018, this program used a targeted, space available and grade specific approach.

Other long term initiatives have been implemented to maintain student enrollment. These include: An Early Childhood Center that provides Child Care and Preschool services and introduces families to Royal Oak Schools at an early age. Numerous other initiatives have also been implemented, some of which included Board of Education and citizen based advisory committees, community based decision-making on facility consolidation, efforts in District-wide public relations and marketing, and curriculum updates.

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

Other Financial Highlights

The District maintains a prudent and fiscally conservative cash management program. The General Fund investment income earned was \$195,049. This amount is the result of an increasing interest rate environment and the decision to invest District funds with MILAF (Michigan Liquid Asset Fund).

During the fiscal year, there were four union groups recognized within the District. We successfully negotiated contracts with all four groups and settled contracts are in place for the 2017-2018 school year.

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

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

The Food Service Fund ended the year with revenues over expenditures in the amount of \$141,604 which increases the fund balance to \$500,482.

The District has two tax capture authorities within its boundaries: a Downtown Development Authority (DDA) and the Royal Oak Brownstown Re-Development Authority. Such authorities use tax revenue generated from property value growth above a base year value in a defined geographic area to finance public infrastructure improvements. The stated purpose of these authorities is

to increase the desirability of the defined area to encourage economic growth and activity. The DDA has been able to meet all of its financial obligations and return excess captured tax revenue to the respective taxing units, including our school district.

To cope with the ever increasing economic uncertainty, increasing costs, and declining revenue, the District has employed a number of expenditure and revenue enhancement strategies over the past several years. These include: an early return to work program for employees on workers' compensation, energy performance contracts, increased summer staff development activity, tuition-based day care, increased fees for facility usage, use of a targeted Schools of Choice Program, building consolidation, standardized office automation software and hardware, purchasing card usage, purchase of software and hardware to handle administrative functions, summer team cleaning of buildings, a health insurance dependent eligibility audit, advertising, development of a Quality Assurance Plan for custodial operations, implementation of a preventive maintenance program for facilities, use of a computerized bus routing system, elimination of general education transportation, restructured special education services, improved effectiveness of the facility rental process, an automated substitute calling system, and the direct purchase of fuel and electricity.

Curriculum Highlights

School Quality

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

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

Accreditation

The high school, middle school, all elementaries and continuing education are fully accredited through AdvancEd, as well as by the Michigan Department of Education. Both set rigorous standards for accreditation. The accreditation process focuses on documented enhanced student achievement for both the individual student as well as the instructional program as a whole. In the Spring of 2018 Royal Oak Schools engaged in a System Engagement Review by AdvancEd. This was an external review of

the systems the district has in place. The District received district wide accreditation as a result of the review and will remain fully accredited for the following five years.

Curriculum and Instruction Overview

The District's comprehensive curriculum, which provides focus and direction for classroom instruction, is continuously evaluated and redesigned to meet the needs of our students. Curriculum renewal occurs through a process that involves all stakeholders in the learning community, including students, staff, parents, and community members. All students are prepared with the knowledge, skills, and behaviors that are essential for the future. Through their years of school, Royal Oak students receive instruction in reading, writing, communication, mathematics, social studies, and science. World languages, fine and performing arts, physical education, health, and career education are included at all levels of the curriculum.

Keller Elementary School received the designation as an authorized International Baccalaureate Primary Years Programme in the spring of 2011. Royal Oak Middle School and Royal Oak High School received full authorization as International Baccalaureate (IB) World Schools in the Spring of 2015. In Spring of 2018, Royal Oak High School became authorized for the IB Diploma Programme. All three of these schools are implementing inquiry-based learning methods, which are student-centered approaches that encourage inquiry, exploration, and problem-solving.

Royal Oak High School is well poised to take on the challenges of the rigorous graduation requirements mandated by the State. The high school has curricular programs for the graduating classes of 2019 and beyond to meet these challenges. At the same time, the high school has focused on "Learning for All" in efforts to leave no student behind during this transition to stronger graduation requirements. In recent years, Royal Oak High School was named by US News and World Report as one of the top fifty high schools in the state of Michigan.

Core Curriculum

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

Language Arts

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

Math

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

Science

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

Social Studies

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

Individualized Instruction

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

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

Instructional Technology

Instructional Technology is integrated into the curriculum to address different learning styles, to provide access to a wide array of information, and to encourage real-world application of academic content and skills. All elementary and secondary schools in Royal Oak have excellent media centers and support staff who are trained in applications of multi-media materials and technology. Royal Oak Schools has initiated a partnership with Oakland Schools Technology Services Department to formalize technology integration initiatives for the classroom, as well as professional development for teachers and administrators.

Assessment

The District's Instruction Office maintains a prescribed assessment program to monitor the progress of individual students as well as the effectiveness of our instructional programs. The District uses common assessments at all grade levels to evaluate student progress and to improve instructional practices. The District Uses AIMSWeb (Academic Improvement Monitoring System) and NWEA Map testing to collect academic growth data on students in grades K-10. The information collected is norm-referenced. The Michigan M-Step is administered in the Spring to all students in grades 3-8 and grade 11. The SAT was administered to all students in Grade 11 in March of 2018.

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

Communication

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

In Appreciation

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

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

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

Respectfully submitted,

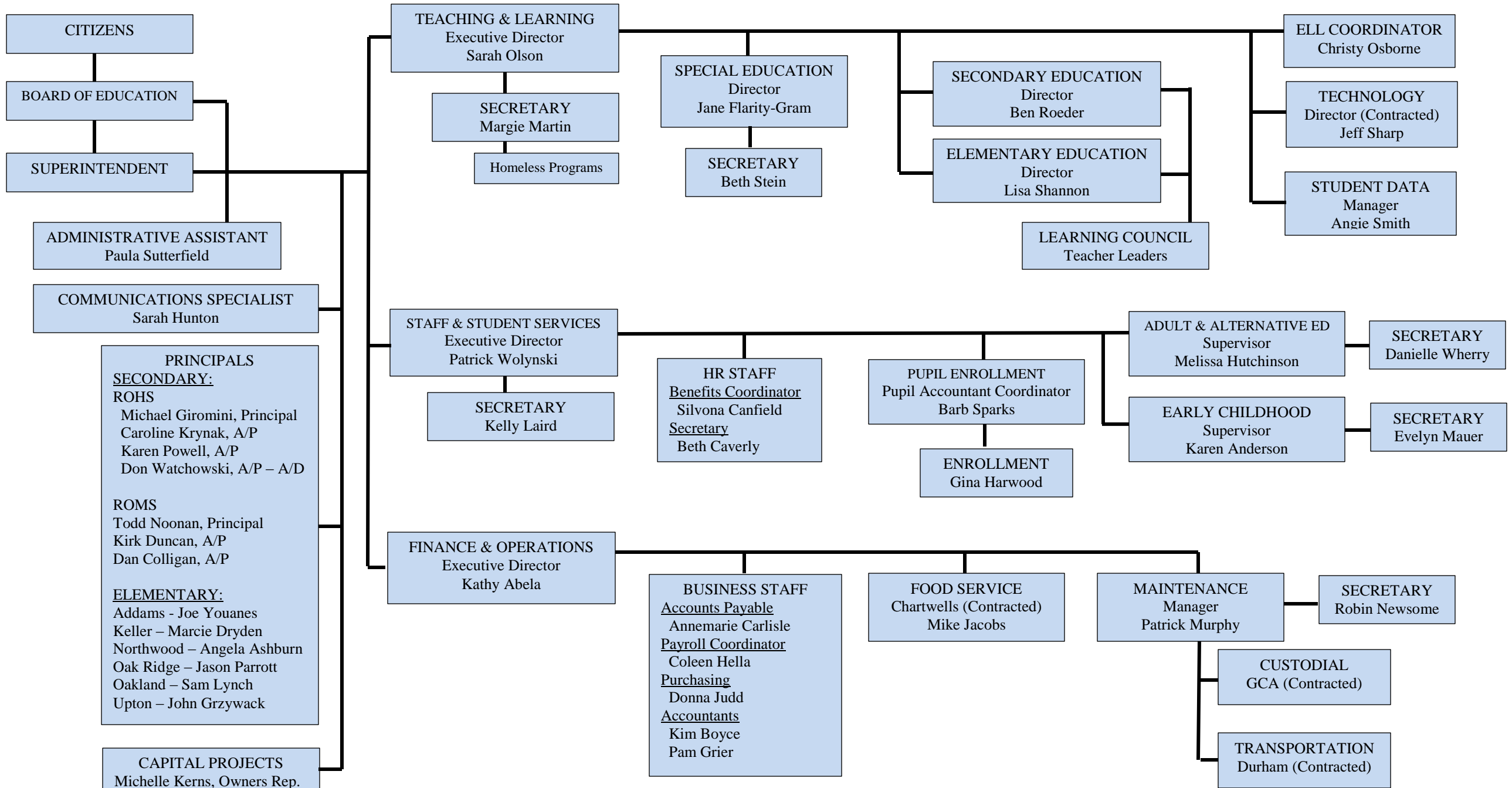


Mary Beth Fitzpatrick
Superintendent of Schools



Katherine Abela
Executive Director, Finance & Operations

ROS ORGANIZATIONAL CHART



FINANCIAL SECTION

Royal Oak Schools
Members of the Board of Education and Administration
June 30, 2018

Members of the Board of Education

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

Administration

| | |
|-----------------------|--|
| Mary Beth Fitzpatrick | Superintendent of Schools |
| Katherine Abela | Executive Director, Finance & Operations |

Board of Education Regular Meetings: Second Thursday of each month

Accreditation: AdvancED



800.968.0010 | yeoandyeo.com

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Oak Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Oak Schools, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior-Year Summarized Comparative Information

We have previously audited Royal Oak Schools' 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated August 31, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Royal Oak Schools' basic financial statements. The introductory section, other supplementary information, and statistical section, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

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

Prior Year Supplementary Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Royal Oak Schools' basic financial statements as of and for the year ended June 30, 2017, which are not presented with the accompanying basic financial statements. In our report dated August 31, 2017, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Royal Oak Schools' basic financial statements as a whole. The 2017 information in the comparative supplementary schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2017 information in the comparative supplementary schedules is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2018 on our consideration of Royal Oak Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Royal Oak Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Royal Oak Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Saginaw, MI
September 5, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

This section of the Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the District's financial position and results of operations for the year ended June 30, 2018. It should be read in conjunction with the District's financial statements, which immediately follow this section.

Understanding the Comprehensive Annual Financial Report

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

Financial Section

- Basic Financial Statements
 - District-wide Financial Statements
 - Fund Financial Statements
 - Fiduciary Fund
 - Notes to Financial Statements

- Required Supplemental Information
 - Budgetary Comparison Schedule – General Fund
 - Schedule of School District's Proportionate Share of Net Pension Liability
 - Schedule of School District's Pension Contributions
 - Schedule of School District's Proportionate Share of Net OPEB Liability
 - Schedule of School District's OPEB Contributions

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

- Other Supplemental Information
 - Combining Balance Sheet - Nonmajor Governmental Funds
 - Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds
 - Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Budget to Actual – Special Revenue Funds
 - Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Budget to Actual – Debt Service Funds
 - Combining Statement of Revenue, Expenditures, and Changes in Fund Balance – Capital Projects Fund
 - Schedule of Bonded Indebtedness

- Statistical Section

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

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

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

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

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

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

The Fund Financial Statements provide detailed information for the various funds used in the District. Some funds have been established because they are required by State law or bond covenants. Other funds have been established by the District to help control and manage financial resources that are used for specific purposes such as Food Service and Community Services. Funds are also established to meet legal responsibilities for certain taxes, grants, bonds and property maintenance revenue. The governmental funds of the School District use the following accounting approach:

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

Governmental funds - All of the School District's services are reported in governmental funds. The financial reporting in these funds focuses on the revenue and expenditures and the balances remaining at year end. Transactions are accounted for using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term financial view of the operations of the School District. Governmental fund statements provide information to illustrate whether there has been an increase or decrease in available financial resources that can be expended in future years. The relationship between governmental activities and governmental funds is illustrated in a reconciliation included in the financial section on page 4-6.

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

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

The School District as a Whole

The Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a comparative summary of the School District's net position as of June 30, 2018 and June 30, 2017.

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

TABLE 1

Governmental Activities

2018 2017 (restated)

(in millions)

Assets

| | | | | |
|---|----|--------------|----|--------------|
| Current and other assets | \$ | 60.9 | \$ | 33.7 |
| Capital assets | | <u>115.2</u> | | <u>114.8</u> |
| Total Assets | | 176.1 | | 148.5 |
| Deferred Outflows of Resources | | <u>22.6</u> | | <u>11.4</u> |
| Total assets and deferred outflows of resources | | 198.7 | | 159.9 |

Liabilities

| | | | | |
|-------------------------------|--|--------------|--|--------------|
| Current liabilities | | 8.3 | | 6.9 |
| Long-term liabilities | | <u>161.4</u> | | <u>137.7</u> |
| Total Liabilities | | 169.7 | | 144.6 |
| Deferred Inflows of Resources | | 8.9 | | 1.2 |

Net Position

| | | | | |
|----------------------------------|----|------|----|------|
| Net investment in capital assets | \$ | 92.2 | \$ | 85.0 |
| Restricted | | 5.2 | | 4.5 |

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

| | <u>Governmental Activities</u> | |
|--------------------|--------------------------------|------------------------|
| | <u>2018</u> | <u>2017 (restated)</u> |
| | (in millions) | |
| Unrestricted | <u>(77.3)</u> | <u>(75.4)</u> |
| Total Net Position | <u>\$ 20.1</u> | <u>\$ 14.1</u> |

The District adopted GASB 75 during the 2018 fiscal year. Previously the OPEB liability was not recorded on the School Districts statements. The impact of this change is to reduce the beginning net position in the statement as of July 1, 2017 by \$27,542,323, restating it from \$41,669,574 to \$14,127,251.

The previous schedule (Table 1) reports the net position of the District. The School District's net position was \$20.1 million and \$14.1 million (restated) at June 30, 2018 and 2017, respectively. Net investment in capital assets totaled \$92.3 million. This represents the original cost of the School District's capital assets less accumulated depreciation, and net of the long-term debt used to finance the acquisition of those assets. General obligation long-term debt will be repaid from voter-approved property tax collections as the principal and interest comes due. The principal and interest obligations of the Qualified School Construction Bonds (QSCB) will be repaid from energy savings generated by the energy conservation projects funded from the proceeds of the QSCB. Restricted net position are reported separately to highlight any legal constraints included in debt covenants and legislation that may limit the School District's ability to use those net position for day-to-day operations. The unrestricted net position is \$(77.3) million.

The \$(77.3) million in unrestricted net position of governmental activities represents the *cumulative* results of all past years' operations and includes the GASB 68 & GASB 75 Unfunded Liability.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net position for fiscal year 2018 and fiscal year 2017.

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

TABLE 2

| | <u>Governmental Activities</u> | |
|------------------------------------|--------------------------------|-------------|
| | <u>2018</u> | <u>2017</u> |
| | (in millions) | |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 2.5 | \$ 2.6 |
| Operating grants and contributions | 11.6 | 11.1 |
| General revenue: | | |
| Property taxes | 30.9 | 31.3 |
| State foundation allowance | 29.8 | 28.5 |
| Other | <u>0.7</u> | <u>0.5</u> |
| Total Revenue | 75.5 | 74.1 |

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

| | <u>Governmental Activities</u> | |
|--|--------------------------------|----------------------|
| | <u>2018</u> | <u>2017</u> |
| | (in millions) | |
| Functions/Program Expenses | | |
| Instruction | 39.3 | 36.1 |
| Support services | 21.4 | 20.5 |
| Food services | 1.2 | 1.4 |
| Community services | 2.0 | 1.9 |
| Interest on long-term debt | 0.6 | 0.7 |
| Depreciation (unallocated) | <u>5.0</u> | <u>5.0</u> |
| Total Functions/program Expenses | <u>69.5</u> | <u>65.6</u> |
| Increase (Decrease) in Net Position | <u>\$ 6.0</u> | <u>\$ 8.5</u> |

As reported in the Statement of Activities, the expenditures for all *governmental* activities this year was \$69.5 million. Certain activities were partially funded from those who benefited from the programs (\$2.5 million). In addition, other governmental units and organizations subsidized certain programs with grants and contributions (\$11.6 million). The remaining “public benefit” portion of our governmental activities was funded with \$30.9 million in taxes, \$29.8 million in

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

State foundation allowance, and \$0.7 million in other revenues, such as interest earnings, proceeds from the sale of property and general entitlements.

During fiscal year 2018, the School District experienced an increase in net position of approximately \$6 million.

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

The School District's Funds

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

At the end of fiscal year 2018, the governmental funds reported a combined fund balance of approximately \$52.8 million, which represents an increase of \$25.8 million from last year. The changes in fund balance, major and non-major funds are as follows:

In the General Fund, the fund balance increased by approximately \$22,000 for a total year-end fund balance of \$14.5 million. A portion of the General Fund's fund balance is assigned for specific purposes with the remaining unassigned portion available for unforeseen emergencies. This level of fund balance meets the target of 15% of expenditures and provides the District with sufficient resources to handle unforeseen emergencies, prevent cash flow borrowing and cover potential state revenue shortfalls.

The Special Revenue Funds combined fund balance increased by \$357,225 from the prior year.

The Debt Service Funds has a fund balance of approximately \$1.3 million, a decrease of \$0.2 million from last year. The Debt Retirement millage rate decreased to 3.25 mills. The millage rate is determined annually to ensure that the School

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

District accumulates sufficient resources to pay principal and interest obligations of the bonded debt. Debt Service fund balances are reserved and are only used to pay debt service obligations.

The combined Capital Projects Funds' fund balance increased from the prior year, this was primarily due to the sale of the first series of the 2017 Bond of \$23.7 million.

General Fund Budgetary Highlights

Over the course of the year, the School District's budget was revised on multiple occasions to reflect anticipated and unanticipated changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations established by the Board of Education. The budget amendment process utilized by the District is a proven budget management tool that has been used effectively to ensure that revenue and expenditure appropriations are up-to-date throughout the year. The final amendment to the budget was adopted just before year end. A schedule comparing the School District's original and final budget amounts to actual revenues and expenditures is provided in the Required Supplemental Information Section of these financial statements.

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

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018 and 2017, the School District had \$115.1 million and \$114.8 million, respectively, invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. The 2018 amount represents a net increase of approximately \$300 thousand, or less than 1 percent, from the previous year. This change from the previous year includes all additions, disposals, and depreciation.

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|------------------------|-----------------------|
| | (in millions) | |
| Land | \$ 5.0 | \$ 5.0 |
| Construction in Progress | 2.5 | 2.5 |
| Building and building improvements | 203.0 | 197.9 |
| Buses and other equipment | <u>3.1</u> | <u>2.9</u> |
| Total Capital Assets | 213.6 | 208.3 |
| Less accumulated depreciation | <u>98.5</u> | <u>93.4</u> |
| Net Capital Assets | <u>\$ 115.1</u> | <u>\$114.9</u> |

Debt

At the end of this year, the School District had approximately \$42.2 million in bonds outstanding compared to a little over \$26.3 million in the previous year. The increase of \$23.7 million was the sale of the first series of the 2018 Bond, which was approved by the voters in November 2017. The Bond that was approved was for a total of \$59.9 million and this is the first of two series. Of this total, general obligation bonds amounted to \$41.2 million and Qualified School Construction Bonds totaled \$1 million. The Qualified School Construction Bonds were issued during 2011 with the proceeds being used for energy conservation projects. The 2014 Bonds were refunded during November of 2014 at a net savings to the taxpayers of Royal Oak of \$3,969,283.

Royal Oak Schools
Management's Discussion and Analysis
June 30, 2018

The School District bonds have a S&P rating of AA- and Moody's rating of Aa2. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding general obligation debt is significantly below the statutorily imposed limit.

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

Economic Factors and Next Year's Budgets

The Board of Education and administration considered many variables when the School District's 2018-19 fiscal year budget was developed. The two most important factors that determine the overwhelming majority of the District's revenue are student enrollment (blended count) and the per pupil foundation allowance. The blended student count for the 2018-19 fiscal year will be 90 percent of the October 2018 actual student count and 10 percent of the February 2019 student count. We have projected student enrollment to be flat for the 2018-2019 school year. Any change in the per pupil foundation allowance is determined by the State and is dependent upon the State's economic climate and the financial condition of the State School Aid Fund. The 2018-19 budget was adopted by the Board of Education on June 28, 2018.

There remains great uncertainty in public school funding. The 2018-19 adopted budget takes into consideration these uncertainties while maintaining a strong commitment to the education of our students.

Contacting the School District's Financial Management

This Comprehensive Annual Financial Report (CAFR) is designed to provide the School District's citizens, taxpayers, customers, and creditors with a picture of the School District's financial position and the results of operations for fiscal year 2018 and to demonstrate the District's fiscal responsibility and accountability over its financial resources. The CAFR is available on the District's website and at the Administrative offices for public inspection. If you have any questions or would like additional information, please feel free to contact the Finance Department at 800 DeVillen, Royal Oak, MI 48073.

BASIC FINANCIAL STATEMENTS

Royal Oak Schools
Statement of Net Position
June 30, 2018

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Cash | \$ 54,122,640 |
| Accounts receivable | 175,463 |
| Due from other governmental units | 6,533,770 |
| Inventory | 22,213 |
| Investments | 20,292 |
| Prepaid items | 110,000 |
| Capital assets not being depreciated | 7,476,425 |
| Capital assets - net of accumulated depreciation | <u>107,668,877</u> |
| | |
| Total assets | <u>176,129,680</u> |
| | |
| Deferred Outflows of Resources | |
| Deferred amount relating to net pension liability | 20,542,765 |
| Deferred amount relating to net OPEB liability | <u>2,062,132</u> |
| | |
| Total deferred outflows of resources | <u>22,604,897</u> |
| | |
| Total assets and deferred outflows of resources | <u>198,734,577</u> |

See Accompanying Notes to the Financial Statements

Royal Oak Schools
Statement of Net Position
June 30, 2018

| | Governmental Activities |
|---|----------------------------|
| Liabilities | |
| Accounts payable | \$ 1,813,889 |
| Accrued expenditures | 152,000 |
| Accrued salaries payable | 5,683,767 |
| Unearned revenue | 686,096 |
| Long-term liabilities | |
| Net pension liability | 84,157,360 |
| Net OPEB liability | 28,694,413 |
| Due within one year | 6,890,000 |
| Due in more than one year | <u>41,643,383</u> |
| Total liabilities | <u>169,720,908</u> |
| Deferred Inflows of Resources | |
| Deferred amount on debt refunding | 35,309 |
| Deferred amount relating to net pension liability | 7,877,772 |
| Deferred amount relating to net OPEB liability | <u>970,080</u> |
| Total deferred inflows of resources | <u>8,883,161</u> |
| Total liabilities and deferred inflows of resources | <u>178,604,069</u> |
| Net Position | |
| Net investment in capital assets | 92,295,603 |
| Restricted for | |
| Food service | 500,482 |
| Debt service | 1,169,157 |
| Capital projects | 3,509,358 |
| Unrestricted (deficit) | <u>(77,344,092)</u> |
| Total net position | <u>\$ 20,130,508</u> |

See Accompanying Notes to the Financial Statements

Royal Oak Schools
Statement of Activities
For the Year Ended June 30, 2018

| | <u>Program Revenues</u> | | | Net (Expense) Revenue and Changes in Net Position |
|---|-------------------------|---------------------------------|---|--|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | |
| Functions/Programs | | | | |
| Governmental activities | | | | |
| Instruction | \$ 39,331,584 | \$ 22,060 | \$ 10,487,391 | \$ (28,822,133) |
| Supporting services | 21,384,267 | 218,888 | - | (21,165,379) |
| Food services | 1,242,244 | 732,268 | 667,174 | 157,198 |
| Community services | 1,964,081 | 1,536,597 | 445,423 | 17,939 |
| Interest and fiscal charges on long-term debt | 554,058 | - | - | (554,058) |
| Depreciation (unallocated) | 5,045,399 | - | - | (5,045,399) |
| | <u>\$ 69,521,633</u> | <u>\$ 2,509,813</u> | <u>\$ 11,599,988</u> | <u>(55,411,832)</u> |
| Total governmental activities | | | | |
| General revenues | | | | |
| | | | | 19,886,188 |
| | | | | 8,508,770 |
| | | | | 2,538,310 |
| | | | | 29,753,112 |
| | | | | 266,907 |
| | | | | 5,678 |
| | | | | <u>456,124</u> |
| | | | | <u>61,415,089</u> |
| | | | | 6,003,257 |
| | | | | <u>14,127,251</u> |
| | | | | <u>\$ 20,130,508</u> |

See Accompanying Notes to the Financial Statements

**Royal Oak Schools
Governmental Funds
Balance Sheet**

June 30, 2018 (With Comparative Summarized Totals for 2017)

| | <u>General Fund</u> | <u>2014 Debt</u> | <u>2018 Bond Fund Series 1</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> | |
|-----------------------------------|---------------------------|---------------------------|--|--|---------------------------------|---------------------------|
| | | | | | <u>2018</u> | <u>2017</u> |
| Assets | | | | | | |
| Cash | \$ 14,708,618 | \$ 1,319,759 | \$ 26,134,126 | \$ 11,960,137 | \$ 54,122,640 | \$ 27,255,189 |
| Accounts receivable | 166,057 | 1,398 | - | 8,008 | 175,463 | 111,676 |
| Due from other governmental units | 6,524,877 | - | - | 8,893 | 6,533,770 | 6,161,037 |
| Inventory | - | - | - | 22,213 | 22,213 | 23,033 |
| Investments | 20,292 | - | - | - | 20,292 | 20,292 |
| Prepaid items | - | - | - | 110,000 | 110,000 | 126,000 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 21,419,844</u> | <u>\$ 1,321,157</u> | <u>\$ 26,134,126</u> | <u>\$ 12,109,251</u> | <u>\$ 60,984,378</u> | <u>\$ 33,697,227</u> |
| Liabilities | | | | | | |
| Accounts payable | \$ 534,386 | \$ - | \$ 845,680 | \$ 433,823 | \$ 1,813,889 | \$ 1,017,443 |
| Accrued salaries payable | 5,683,767 | - | - | - | 5,683,767 | 5,171,974 |
| Unearned revenue | 660,243 | - | - | 25,853 | 686,096 | 524,443 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>6,878,396</u> | <u>-</u> | <u>845,680</u> | <u>459,676</u> | <u>8,183,752</u> | <u>6,713,860</u> |

See Accompanying Notes to the Financial Statements

**Royal Oak Schools
Governmental Funds
Balance Sheet**

June 30, 2018 (With Comparative Summarized Totals for 2017)

| | <u>General Fund</u> | <u>2014 Debt</u> | <u>2018 Bond Fund Series 1</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> | |
|---|--------------------------|-------------------------|--|--|---------------------------------|--------------------------|
| | | | | | <u>2018</u> | <u>2017</u> |
| Fund Balance | | | | | | |
| Non-spendable | | | | | | |
| Inventory | \$ - | \$ - | \$ - | \$ 22,213 | \$ 22,213 | \$ 23,033 |
| Prepaid items | - | - | - | 110,000 | 110,000 | 126,000 |
| Restricted for | | | | | | |
| Food service | - | - | - | 368,269 | 368,269 | 225,845 |
| Debt service | - | 1,321,157 | - | - | 1,321,157 | 1,536,938 |
| Capital projects | - | - | 25,288,446 | 3,509,358 | 28,797,804 | 2,841,059 |
| Committed | - | - | - | - | - | 125,662 |
| Assigned | 2,184,204 | - | - | 7,639,735 | 9,823,939 | 9,431,024 |
| Unassigned | <u>12,357,244</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>12,357,244</u> | <u>12,673,806</u> |
| Total fund balance | <u>14,541,448</u> | <u>1,321,157</u> | <u>25,288,446</u> | <u>11,649,575</u> | <u>52,800,626</u> | <u>26,983,367</u> |
| Total liabilities, deferred inflows of resources, and fund balance | <u>\$ 21,419,844</u> | <u>\$ 1,321,157</u> | <u>\$ 26,134,126</u> | <u>\$ 12,109,251</u> | <u>\$ 60,984,378</u> | <u>\$ 33,697,227</u> |

See Accompanying Notes to the Financial Statements

Royal Oak Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

| | |
|--|-----------------------------|
| Total fund balances for governmental funds | \$ 52,800,626 |
| Total net position for governmental activities in the statement of net position is different because | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | |
| Capital assets not being depreciated | 7,476,425 |
| Capital assets - net of accumulated depreciation | 107,668,877 |
| Deferred outflows (inflows) of resources | |
| Deferred inflows of resources resulting from debt refunding | (35,309) |
| Deferred inflows of resources resulting from net pension liability | (7,877,772) |
| Deferred inflows of resources resulting from net OPEB liability | (970,080) |
| Deferred outflows of resources resulting from net pension liability | 20,542,765 |
| Deferred outflows of resources resulting from net OPEB liability | 2,062,132 |
| Certain liabilities are not due and payable in the current period and are not reported in the funds | |
| Accrued interest | (152,000) |
| Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities | |
| Net pension liability | (84,157,360) |
| Net OPEB liability | (28,694,413) |
| Compensated absences | (430,547) |
| Bonds payable | (42,230,000) |
| Other loans payable and liabilities | <u>(5,872,836)</u> |
| Net position of governmental activities | <u>\$ 20,130,508</u> |

See Accompanying Notes to the Financial Statements

Royal Oak Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018 (With Comparative Summarized Totals for 2017)

| | General Fund | 2014 Debt | 2018 Bond Fund Series 1 | Nonmajor Governmental Funds | Total Governmental Funds | |
|--|-------------------|------------------|-------------------------------|-----------------------------------|--------------------------|-------------------|
| | | | | | 2018 | 2017 |
| Revenues | | | | | | |
| Local sources | \$ 21,003,123 | \$ 8,552,219 | \$ 36,936 | \$ 4,631,104 | \$ 34,223,382 | \$ 34,634,572 |
| State sources | 34,105,594 | - | - | 499,172 | 34,604,766 | 32,897,681 |
| Federal sources | 1,663,102 | - | - | 673,312 | 2,336,414 | 2,473,712 |
| Interdistrict sources | 4,354,650 | - | - | - | 4,354,650 | 4,080,207 |
| Total revenues | 61,126,469 | 8,552,219 | 36,936 | 5,803,588 | 75,519,212 | 74,086,172 |
| Expenditures | | | | | | |
| Current | | | | | | |
| Education | | | | | | |
| Instruction | 35,802,944 | - | - | 1,072,963 | 36,875,907 | 34,214,508 |
| Supporting services | 22,264,639 | - | - | 137,488 | 22,402,127 | 22,368,547 |
| Food services | - | - | - | 1,242,244 | 1,242,244 | 1,364,823 |
| Community services | 1,280,877 | - | - | 629,438 | 1,910,315 | 1,863,820 |
| Intergovernmental payments | 1,203,937 | - | - | - | 1,203,937 | 1,346,705 |
| Facilities acquisition | - | - | - | 608 | 608 | - |
| Capital outlay | 1,524 | - | 1,600,755 | 2,207,932 | 3,810,211 | 1,373,584 |
| Debt service | | | | | | |
| Principal | 43,307 | 7,515,000 | - | 240,000 | 7,798,307 | 7,526,928 |
| Interest and other expenditures | 580 | 1,253,000 | - | 62,660 | 1,316,240 | 1,692,347 |
| Bond issuance costs | - | - | 189,345 | - | 189,345 | - |
| Total expenditures | 60,597,808 | 8,768,000 | 1,790,100 | 5,593,333 | 76,749,241 | 71,751,262 |
| Excess (deficiency) of revenues over expenditures | 528,661 | (215,781) | (1,753,164) | 210,255 | (1,230,029) | 2,334,910 |

See Accompanying Notes to the Financial Statements

Royal Oak Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018 (With Comparative Summarized Totals for 2017)

| | General Fund | 2014 Debt | 2018 Bond Fund Series 1 | Nonmajor Governmental Funds | Total Governmental Funds | |
|--|--------------------------|-------------------------|-------------------------------|-----------------------------------|--------------------------|--------------------------|
| | | | | | 2018 | 2017 |
| Other Financing Sources (Uses) | | | | | | |
| Proceeds from issuance of bonds | \$ - | \$ - | \$ 23,725,000 | \$ - | \$ 23,725,000 | \$ - |
| Premium on issuance of bonds | - | - | 3,316,610 | - | 3,316,610 | - |
| Proceeds from sale of capital assets | 5,678 | - | - | - | 5,678 | 331,264 |
| Transfers in | 8,064 | - | - | 520,078 | 528,142 | 393,657 |
| Transfers out | (520,078) | - | - | (8,064) | (528,142) | (393,657) |
| Total other financing sources (uses) | (506,336) | - | 27,041,610 | 512,014 | 27,047,288 | 331,264 |
| Net change in fund balance | 22,325 | (215,781) | 25,288,446 | 722,269 | 25,817,259 | 2,666,174 |
| Fund balance - beginning | 14,519,123 | 1,536,938 | - | 10,927,306 | 26,983,367 | 24,317,193 |
| Fund balance - ending | <u>\$ 14,541,448</u> | <u>\$ 1,321,157</u> | <u>\$ 25,288,446</u> | <u>\$ 11,649,575</u> | <u>\$ 52,800,626</u> | <u>\$ 26,983,367</u> |

See Accompanying Notes to the Financial Statements

Royal Oak Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

| | |
|---|----------------------|
| Net change in fund balances - Total governmental funds | \$ 25,817,259 |
| Total change in net position reported for governmental activities in the statement of activities is different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Depreciation expense | (5,045,399) |
| Capital outlay | 5,330,320 |
| Expenses are recorded when incurred in the statement of activities. | |
| Interest | 63,000 |
| Compensated absences | (84,977) |
| The statement of net position reports the net pension liability and deferred outflows and inflows of resources related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions. | |
| Net change in net pension liability | (5,566,195) |
| Net change in deferrals of resources related to the net pension liability | 3,904,063 |
| The statement of net OPEB reports the net pension liability and deferred outflows and inflows of resources related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions. | |
| Net change in net OPEB liability | 287,544 |
| Net change in deferrals of resources related to the net OPEB liability | (347,582) |
| Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities. | |
| Repayments of long-term debt | 7,798,307 |
| Amortization of premiums | 876,421 |
| Amortization of deferred amount on debt refunding | 12,106 |
| Change in net position of governmental activities | \$ 6,003,257 |

See Accompanying Notes to the Financial Statements

Royal Oak Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2018 and 2017

| | Student Activities Agency Funds | |
|-------------------------------|---------------------------------------|------------|
| | 2018 | 2017 |
| Assets | | |
| Cash | \$ 555,915 | \$ 514,149 |
| Accounts receivable | 42,000 | - |
| Total assets | \$ 597,915 | \$ 514,149 |
| Liabilities | | |
| Accounts payable | \$ 21 | \$ - |
| Due to agency fund activities | 597,894 | 514,149 |
| Total liabilities | \$ 597,915 | \$ 514,149 |

See Accompanying Notes to the Financial Statements

Royal Oak Schools
Notes to the Financial Statements
June 30, 2018

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as

Royal Oak Schools
Notes to the Financial Statements
June 30, 2018

under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

The School District reports the General Fund, 2014 Debt Fund, and the 2018 Bond Fund – Series 1 as major funds as described below.

The School District reports the following governmental funds:

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

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

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

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

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

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

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

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

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

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

Sinking Funds – used to record the Sinking Fund property tax levy and other revenue and the disbursement of invoices

Royal Oak Schools
Notes to the Financial Statements
June 30, 2018

specifically for acquiring new school sites, construction, or repair of school buildings.

2018 Bond Fund – Series 1 – used to record the revenues and disbursement of monies as part of the first series of the 2018 bond, approved by voters in November, 2017.

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

Assets, Liabilities and Net Position or Equity

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

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

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

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2018, the rates are as follows per \$1,000 of assessed value:

| | |
|-----------------------------------|----------|
| General Fund | |
| Principal residence exemption | 2.47020 |
| Non-principal residence exemption | 18.00000 |
| Commercial personal property | 8.47020 |
| Industrial personal property | 2.47020 |
| Debt Service Funds | 3.25000 |
| Sinking Fund | 0.97630 |

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

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

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

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

Royal Oak Schools
Notes to the Financial Statements
June 30, 2018

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

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

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

Compensated Absences – The liability for compensated absences reported in the district-wide financial statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for

these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

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

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

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public

Royal Oak Schools
Notes to the Financial Statements
June 30, 2018

School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

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

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

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

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

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

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

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

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

Royal Oak Schools
Notes to the Financial Statements
June 30, 2018

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Summarized Comparative Data

Summarized comparative data for the prior year has been presented for the major and nonmajor funds and in the fund financial statements in total but not by fund in order to provide an understanding of the changes in the financial position and operations of these funds. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the School District's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Eliminations and Reclassifications

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

Adoption of New Accounting Standards

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments,

discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

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

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

Upcoming Accounting and Reporting Changes

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

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four

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fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. The Uniform Budgeting and Accounting Act requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted on a functional level are a violation of the Uniform Budgeting and Accounting Act. The Uniform Budgeting and Accounting Act permits districts to amend their budgets during the year. During the year, the budget was

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

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

Compliance - Sinking Funds

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

Compliance – Bond Proceeds

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For this capital project, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code.

The following is a summary of the revenue and expenditures in the 2018 Bond Fund Series 1 from inception of the funds.

| | |
|--------------|---------------|
| Revenues | \$ 27,078,546 |
| Expenditures | 1,790,100 |

Note 3 - Deposits and Investments

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

| | Governmental Activities | Fiduciary Funds | Total Primary Government |
|-------------|----------------------------|--------------------|--------------------------------|
| Cash | \$ 54,122,640 | \$ 555,915 | \$ 54,678,555 |
| Investments | 20,292 | - | 20,292 |
| | \$ 54,142,932 | \$ 555,915 | \$ 54,698,847 |

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

| | |
|--|---------------|
| Deposits (checking, savings accounts, money markets, certificates of deposit) | \$ 6,939,719 |
| Investments in securities, mutual funds, and similar vehicles | 47,757,489 |
| Petty cash and cash on hand | 1,639 |
| Total | \$ 54,698,847 |

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

| Investment | Fair Value | Maturities | Rating | Rating Organization |
|--------------------------------------|----------------------|-------------------------------|--------|------------------------|
| Michigan Liquid Asset Fund - CMS | \$ 4,190,962 | 6 months average | AAAm | Standard and Poor's |
| Michigan Liquid Asset Fund - Term | 22,800,000 | 6 months average | AAAm | Standard and Poor's |
| Michigan Liquid Asset Fund - Max | 20,746,235 | 6 months average | AAAm | Standard and Poor's |
| U.S. Government Treasury Bond | <u>20,292</u> | ranging from 1 to 6 months | AAA | Moody's |
| | <u>\$ 47,757,489</u> | | | |

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

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

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

diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$7,614,592 of the School District's bank balance of \$7,866,731 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

Note 4 - Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The School District has the following recurring fair value measurements as of June 30, 2018:

- U.S. Treasury bonds of \$20,292 are valued using quoted market prices (Level 1 inputs).
- Amounts invested in the MILAF funds are \$47,737,197. They are not registered under Rule 2a-7 under the Investment

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Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market (Level 2 inputs).

Note 5 - Receivables

Receivables as of year end for the School District's individual major fund and the non-major funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows. The School District had no allowance for uncollectible accounts as of June 30, 2018.

| | General Fund | 2014 Debt | Nonmajor Funds | Total |
|----------------------------|---------------------|-----------------|-------------------|---------------------|
| Receivables | | | | |
| Taxes | \$ 4,315 | \$ 1,398 | \$ 420 | \$ 6,133 |
| Accounts | <u>161,742</u> | <u>-</u> | <u>7,588</u> | <u>169,330</u> |
| | <u>\$ 166,057</u> | <u>\$ 1,398</u> | <u>\$ 8,008</u> | <u>\$ 175,463</u> |
| Due from other governments | | | | |
| Federal | \$ 95,581 | \$ - | \$ - | \$ 95,581 |
| State | 5,969,878 | - | 8,893 | 5,978,771 |
| Local | <u>459,418</u> | <u>-</u> | <u>-</u> | <u>459,418</u> |
| | <u>\$ 6,524,877</u> | <u>\$ -</u> | <u>\$ 8,893</u> | <u>\$ 6,533,770</u> |

Note 6 - Capital Assets

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-----------------------|---------------------|---------------------|-----------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 4,968,731 | \$ - | \$ - | \$ 4,968,731 |
| Construction-in-progress | <u>2,515,395</u> | <u>2,507,694</u> | <u>2,515,395</u> | <u>\$ 2,507,694</u> |
| Total capital assets not being depreciated | <u>7,484,126</u> | <u>2,507,694</u> | <u>2,515,395</u> | <u>\$ 7,476,425</u> |
| Capital assets being depreciated | | | | |
| Buildings and building improvements | 197,922,281 | 5,158,137 | - | \$ 203,080,418 |
| Buses, vehicles, and equipment | <u>2,888,159</u> | <u>179,884</u> | <u>-</u> | <u>\$ 3,068,043</u> |
| Total capital assets being depreciated | <u>200,810,440</u> | <u>5,338,021</u> | <u>-</u> | <u>\$ 206,148,461</u> |
| Less accumulated depreciation for | | | | |
| Buildings and building improvements | 91,264,472 | 4,887,903 | - | \$ 96,152,375 |
| Buses, vehicles, and equipment | <u>2,169,713</u> | <u>157,496</u> | <u>-</u> | <u>\$ 2,327,209</u> |
| Total accumulated depreciation | <u>93,434,185</u> | <u>5,045,399</u> | <u>-</u> | <u>\$ 98,479,584</u> |
| Net capital assets being depreciated | <u>107,376,255</u> | <u>292,622</u> | <u>-</u> | <u>\$ 107,668,877</u> |
| Net capital assets | <u>\$ 114,860,381</u> | <u>\$ 2,800,316</u> | <u>\$ 2,515,395</u> | <u>\$ 115,145,302</u> |

Depreciation expense was \$5,045,399 for the year ended June 30, 2018. Depreciation was not charged to activities of the School District because the district considers its assets to impact multiple activities and allocation of depreciation expense is not practical.

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Construction Contracts

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

| Project | Total Contract | Remaining Construction Commitment at Year End | Contract Payable at Year End |
|--|----------------|--|------------------------------------|
| Various renovation and new construction projects | \$ 6,511,551 | \$ 5,493,460 | \$ 1,018,091 |

Contracts payable at year end represent actual contractor billings and are recorded in the capital projects fund and general fund liability. All projects are expected to be completed by December 31, 2018.

Note 7 - Interfund Transfers

Interfund transfers consist of the following:

| | Transfers Out | | |
|---------------------|-------------------|-------------------|-------------------|
| | General Fund | Nonmajor Funds | Total |
| Transfers in | | | |
| General Fund | \$ - | \$ 8,064 | \$ 8,064 |
| Nonmajor funds | 520,078 | - | 520,078 |
| | <u>\$ 520,078</u> | <u>\$ 8,064</u> | <u>\$ 528,142</u> |

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

Note 8 - Unearned Revenue

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

| | Unearned |
|---|-------------------|
| Unearned property taxes | \$ 454,169 |
| Food service student accounts | 25,853 |
| Athletics | 1,919 |
| Grant and categorical aid payments received prior to meeting all eligibility requirements | <u>204,155</u> |
| Total | <u>\$ 686,096</u> |

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

Note 9 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

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Long-term obligation activity is summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amount Due Within One Year |
|-----------------------------|----------------------|----------------------|---------------------|----------------------|----------------------------------|
| Government obligation bonds | \$ 26,260,000 | \$ 23,725,000 | \$ 7,755,000 | \$ 42,230,000 | \$ 6,890,000 |
| Capital lease | 43,307 | - | 43,307 | - | - |
| Compensated absences | 345,570 | 100,414 | 15,437 | 430,547 | - |
| Premium on bonds | <u>3,432,647</u> | <u>3,316,610</u> | <u>876,421</u> | <u>5,872,836</u> | <u>-</u> |
| Total | <u>\$ 30,081,524</u> | <u>\$ 27,142,024</u> | <u>\$ 8,690,165</u> | <u>\$ 48,533,383</u> | <u>\$ 6,890,000</u> |

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

| | |
|---|----------------------|
| \$2,650,000 of 2011 energy conservation bonds due in annual installments of \$240,000 to \$245,000 through November 1, 2021; interest at 5.50% - 6.0% | \$ 970,000 |
| \$39,075,000 refunding bond due in annual installments of \$5,565,000 to \$6,130,000 through May 1, 2021, interest at 5.0% | 17,535,000 |
| \$23,725,000 building and site bond due in annual installments of \$920,000 to \$3,330,000 through May 1, 2028 interest at 4.0% to 5.0% | <u>23,725,000</u> |
| Total general obligation bonded debt | <u>\$ 42,230,000</u> |

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

| | Principal | Interest | Total |
|-----------------------------|----------------------|---------------------|----------------------|
| Year Ending June 30, | | | |
| 2019 | \$ 6,890,000 | \$ 2,311,138 | \$ 9,201,138 |
| 2020 | 7,660,000 | 1,750,510 | 9,410,510 |
| 2021 | 7,295,000 | 1,381,305 | 8,676,305 |
| 2022 | 2,715,000 | 1,014,350 | 3,729,350 |
| 2023 | 2,595,000 | 883,500 | 3,478,500 |
| 2024 - 2028 | <u>15,075,000</u> | <u>2,336,000</u> | <u>17,411,000</u> |
| Total | <u>\$ 42,230,000</u> | <u>\$ 9,676,803</u> | <u>\$ 51,906,803</u> |

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a balance of \$1,321,157 to pay this debt. Future debt and interest will be payable from future tax levies. Other long-term liabilities are expected to be liquidated primarily by General Fund resources.

Interest expenditures for the fiscal year ended June 30, 2018 in the General Fund and debt service funds were \$580 and \$1,315,660, respectively.

Energy Conservation Improvement Bonds

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

Compensated Absences

Accrued compensated absences at year end was \$430,547 and consisted of \$195,995 of vacation hours earned and vested, \$219,473 in accrued termination pay, and \$15,079 in employer social security obligations related to the accrual. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

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Deferred Amount on Refunding

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$78,688, of which \$35,309 remains unamortized. This amount is reported in the accompanying statement of net position as a deferred inflow of resources and is being charged to activities through fiscal year 2021.

Note 10 - Risk Management

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

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

Note 11 - Pension Plan

Plan Description

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

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who

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previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions

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

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

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

| Pension Contribution Rates | | |
|----------------------------|------------|----------|
| Benefit Structure | Member | Employer |
| Basic | 0.0 - 4.0% | 19.03% |
| Member Investment Plan | 3.0 - 7.0% | 19.03% |
| Pension Plus | 3.0 - 6.4% | 18.40% |
| Defined Contribution | 0.0% | 15.27% |

Required contributions to the pension plan from the School District were \$7,617,187 for the year ending September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$84,157,360 for its proportionate share of the MPSERS 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 rolled forward from September 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .3248 percent, which was an increase of .0097 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was \$9,528,612.

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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 | \$ 731,385 | \$ 412,943 |
| Changes in assumptions | 9,220,107 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 4,023,275 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 2,463,418 | 50,035 |
| Subtotal of other deferrals | 12,414,910 | 4,486,253 |
| Employer contributions subsequent to the measurement date | 8,127,855 | 3,391,519 |
| Total | \$20,542,765 | \$ 7,877,772 |

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Deferred (Inflow) and Deferred Outflow of Resources by Plan Year (To Be Recognized in Future Pension Expenses) | |
|---|--------------|
| 2018 | \$ 2,338,752 |
| 2019 | 3,676,912 |
| 2020 | 1,822,706 |
| 2021 | 90,287 |
| Total | \$ 7,928,657 |

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return:
 - MIP and Basic Plans (Non-Hybrid): 7.5%
 - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members

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- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188

Recognition period for assets in years: 5.0

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

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

allocation as of September 30, 2017, are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return* |
|--------------------------------------|-------------------|---|
| Domestic Equity Pools | 28.0 % | 5.6 % |
| Alternative Investment Pools | 18.0 | 8.7 |
| International Equity | 16.0 | 7.2 |
| Fixed Income Pools | 10.5 | (0.1) |
| Real Estate and Infrastructure Pools | 10.0 | 4.2 |
| Absolute Return Pools | 15.5 | 5.0 |
| Short Term Investment Pools | 2.0 | (0.9) |
| | 100.0% | |

**Long-term rates of return are net of administrative expenses and 2.3% inflation.*

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate

Royal Oak Schools
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and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

| 1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0% | Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0% | 1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0% |
|--|--|--|
| \$ 109,629,048 | \$ 84,157,360 | \$ 62,711,820 |

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

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPSERS)

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

Note 12 - Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

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Benefits Provided

Benefit provisions of 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. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not

to pay the 3% 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% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

Royal Oak Schools
Notes to the Financial Statements
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The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

| OPEB Contribution Rates | | |
|--------------------------------|--------|----------|
| Benefit Structure | Member | Employer |
| Premium Subsidy | 3.0% | 5.91% |
| Personal Healthcare Fund (PHF) | 0.0% | 5.69% |

Required contributions to the OPEB plan from the School District were \$2,522,712 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$28,694,413 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability 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 rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .3240 percent, which was the same percentage measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was \$1,920,312.

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 | \$ - | \$ 305,511 |
| Net difference between projected and actual earnings on pension plan investments | - | 664,569 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 4,528 | - |
| Subtotal of other deferrals | 4,528 | 970,080 |
| Employer contributions subsequent to the measurement date | 2,057,604 | - |
| Total | \$ 2,062,132 | \$ 970,080 |

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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Notes to the Financial Statements
June 30, 2018

Deferred (Inflow) and Deferred Outflow of Resources by Plan Year
 (To Be Recognized in Future OPEB Expenses)

| | | | |
|--|--------------|-----------|------------------|
| | 2018 | \$ | (233,410) |
| | 2019 | | (233,410) |
| | 2020 | | (233,410) |
| | 2021 | | (233,410) |
| | 2022 | | (31,912) |
| | Total | \$ | (965,552) |

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return: 7.5%
- Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% Year

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- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Other Assumptions:

- Opt Out Assumptions: 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
- Survivor Coverage: 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
- Coverage Election at Retirement: 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744

Recognition period for assets in years: 5.0

Royal Oak Schools
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Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

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

*Long-term rates of return are net of administrative expenses and 2.3% inflation.

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

| 1% Decrease 6.5% | Current Discount Rate 7.5% | 1% Increase 8.5% |
|----------------------|----------------------------------|----------------------|
| <u>\$ 33,609,451</u> | <u>\$ 28,694,413</u> | <u>\$ 24,523,085</u> |

Royal Oak Schools
Notes to the Financial Statements
June 30, 2018

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

| 1% Decrease 6.5% | Current Healthcare Cost Trend Rate 7.5% | 1% Increase 8.5% |
|---------------------|---|---------------------|
| \$ 24,300,311 | \$ 28,694,413 | \$ 33,683,610 |

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

Note 13 - Assigned Fund Balance

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

| | General Fund | Other Nonmajor Governmental Funds |
|---|-----------------|---|
| Assigned | | |
| Subsequent year's budget | \$ 1,673,327 | \$ - |
| Compensated absences | 430,547 | - |
| Community services | - | 1,964,371 |
| Capital projects | | 5,675,364 |
| Encumbrances | 80,330 | - |
| Total fund balance assigned for various operating purposes | \$ 2,184,204 | \$ 7,639,735 |

Note 14 - Contingent Liabilities

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

Note 15 - Adoption of New Accounting Standards

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statement 75. This required the School District to record their proportionate share of the net OPEB liability

Royal Oak Schools
Notes to the Financial Statements
June 30, 2018

and OPEB expense. Previously, these amounts were not recorded on the School District's statements. The standards require this change to be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by \$27,542,323, restating it from \$41,669,574 to \$14,127,251.

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended June 30, 2018 (with Comparative Actual Amounts for the Year Ended June 30, 2017)

| | 2018 | | | 2017 | |
|--------------------------------|-------------------|-------------------|-------------------|---------------------------|-------------------|
| | Budgeted Amounts | | Actual | Over (Under) Budget | Actual |
| | Original | Final | | | |
| Revenues | | | | | |
| Local sources | \$ 21,044,313 | \$ 21,396,402 | \$ 21,003,123 | \$ (393,279) | \$ 20,581,666 |
| State sources | 31,613,874 | 34,354,265 | 34,105,594 | (248,671) | 32,386,390 |
| Federal sources | 1,670,038 | 1,862,461 | 1,663,102 | (199,359) | 1,817,732 |
| Interdistrict sources | <u>4,248,290</u> | <u>4,359,548</u> | <u>4,354,650</u> | <u>(4,898)</u> | <u>4,080,207</u> |
| Total revenues | <u>58,576,515</u> | <u>61,972,676</u> | <u>61,126,469</u> | <u>(846,207)</u> | <u>58,865,995</u> |
| Expenditures | | | | | |
| Instruction | | | | | |
| Basic programs | 26,853,075 | 27,702,971 | 27,694,712 | (8,259) | 25,926,178 |
| Added needs | 7,612,153 | 8,263,653 | 7,815,996 | (447,657) | 7,006,048 |
| Adult and continuing education | 238,018 | 397,506 | 292,236 | (105,270) | 201,577 |
| Supporting services | | | | | |
| Pupil | 4,904,125 | 5,019,741 | 4,959,956 | (59,785) | 4,700,118 |
| Instructional staff | 2,535,056 | 2,483,260 | 2,338,967 | (144,293) | 2,184,700 |
| General administration | 679,745 | 657,287 | 562,678 | (94,609) | 648,453 |
| School administration | 2,976,906 | 3,110,562 | 3,088,633 | (21,929) | 2,901,153 |
| Business | 7,577,431 | 8,614,944 | 8,567,905 | (47,039) | 9,173,251 |
| Central | 1,916,475 | 1,966,251 | 1,858,317 | (107,934) | 1,855,851 |
| Athletic activities | 856,793 | 854,497 | 816,009 | (38,488) | 763,345 |
| Other | 92,667 | 91,396 | 72,174 | (19,222) | 41,582 |
| Community services | 1,251,493 | 1,352,676 | 1,280,877 | (71,799) | 1,265,541 |
| Intergovernmental payments | 1,682,616 | 1,217,995 | 1,203,937 | (14,058) | 1,346,705 |

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

For the Year Ended June 30, 2018 (with Comparative Actual Amounts for the Year Ended June 30, 2017)

| | 2018 | | | Over (Under) Budget | 2017 |
|--|----------------------|----------------------|----------------------|---------------------------|----------------------|
| | Budgeted Amounts | | Actual | | Actual |
| | Original | Final | | | |
| Capital outlay | \$ 13,000 | \$ 1,525 | \$ 1,524 | \$ (1) | \$ 15,342 |
| Debt service | | | | | |
| Principal | 43,307 | 43,307 | 43,307 | - | 71,928 |
| Interest and fiscal charges | <u>581</u> | <u>581</u> | <u>580</u> | <u>(1)</u> | <u>3,307</u> |
| Total expenditures | <u>59,233,441</u> | <u>61,778,152</u> | <u>60,597,808</u> | <u>(1,180,344)</u> | <u>58,105,079</u> |
| Excess (deficiency) of revenues over expenditures | <u>(656,926)</u> | <u>194,524</u> | <u>528,661</u> | <u>334,137</u> | <u>760,916</u> |
| Other Financing Sources (Uses) | | | | | |
| Proceeds from sale of capital assets | - | 5,678 | 5,678 | - | 34,964 |
| Transfers in | 10,000 | 10,000 | 8,064 | (1,936) | 7,561 |
| Transfers out | <u>(648,696)</u> | <u>(520,157)</u> | <u>(520,078)</u> | <u>79</u> | <u>(386,096)</u> |
| Total other financing sources (uses) | <u>(638,696)</u> | <u>(504,479)</u> | <u>(506,336)</u> | <u>(1,857)</u> | <u>(343,571)</u> |
| Net change in fund balance | (1,295,622) | (309,955) | 22,325 | 332,280 | 417,345 |
| Fund balance - beginning | <u>14,519,123</u> | <u>14,519,123</u> | <u>14,519,123</u> | - | <u>14,101,778</u> |
| Fund balance - ending | <u>\$ 13,223,501</u> | <u>\$ 14,209,168</u> | <u>\$ 14,541,448</u> | <u>\$ 332,280</u> | <u>\$ 14,519,123</u> |

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

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---------------|---------------|---------------|---------------|------|------|------|------|------|------|
| A. Reporting unit's proportion of net pension liability (%) | 0.32% | 0.31% | 0.31% | 0.31% | | | | | | |
| B. Reporting unit's proportionate share of net pension liability | \$ 84,157,360 | \$ 78,591,165 | \$ 76,622,770 | \$ 68,060,082 | | | | | | |
| C. Reporting unit's covered-employee payroll | \$ 27,575,741 | \$ 26,589,939 | \$ 26,274,901 | \$ 26,685,495 | | | | | | |
| D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll | 305.19% | 295.57% | 291.62% | 336.25% | | | | | | |
| E. Plan fiduciary net position as a percentage of total pension liability | 64.21% | 63.27% | 63.17% | 66.20% | | | | | | |

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

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

| | For the Years Ended June 30, | | | | | | | | | |
|--|------------------------------|------------------|------------------|------------------|------|------|------|------|------|------|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| A. Statutorily required contributions | \$ 8,661,137 | \$ 7,073,600 | \$ 6,051,796 | \$ 5,867,007 | | | | | | |
| B. Contributions in relation to statutorily required contributions | <u>8,661,137</u> | <u>7,073,600</u> | <u>6,051,796</u> | <u>5,867,007</u> | | | | | | |
| C. Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | | | | | | |
| D. Reporting unit's covered-employee payroll | \$ 28,581,849 | \$ 27,281,002 | \$ 26,396,616 | \$ 26,594,474 | | | | | | |
| E. Contributions as a percentage of covered-employee payroll | 30.30% | 25.93% | 22.93% | 22.06% | | | | | | |

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

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|---------------|------|------|------|------|------|------|------|------|------|
| A. Reporting unit's proportion of net OPEB liability (%) | 0.32% | | | | | | | | | |
| B. Reporting unit's proportionate share of net OPEB liability | \$ 28,694,413 | | | | | | | | | |
| C. Reporting unit's covered-employee payroll | \$ 27,575,741 | | | | | | | | | |
| D. Reporting unit's proportionate share of net OPEB liability as a | 104.06% | | | | | | | | | |
| E. Plan fiduciary net position as a percentage of total OPEB liability | 36.39% | | | | | | | | | |

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

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

| | For the Years Ended June 30, | | | | | | | | | |
|--|------------------------------|------|------|------|------|------|------|------|------|------|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| A. Statutorily required contributions | \$ 2,224,640 | | | | | | | | | |
| B. Contributions in relation to statutorily required contributions | <u>2,224,640</u> | | | | | | | | | |
| C. Contribution deficiency (excess) | <u>\$ -</u> | | | | | | | | | |
| D. Reporting unit's covered-employee payroll | \$ 28,581,849 | | | | | | | | | |
| E. Contributions as a percentage of covered-employee payroll | 7.78% | | | | | | | | | |

OTHER SUPPLEMENTARY INFORMATION

Royal Oak Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018 (With Comparative Summarized Totals for 2017)

| | Special Revenue Funds | | Debt Service Funds | Capital Projects Funds | | | Total Nonmajor Governmental Funds | |
|-----------------------------------|-----------------------|-----------------------|-----------------------|--|---------------------|---|--------------------------------------|----------------------|
| | Food Service | Community Services | QSCB Debt | General Property Maintenance Fund | Sinking Fund | Instructional Technology Capital Projects Fund | 2018 | 2017 |
| Assets | | | | | | | | |
| Cash | \$ 433,991 | \$ 1,977,688 | \$ - | \$ 4,930,201 | \$ 3,861,854 | \$ 756,403 | \$ 11,960,137 | \$ 11,472,142 |
| Accounts receivable | 7,588 | - | - | - | 420 | - | 8,008 | 8,731 |
| Due from other governmental units | 8,893 | - | - | - | - | - | 8,893 | 9,145 |
| Inventory | 22,213 | - | - | - | - | - | 22,213 | 23,033 |
| Prepaid items | 110,000 | - | - | - | - | - | 110,000 | 110,000 |
| Total assets | \$ 582,685 | \$ 1,977,688 | \$ - | \$ 4,930,201 | \$ 3,862,274 | \$ 756,403 | \$ 12,109,251 | \$ 11,623,051 |
| Liabilities | | | | | | | | |
| Accounts payable | \$ 56,350 | \$ 13,317 | \$ - | \$ 11,240 | \$ 352,916 | \$ - | \$ 433,823 | \$ 670,765 |
| Unearned revenue | 25,853 | - | - | - | - | - | 25,853 | 24,980 |
| Total liabilities | 82,203 | 13,317 | - | 11,240 | 352,916 | - | 459,676 | 695,745 |

Royal Oak Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018 (With Comparative Summarized Totals for 2017)

| | Special Revenue Funds | | Debt Service Funds | Capital Projects Funds | | | Total Nonmajor Governmental Funds | |
|---|-----------------------|-----------------------|-----------------------|--|---------------------|---|--------------------------------------|----------------------|
| | Food Service | Community Services | QSCB Debt | General Property Maintenance Fund | Sinking Fund | Instructional Technology Capital Projects Fund | 2018 | 2017 |
| Fund Balance | | | | | | | | |
| Non-spendable | | | | | | | | |
| Inventory | \$ 22,213 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 22,213 | \$ 23,033 |
| Prepaid items | 110,000 | - | - | - | - | - | 110,000 | 110,000 |
| Restricted for | | | | | | | | |
| Food service | 368,269 | - | - | - | - | - | 368,269 | 225,845 |
| Capital projects | - | - | - | - | 3,509,358 | - | 3,509,358 | 2,841,059 |
| Committed | - | - | - | - | - | - | - | 125,662 |
| Assigned | - | 1,964,371 | - | 4,918,961 | - | 756,403 | 7,639,735 | 7,601,707 |
| Total fund balance | 500,482 | 1,964,371 | - | 4,918,961 | 3,509,358 | 756,403 | 11,649,575 | 10,927,306 |
| Total liabilities and fund balance | \$ 582,685 | \$ 1,977,688 | \$ - | \$ 4,930,201 | \$ 3,862,274 | \$ 756,403 | \$ 12,109,251 | \$ 11,623,051 |

Royal Oak Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018 (With Comparative Summarized Totals for 2017)

| | Special Revenue Funds | | Debt Service Funds | Capital Project Funds | | | Total Nonmajor Governmental Funds | |
|--|-----------------------|-----------------------|-----------------------|--|-----------------|---|--------------------------------------|--------------|
| | Food Service | Community Services | QSCB Debt | General Property Maintenance Fund | Sinking Fund | Instructional Technology Capital Projects Fund | 2018 | 2017 |
| Revenues | | | | | | | | |
| Local sources | \$ 732,268 | \$ 1,325,252 | \$ - | \$ - | \$ 2,542,882 | \$ 30,702 | \$ 4,631,104 | \$ 4,644,743 |
| State sources | 53,749 | 445,423 | - | - | - | - | 499,172 | 511,291 |
| Federal sources | 605,895 | 12,387 | 55,030 | - | - | - | 673,312 | 655,980 |
| Total revenues | 1,391,912 | 1,783,062 | 55,030 | - | 2,542,882 | 30,702 | 5,803,588 | 5,812,014 |
| Expenditures | | | | | | | | |
| Current | | | | | | | | |
| Education | | | | | | | | |
| Instruction | - | 1,072,963 | - | - | - | - | 1,072,963 | 1,076,133 |
| Supporting services | - | 137,488 | - | - | - | - | 137,488 | 104,666 |
| Food services | 1,242,244 | - | - | - | - | - | 1,242,244 | 1,364,823 |
| Community services | - | 629,438 | - | - | - | - | 629,438 | 598,279 |
| Facilities acquisition | - | - | - | 608 | - | - | 608 | - |
| Capital outlay | - | - | - | 333,349 | 1,874,583 | - | 2,207,932 | 1,358,242 |
| Debt service | | | | | | | | |
| Principal | - | - | 240,000 | - | - | - | 240,000 | 240,000 |
| Interest and other expenditures | - | - | 62,660 | - | - | - | 62,660 | 75,290 |
| Total expenditures | 1,242,244 | 1,839,889 | 302,660 | 333,957 | 1,874,583 | - | 5,593,333 | 4,817,433 |
| Excess (deficiency) of revenues over expenditures | 149,668 | (56,827) | (247,630) | (333,957) | 668,299 | 30,702 | 210,255 | 994,581 |

Royal Oak Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018 (With Comparative Summarized Totals for 2017)

| | Special Revenue Funds | | Debt Service Funds | Capital Project Funds | | | Total Nonmajor Governmental Funds | |
|---------------------------------------|-----------------------|-----------------------|-----------------------|--|-----------------|---|--------------------------------------|---------------|
| | Food Service | Community Services | QSCB Debt | General Property Maintenance Fund | Sinking Fund | Instructional Technology Capital Projects Fund | 2018 | 2017 |
| Other Financing Sources (Uses) | | | | | | | | |
| Proceeds from sale of capital assets | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 296,300 |
| Transfers in | - | 272,448 | 247,630 | - | - | - | 520,078 | 386,096 |
| Transfers out | (8,064) | - | - | - | - | - | (8,064) | (7,561) |
| Total other financing sources (uses) | (8,064) | 272,448 | 247,630 | - | - | - | 512,014 | 674,835 |
| Net change in fund balance | 141,604 | 215,621 | - | (333,957) | 668,299 | 30,702 | 722,269 | 1,669,416 |
| Fund balance - beginning | 358,878 | 1,748,750 | - | 5,252,918 | 2,841,059 | 725,701 | 10,927,306 | 9,257,890 |
| Fund balance - ending | \$ 500,482 | \$ 1,964,371 | \$ - | \$ 4,918,961 | \$ 3,509,358 | \$ 756,403 | \$ 11,649,575 | \$ 10,927,306 |

Royal Oak Schools
Other Supplementary Information
Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual
For the Year Ended June 30, 2018

| | Food Service | | | Community Services | | | Total | | |
|---|--------------|------------|---------------------------|--------------------|--------------|---------------------------|--------------|--------------|---------------------------|
| | Final Budget | Actual | Over (Under) Final Budget | Final Budget | Actual | Over (Under) Final Budget | Final Budget | Actual | Over (Under) Final Budget |
| Revenues | | | | | | | | | |
| Local sources | \$ 742,463 | \$ 732,268 | \$ (10,195) | \$ 1,276,250 | \$ 1,325,252 | \$ 49,002 | \$ 2,018,713 | \$ 2,057,520 | \$ 38,807 |
| State sources | 53,620 | 53,749 | 129 | 444,416 | 445,423 | 1,007 | 498,036 | 499,172 | 1,136 |
| Federal sources | 570,671 | 605,895 | 35,224 | 12,000 | 12,387 | 387 | 582,671 | 618,282 | 35,611 |
| Total revenues | 1,366,754 | 1,391,912 | 25,158 | 1,732,666 | 1,783,062 | 50,396 | 3,099,420 | 3,174,974 | 75,554 |
| Expenditures | | | | | | | | | |
| Current | | | | | | | | | |
| Education | | | | | | | | | |
| Instruction | - | - | - | 1,192,088 | 1,072,963 | (119,125) | 1,192,088 | 1,072,963 | (119,125) |
| Supporting services | - | - | - | 168,410 | 137,488 | (30,922) | 168,410 | 137,488 | (30,922) |
| Food services | 1,272,051 | 1,242,244 | (29,807) | - | - | - | 1,272,051 | 1,242,244 | (29,807) |
| Community services | - | - | - | 644,617 | 629,438 | (15,179) | 644,617 | 629,438 | (15,179) |
| Total expenditures | 1,272,051 | 1,242,244 | (29,807) | 2,005,115 | 1,839,889 | (165,226) | 3,277,166 | 3,082,133 | (195,033) |
| Excess (deficiency) of revenues over expenditures | 94,703 | 149,668 | 54,965 | (272,449) | (56,827) | 215,622 | (177,746) | 92,841 | 270,587 |
| Other Financing Sources (Uses) | | | | | | | | | |
| Transfers in | - | - | - | 272,448 | 272,448 | - | 272,448 | 272,448 | - |
| Transfers out | (10,000) | (8,064) | (1,936) | - | - | - | (10,000) | (8,064) | (1,936) |
| Total other financing sources (uses) | (10,000) | (8,064) | (1,936) | 272,448 | 272,448 | - | 262,448 | 264,384 | (1,936) |
| Net change in fund balance | 84,703 | 141,604 | 56,901 | (1) | 215,621 | 215,622 | 84,702 | 357,225 | 272,523 |
| Fund balance - beginning | 358,878 | 358,878 | - | 1,748,750 | 1,748,750 | - | 2,107,628 | 2,107,628 | - |
| Fund balance - ending | \$ 443,581 | \$ 500,482 | \$ 56,901 | \$ 1,748,749 | \$ 1,964,371 | \$ 215,622 | \$ 2,192,330 | \$ 2,464,853 | \$ 272,523 |

Royal Oak Schools
Other Supplementary Information
Debt Service Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual
For the Year Ended June 30, 2018

| | <u>2014</u> <u>Debt</u> | <u>QSCB</u> <u>Debt</u> | <u>Total Debt</u> <u>Actual</u> | <u>Total Debt</u> <u>Final</u> <u>Budget</u> | <u>Over (Under)</u> <u>Final Budget</u> |
|--|----------------------------|----------------------------|------------------------------------|--|--|
| Revenues | | | | | |
| Local sources | \$ 8,552,219 | \$ - | \$ 8,552,219 | \$ 8,406,409 | \$ 145,810 |
| Federal sources | - | 55,030 | 55,030 | 41,317 | 13,713 |
| Total revenues | <u>8,552,219</u> | <u>55,030</u> | <u>8,607,249</u> | <u>8,447,726</u> | <u>159,523</u> |
| Expenditures | | | | | |
| Debt service | | | | | |
| Principal | 7,515,000 | 240,000 | 7,755,000 | 7,755,000 | - |
| Interest and other expenditures | <u>1,253,000</u> | <u>62,660</u> | <u>1,315,660</u> | <u>1,315,660</u> | <u>-</u> |
| Total expenditures | <u>8,768,000</u> | <u>302,660</u> | <u>9,070,660</u> | <u>9,070,660</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | (215,781) | (247,630) | (463,411) | (622,934) | 159,523 |
| Other Financing Sources | | | | | |
| Transfers in | - | 247,630 | 247,630 | 261,343 | (13,713) |
| Net change in fund balance | (215,781) | - | (215,781) | (361,591) | 145,810 |
| Fund balance - beginning | <u>1,536,938</u> | <u>-</u> | <u>1,536,938</u> | <u>3,073,876</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 1,321,157</u> | <u>\$ -</u> | <u>\$ 1,321,157</u> | <u>\$ 2,712,285</u> | <u>\$ 145,810</u> |

Royal Oak Schools
Other Supplementary Information
Capital Projects Fund
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

| | General Property Maintenance Fund | Instructional Technology Fund | Sinking Fund | 2018 Bond Fund Series 1 | Total Capital Projects Actual |
|--|---|-------------------------------------|---------------------|----------------------------|-------------------------------------|
| Revenues | | | | | |
| Local sources | \$ - | \$ 30,702 | \$ 2,542,882 | \$ 36,936 | \$ 2,610,520 |
| Expenditures | | | | | |
| Current | | | | | |
| Education | | | | | |
| Facilities acquisition | 608 | - | - | - | 608 |
| Capital outlay | 333,349 | - | 1,874,583 | 1,600,755 | 3,808,687 |
| Debt service | | | | | |
| Bond issuance costs | - | - | - | 189,345 | 189,345 |
| Total expenditures | 333,957 | - | 1,874,583 | 1,790,100 | 3,998,640 |
| Excess (deficiency) of revenues over expenditures | (333,957) | 30,702 | 668,299 | (1,753,164) | (1,388,120) |
| Other Financing Sources | | | | | |
| Proceeds from issuance of bonds | - | - | - | 23,725,000 | 23,725,000 |
| Premium on issuance of bonds | - | - | - | 3,316,610 | 3,316,610 |
| Total other financing sources (uses) | - | - | - | 27,041,610 | 27,041,610 |
| Net change in fund balance | (333,957) | 30,702 | 668,299 | 25,288,446 | 25,653,490 |
| Fund balance - beginning | 5,252,918 | 725,701 | 2,841,059 | - | 8,819,678 |
| Fund balance - ending | <u>\$ 4,918,961</u> | <u>\$ 756,403</u> | <u>\$ 3,509,358</u> | <u>\$ 25,288,446</u> | <u>\$ 34,473,168</u> |

Royal Oak Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2018

| Year Ending June 30, | QSCB Debt | 2014 Debt | 2018 Building and Site | Total |
|-------------------------|-------------------|----------------------|------------------------|----------------------|
| 2019 | \$ 240,000 | \$ 5,565,000 | \$ 1,085,000 | \$ 6,890,000 |
| 2020 | 240,000 | 5,840,000 | 1,580,000 | 7,660,000 |
| 2021 | 245,000 | 6,130,000 | 920,000 | 7,295,000 |
| 2022 | 245,000 | - | 2,470,000 | 2,715,000 |
| 2023 | - | - | 2,595,000 | 2,595,000 |
| 2024 | - | - | 2,725,000 | 2,725,000 |
| 2025 | - | - | 2,865,000 | 2,865,000 |
| 2026 | - | - | 3,005,000 | 3,005,000 |
| 2027 | - | - | 3,150,000 | 3,150,000 |
| 2028 | - | - | 3,330,000 | 3,330,000 |
| Total | <u>\$ 970,000</u> | <u>\$ 17,535,000</u> | <u>\$ 23,725,000</u> | <u>\$ 42,230,000</u> |

| | | | |
|---|---------------------|----------------------|----------------------|
| Principal payments due the first day of | May | May | May |
| Interest payments due the first day of | May and November | May and November | May and November |
| Interest rate | 1.25% - 6.00% | 5.00% | 4.00% - 5.00% |
| Original issue | <u>\$ 2,650,000</u> | <u>\$ 39,075,000</u> | <u>\$ 23,725,000</u> |

STATISTICAL SECTION (UNAUDITED)

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

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Governmental activities | | | | | | | | | |
| Net investment in | | | | | | | | | |
| capital assets | \$ 92,295,603 | \$ 85,077,012 | \$ 78,315,855 | \$ 72,594,218 | \$ 64,247,738 | \$ 58,096,056 | \$ 52,291,388 | \$ 51,696,758 | \$ 53,954,727 |
| Restricted | 5,178,997 | 451,875 | 3,349,905 | 3,015,555 | 2,138,043 | 3,656,271 | 4,067,813 | 2,636,146 | 997,709 |
| Unrestricted (deficit) | <u>(77,344,092)</u> | <u>(47,929,313)</u> | <u>(48,474,236)</u> | <u>(52,091,303)</u> | <u>(49,254,679)</u> | <u>17,388,631</u> | <u>14,348,224</u> | <u>9,123,012</u> | <u>139,455</u> |
| Total primary government | <u>\$ 20,130,508</u> | <u>\$ 37,599,574</u> | <u>\$ 33,191,524</u> | <u>\$ 23,518,470</u> | <u>\$ 17,131,102</u> | <u>\$ 79,140,958</u> | <u>\$ 70,707,425</u> | <u>\$ 63,455,916</u> | <u>\$ 55,091,891</u> |

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

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2009-2018.

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

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Expenses | | | | | | | | | |
| Governmental activities | | | | | | | | | |
| Instruction | \$ 39,331,584 | \$ 36,088,719 | \$ 35,518,070 | \$ 34,260,122 | \$ 33,706,787 | \$ 32,453,172 | \$ 33,046,290 | \$ 34,412,197 | \$ 37,440,682 |
| Support services | 21,384,267 | 20,570,368 | 18,753,557 | 20,142,019 | 19,639,249 | 18,992,270 | 19,389,775 | 20,011,511 | 24,450,712 |
| Food services | 1,242,244 | 1,381,164 | 1,216,593 | 1,162,690 | 1,160,434 | 1,153,903 | 1,275,493 | 1,284,725 | 1,249,617 |
| Athletics | - | - | - | - | - | - | - | - | 639,525 |
| Community services | 1,964,081 | 1,886,136 | 1,745,745 | 1,485,327 | 1,281,731 | 1,261,333 | 622,865 | 678,492 | 707,362 |
| Interest on long-term debt | 554,058 | 742,821 | 1,096,173 | 2,525,742 | 2,721,696 | 3,121,759 | 3,187,457 | 3,307,073 | 3,597,687 |
| Depreciation (unallocated) | 5,045,399 | 4,980,448 | 4,996,650 | 4,832,519 | 4,693,465 | 4,516,412 | 5,234,270 | 4,447,823 | 4,650,857 |
| Total primary government expenses | 69,521,633 | 65,649,656 | 63,326,788 | 64,408,419 | 63,203,362 | 61,498,849 | 62,756,150 | 64,141,821 | 72,736,442 |
| Program revenues | | | | | | | | | |
| Governmental activities | | | | | | | | | |
| Charges for services | | | | | | | | | |
| Instruction | 22,060 | 40,808 | 23,046 | 38,484 | 39,291 | 61,311 | 60,916 | 59,266 | 61,410 |
| Food services | 732,268 | 725,094 | 639,249 | 655,274 | 623,393 | 581,116 | 624,267 | 638,257 | 687,884 |
| Athletics | - | - | - | - | - | - | - | - | 185,857 |
| Support services | 218,888 | 212,990 | 175,956 | 206,409 | 221,060 | 238,864 | 231,887 | 235,330 | - |
| Community services | 1,536,597 | 1,587,652 | 1,407,426 | 1,346,909 | 1,345,498 | 1,353,860 | 1,501,390 | 1,489,773 | 1,279,830 |
| Operating grants and contributions | | | | | | | | | |
| Instruction | 10,487,391 | 9,992,468 | 9,347,498 | 8,952,291 | 8,065,756 | 8,239,751 | 4,600,751 | 5,842,037 | 9,849,305 |
| Support services | - | - | - | - | 516,070 | 550,136 | 5,635,280 | 5,635,280 | 5,605,338 |
| Food services | 667,174 | 627,260 | 596,957 | 582,981 | 573,520 | 597,160 | 677,043 | 665,616 | 647,355 |
| Community services | 445,423 | 454,121 | 486,394 | 523,210 | 314,329 | 139,110 | 159,292 | 100,480 | 82,715 |
| Total primary government program revenues | 14,109,801 | 13,640,393 | 12,676,526 | 12,305,558 | 11,698,917 | 11,761,308 | 13,490,826 | 14,666,039 | 18,399,694 |
| Net (expense) revenue | | | | | | | | | |
| Total primary government net expense | \$ (55,411,832) | \$ (52,009,263) | \$ (50,650,262) | \$ (52,102,861) | \$ (51,504,445) | \$ (49,737,541) | \$ (49,265,324) | \$ (49,475,782) | \$ (54,336,748) |

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2009-2018.

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

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Net (expense) revenue | | | | | | | | | |
| Total primary government net expense | \$ (55,411,832) | \$ (52,009,263) | \$ (50,650,262) | \$ (52,102,861) | \$ (51,504,445) | \$ (49,737,541) | \$ (49,265,324) | \$ (49,475,782) | \$ (54,336,748) |
| General revenues and other changes in net position | | | | | | | | | |
| Governmental activities | | | | | | | | | |
| Taxes | | | | | | | | | |
| Property taxes levied for general purposes | 19,886,188 | 19,529,389 | 19,252,696 | 19,104,445 | 18,904,444 | 19,163,973 | 18,925,737 | 19,279,237 | 19,744,221 |
| Property taxes levied for debt service | 8,508,770 | 9,374,541 | 9,067,830 | 8,758,980 | 10,795,009 | 10,542,052 | 10,647,453 | 10,904,444 | 11,778,957 |
| Property taxes levied for sinking fund | 2,538,310 | 2,444,540 | 2,387,206 | 2,309,954 | - | - | - | - | - |
| Unrestricted state aid | 29,753,112 | 28,578,016 | 27,187,890 | 26,832,592 | 25,911,514 | 26,477,203 | 25,927,663 | 26,346,437 | 25,423,522 |
| Interest and investment earnings | 266,907 | 51,120 | 44,286 | 41,148 | 41,810 | 33,163 | 41,643 | 33,558 | 65,288 |
| Gain on sale of assets | 5,678 | 41,264 | 1,803,787 | 321,858 | 1,307,721 | 1,538,403 | 680,496 | 614,413 | 488,977 |
| Insurance recoveries | - | - | 300,000 | 832,317 | - | - | - | - | 2,000,000 |
| Other | 456,124 | 468,173 | 279,891 | 288,935 | 648,649 | 416,280 | 293,841 | 661,718 | 554,199 |
| Total primary government | <u>61,415,089</u> | <u>60,487,043</u> | <u>60,323,586</u> | <u>58,490,229</u> | <u>57,609,147</u> | <u>58,171,074</u> | <u>56,516,833</u> | <u>57,839,807</u> | <u>60,055,164</u> |
| Change in net position | | | | | | | | | |
| Total primary government | <u>\$ 6,003,257</u> | <u>\$ 8,477,780</u> | <u>\$ 9,673,324</u> | <u>\$ 6,387,368</u> | <u>\$ 6,104,702</u> | <u>\$ 8,433,533</u> | <u>\$ 7,251,509</u> | <u>\$ 8,364,025</u> | <u>\$ 5,718,416</u> |

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2009-2018.

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

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|---------------------|
| General Fund | | | | | | | | | | |
| Non-spendable | \$ - | \$ 16,000 | \$ 32,000 | \$ - | \$ - | \$ 3,817 | \$ 72,405 | \$ - | \$ - | \$ - |
| Committed | - | - | - | - | 137,674 | - | - | - | - | - |
| Assigned | 2,184,204 | 1,829,317 | 2,251,304 | 1,452,263 | 3,004,594 | 2,824,754 | 2,859,270 | 5,301,954 | - | - |
| Unassigned | 12,357,244 | 12,673,806 | 11,818,474 | 12,579,125 | 10,720,665 | 10,037,295 | 7,622,793 | 4,061,055 | - | - |
| Reserved | - | - | - | - | - | - | - | - | 195,205 | 30,442 |
| Unreserved | | | | | | | | | | |
| Designated | - | - | - | - | - | - | - | - | 3,896,984 | 5,101,754 |
| Undesignated | - | - | - | - | - | - | - | - | 2,678,084 | 1,198,855 |
| Total General Fund | 14,541,448 | 14,519,123 | 14,101,778 | 14,031,388 | 13,862,933 | 12,865,866 | 10,554,468 | 9,363,009 | 6,770,273 | 6,331,051 |
| All other governmental funds | | | | | | | | | | |
| Non-spendable | 132,213 | 133,033 | 129,566 | 125,275 | 129,865 | 131,034 | 136,843 | 26,580 | - | - |
| Restricted | 30,487,230 | 4,603,842 | 2,539,084 | 3,470,354 | 2,138,043 | 3,653,902 | 4,067,813 | 4,380,800 | - | - |
| Committed | - | 125,662 | 41,360 | 111,928 | 3,051,008 | - | - | - | - | - |
| Assigned | 7,639,735 | 7,601,707 | 1,569,597 | 1,361,663 | 2,463,262 | 5,331,284 | 4,529,435 | 1,007,336 | - | - |
| Unassigned | - | - | - | - | - | - | - | (238,471) | - | - |
| Reserved | - | - | - | - | - | - | - | - | 1,120,695 | 1,020,753 |
| Unreserved, reported in: | | | | | | | | | | |
| Special Revenue Funds | - | - | - | - | - | - | - | - | 1,311,216 | 2,185,837 |
| Capital Project Funds | - | - | - | - | - | - | - | - | (2,359,856) | (5,298,279) |
| Total all other governmental funds | 38,259,178 | 12,464,244 | 4,279,607 | 5,069,220 | 7,782,178 | 9,116,220 | 8,734,091 | 5,176,245 | 72,055 | (2,091,689) |
| Total all funds | \$ 52,800,626 | \$ 26,983,367 | \$ 18,381,385 | \$ 19,100,608 | \$ 21,645,111 | \$ 21,982,086 | \$ 19,288,559 | \$ 14,539,254 | \$ 6,842,328 | \$ 4,239,362 |

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

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2009-2018.

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

| Year Ended | General Fund | | | | | Total General Fund Revenues | Special Revenue Funds | | | | Total Special Revenue Funds Revenue | Capital Project Funds | Debt Service Funds | | | Total Revenue |
|------------|----------------|---------------------|-----------------------|---------------|-------------------|-----------------------------|-----------------------|-----------------------|---------------|-----------------|-------------------------------------|------------------------------------|--------------------|--------------------|----------------------------------|---------------|
| | Property Taxes | Other Local Sources | Interdistrict Sources | State Sources | Federal Sources * | | Local Sources | Interdistrict Sources | State Sources | Federal Sources | | Property Taxes, Interest and Other | Property Taxes | Interest and Other | Total Debt Service Funds Revenue | |
| 2009 | \$ 19,128,074 | \$ 1,018,240 | \$ 5,429,852 | \$ 29,574,837 | \$ 3,955,458 | \$ 59,106,461 | \$ 1,838,357 | \$ 1,635,792 | \$ 979,873 | \$ 486,740 | \$ 4,940,762 | \$ 98,579 | \$ 11,846,917 | \$ 136,111 | \$ 11,983,028 | \$ 76,128,830 |
| 2010 | 19,744,221 | 944,292 | 5,122,785 | 27,868,679 | 5,310,354 | 58,990,331 | 1,844,314 | 1,666,260 | 1,047,871 | 583,377 | 5,141,822 | 20,799 | 11,778,996 | 33,933 | 11,812,929 | 75,965,881 |
| 2011 | 19,279,237 | 1,209,137 | 5,220,718 | 29,659,838 | 3,114,539 | 58,483,469 | 1,725,212 | - | 174,886 | 591,210 | 2,491,308 | - | 10,904,656 | 12,000 | 10,916,656 | 71,891,433 |
| 2012 | 18,925,737 | 990,252 | 4,210,781 | 29,169,198 | 2,631,679 | 55,927,647 | 1,766,482 | - | 234,126 | 602,209 | 2,602,817 | - | 10,647,453 | 149,246 | 10,796,699 | 69,327,163 |
| 2013 | 19,163,973 | 955,151 | 3,743,464 | 29,689,691 | 1,712,589 | 55,264,868 | 1,726,589 | - | 189,173 | 540,390 | 2,456,152 | - | 10,542,062 | 118,442 | 10,660,504 | 68,381,524 |
| 2014 | 18,934,302 | 1,092,851 | 3,700,185 | 29,178,665 | 1,495,945 | 54,401,948 | 1,770,244 | - | 369,091 | 527,355 | 2,666,690 | 2,259,101 | 8,510,309 | 107,787 | 8,618,096 | 67,945,835 |
| 2015 | 19,139,195 | 771,400 | 3,842,917 | 30,180,869 | 1,632,761 | 55,567,142 | 1,813,291 | - | 580,621 | 535,191 | 2,929,103 | 2,307,388 | 8,733,763 | 107,287 | 8,841,050 | 69,644,683 |
| 2016 | 19,287,977 | 734,789 | 4,113,029 | 30,646,176 | 1,686,554 | 56,468,525 | 1,824,818 | - | 548,016 | 546,479 | 2,919,313 | 2,387,511 | 9,061,579 | 59,397 | 9,120,976 | 70,896,325 |
| 2017 | 19,567,379 | 1,014,287 | 4,080,207 | 32,386,390 | 1,817,732 | 58,865,995 | 2,014,146 | - | 511,291 | 569,884 | 3,095,321 | 2,630,597 | 9,408,163 | 86,096 | 9,494,259 | 74,086,172 |
| 2018 | 19,927,123 | 1,076,000 | 4,354,650 | 34,105,594 | 1,663,102 | 61,126,469 | 2,057,520 | - | 499,172 | 618,282 | 3,174,974 | 2,610,520 | 8,552,219 | 55,030 | 8,607,249 | 75,519,212 |

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

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2009-2018.

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

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Instruction (2) | \$ 35,802,944 | \$ 33,133,803 | \$ 31,623,623 | \$ 31,198,044 | \$ 30,384,432 | \$ 19,494,865 | \$ 19,287,159 | \$ 20,836,847 | \$ 22,789,538 |
| Pupil services | 4,959,956 | 4,700,118 | 4,732,277 | 4,618,925 | 4,686,290 | 3,145,836 | 3,134,485 | 3,030,725 | 3,894,769 |
| Instructional support services | 2,338,967 | 2,184,700 | 2,194,597 | 2,151,361 | 1,840,714 | 1,312,486 | 1,376,078 | 1,287,388 | 1,830,065 |
| General administration | 562,678 | 648,453 | 655,508 | 635,080 | 570,881 | 543,944 | 505,682 | 544,271 | 593,784 |
| School administration | 3,088,633 | 2,901,153 | 2,978,263 | 2,939,396 | 2,914,383 | 1,837,736 | 2,075,127 | 2,152,357 | 2,143,988 |
| Business services | 8,567,905 | 9,173,251 | 7,631,310 | 8,052,085 | 6,554,363 | 6,096,684 | 6,412,103 | 7,089,407 | 7,095,898 |
| Central staff | 1,858,317 | 1,855,851 | 2,151,889 | 2,122,841 | 1,865,325 | 1,543,609 | 822,949 | 768,903 | 952,911 |
| Athletics | 816,009 | 763,345 | 627,266 | 627,746 | 585,482 | 498,456 | 445,893 | 441,760 | 639,525 |
| Employee benefits (2) | - | - | - | - | - | 13,388,786 | 14,546,344 | 14,833,474 | 15,262,778 |
| Other | 72,174 | 41,582 | 44,188 | - | - | - | - | - | - |
| Community services (2) | 1,280,877 | 1,265,541 | 1,078,979 | 923,577 | 749,920 | 543,777 | 92,385 | 151,932 | 124,243 |
| Payments to other governmental units | 1,203,937 | 1,346,705 | 1,813,518 | 2,129,381 | 2,293,166 | 2,508,425 | 2,807,290 | 2,606,948 | 3,366,488 |
| Capital outlay (1) | 1,524 | 15,342 | 10,314 | 3,668 | 350,450 | 997,251 | 122,670 | 282,373 | 425,170 |
| Food Services Fund | 1,242,244 | 1,364,823 | 1,187,441 | 1,170,921 | 1,160,434 | 1,153,903 | 1,275,493 | 1,284,725 | 1,277,065 |
| Community Services Fund | 1,839,889 | 1,779,078 | 1,977,873 | 2,030,239 | 1,791,515 | 1,484,600 | 1,599,307 | 1,542,769 | 1,570,395 |
| Special Education Center Program Fund | - | - | - | - | - | - | - | - | 2,566,089 |
| Sinking Fund | 1,874,583 | 1,342,877 | 765,622 | 2,195,539 | 2,254,547 | - | - | - | - |
| Debt service | | | | | | | | | |
| Principal | 7,755,000 | 7,455,000 | 7,050,000 | 7,365,000 | 7,365,000 | 7,825,000 | 5,850,000 | 5,395,000 | 7,530,000 |
| Interest | 1,315,660 | 1,689,040 | 2,041,571 | 2,436,105 | 2,956,970 | 3,343,720 | 3,644,377 | 3,769,475 | 4,138,025 |
| Capital lease retirement | 43,887 | 75,235 | 75,235 | 75,234 | 75,234 | 31,348 | - | - | - |
| Other | - | - | - | 1,023,896 | 65,452 | 151,487 | 114,528 | 113,744 | 79,808 |
| Capital projects (1) | 2,124,057 | 15,365 | 49 | 2,722,228 | 3,264,822 | 2,162,324 | 1,343,706 | 1,118,333 | 1,050,748 |
| | <u>\$ 76,749,241</u> | <u>\$ 71,751,262</u> | <u>\$ 68,639,523</u> | <u>\$ 74,421,266</u> | <u>\$ 71,729,380</u> | <u>\$ 68,064,237</u> | <u>\$ 65,455,576</u> | <u>\$ 67,250,431</u> | <u>\$ 77,331,287</u> |
| Debt services as a percentage of noncapital expenditures | <u>12.53%</u> | <u>13.10%</u> | <u>13.51%</u> | <u>15.68%</u> | <u>15.80%</u> | <u>17.22%</u> | <u>14.99%</u> | <u>14.03%</u> | <u>15.40%</u> |

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

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

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2009-2018.

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

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|----------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| Excess of revenues over (under) expenditures | \$ (1,230,029) | \$ 2,334,910 | \$ 2,256,802 | \$ (4,776,583) | \$ (1,528,998) | \$ 317,387 | \$ 3,871,587 | \$ 4,641,002 | \$ (1,365,406) | \$ (8,487,406) |
| Other financing sources (uses) | | | | | | | | | | |
| Proceeds from capital lease | - | - | - | - | - | 340,365 | - | - | - | - |
| Proceeds from sale of assets | 5,678 | 331,264 | 2,659,783 | 1,144,030 | 1,192,023 | 2,035,775 | 877,718 | 405,924 | 1,968,372 | 271,111 |
| Insurance recoveries | - | - | 300,000 | 832,317 | - | - | - | - | 2,000,000 | 1,184,829 |
| Transfers in | 528,142 | 393,657 | 823,284 | 3,077,282 | 579,708 | 1,651,890 | 4,481,783 | 3,577,001 | 2,373,147 | 9,448,816 |
| Transfers out | (528,142) | (393,657) | (823,284) | (3,077,282) | (579,708) | (1,651,890) | (4,481,783) | (3,577,001) | (2,373,147) | (9,448,816) |
| General long-term debt issued | 23,725,000 | - | - | 44,333,524 | - | - | - | 2,650,000 | - | - |
| Bond discount/premium | 3,316,610 | - | - | - | - | - | - | - | - | - |
| Payments to bond escrow agent | - | - | - | (44,077,791) | - | - | - | - | - | - |
| Total other financing sources (uses) | <u>27,047,288</u> | <u>331,264</u> | <u>2,959,783</u> | <u>2,232,080</u> | <u>1,192,023</u> | <u>2,376,140</u> | <u>877,718</u> | <u>3,055,924</u> | <u>3,968,372</u> | <u>1,455,940</u> |
| Net change in fund balances | <u>\$ 25,817,259</u> | <u>\$ 2,666,174</u> | <u>\$ 5,216,585</u> | <u>\$ (2,544,503)</u> | <u>\$ (336,975)</u> | <u>\$ 2,693,527</u> | <u>\$ 4,749,305</u> | <u>\$ 7,696,926</u> | <u>\$ 2,602,966</u> | <u>\$ (7,031,466)</u> |

Source: Royal Oak Schools Comprehensive Annual Financial Reports 2009-2018.

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

| <u>Fiscal Year</u> | <u>Taxes Levied for the Fiscal Year</u> | <u>Collected within the Fiscal Year of the Levy</u> | | <u>Delinquent Taxes Collected</u> | <u>Total Collections to Date</u> | |
|--------------------|---|---|---------------------------|-----------------------------------|----------------------------------|---------------------------|
| | | <u>Amount</u> | <u>Percentage of Levy</u> | | <u>Amount</u> | <u>Percentage of Levy</u> |
| 2009 | \$ 30,929,774 | \$ 30,781,842 | 99.52 % | \$ 45,217 | \$ 30,827,059 | 99.67 % |
| 2010 | 31,470,829 | 31,390,959 | 99.75 % | 52,351 | 31,443,310 | 99.91 % |
| 2011 | 30,149,523 | 30,115,735 | 99.89 % | 34,157 | 30,149,892 | 100.00 % |
| 2012 | 29,646,026 | 29,597,314 | 99.84 % | 37,812 | 29,635,126 | 99.96 % |
| 2013 | 29,568,887 | 29,535,282 | 99.89 % | 71,390 | 29,606,672 | 100.13 % |
| 2014 | 29,783,139 | 29,656,242 | 99.57 % | 43,210 | 29,699,452 | 99.72 % |
| 2015 | 30,163,155 | 30,118,404 | 99.85 % | 51,058 | 30,169,463 | 100.02 % |
| 2016 | 30,802,157 | 30,672,298 | 99.58 % | 56,302 | 30,728,600 | 99.76 % |
| 2017 | 31,346,492 | 31,310,198 | 99.88 % | 61,008 | 31,371,207 | 100.08 % |
| 2018 | 30,922,347 | 30,885,435 | 99.88 % | 63,597 | 30,946,443 | 100.08 % |

Source: Treasurers' Settlements

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

| Fiscal Year | Taxable Valuation | | | Estimated Actual Valuation | Total District Direct Millage Rate | |
|-------------|--------------------|-----------------------|------------------|----------------------------|------------------------------------|-----------------------|
| | Homestead Property | Nonhomestead Property | Total | | Homestead Property | Nonhomestead Property |
| 2009 | \$ 1,716,694,470 | \$ 804,997,370 | \$ 2,521,691,840 | \$ 5,043,383,680 | 7.41 | 22.71 |
| 2010 | 1,679,401,510 | 825,078,121 | 2,504,479,631 | 5,008,959,262 | 7.35 | 22.71 |
| 2011 | 1,511,914,870 | 805,337,800 | 2,317,252,670 | 4,634,505,340 | 7.73 | 22.71 |
| 2012 | 1,458,200,960 | 791,577,970 | 2,249,778,930 | 4,499,557,860 | 7.73 | 22.71 |
| 2013 | 1,438,626,420 | 795,740,360 | 2,234,366,780 | 4,468,733,560 | 7.73 | 22.71 |
| 2014 | 1,460,042,270 | 802,008,610 | 2,262,050,880 | 4,524,101,760 | 7.73 | 22.75 |
| 2015 | 1,491,113,290 | 819,178,380 | 2,310,291,670 | 4,620,583,340 | 6.19 | 22.75 |
| 2016 | 1,571,990,170 | 831,881,780 | 2,403,871,950 | 4,807,743,900 | 6.39 | 22.75 |
| 2017 | 1,638,497,870 | 844,904,480 | 2,483,402,350 | 4,966,804,700 | 6.30 | 22.74 |
| 2018 | 1,739,083,200 | 856,416,460 | 2,595,499,660 | 5,190,999,320 | 5.72 | 22.23 |

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

Source: Royal Oak Schools and Oakland County Equalization

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

| Fiscal Year | District Direct Rates | | | State of Michigan | Oakland County | Oakland | Overlapping Rates | | | | |
|-------------|-----------------------|---------------|-------|-------------------|-------------------|-------------------|-------------------|--------------------------|-------------------------|-------------------|--------------|
| | Operating | Non-Operating | Total | | Operating and ISD | Community College | City of Berkley | City of Huntington Woods | City of Madison Heights | City of Royal Oak | City of Troy |
| 2009 | 2.70 | 4.71 | 7.41 | 6.00 | 8.71 | 1.58 | 13.00 | 21.80 | 18.16 | 11.43 | 9.28 |
| 2010 | 2.64 | 4.71 | 7.35 | 6.00 | 8.71 | 1.58 | 13.08 | 21.95 | 18.00 | 11.69 | 9.28 |
| 2011 | 3.02 | 4.71 | 7.73 | 6.00 | 8.71 | 1.58 | 14.07 | 23.56 | 18.81 | 11.71 | 9.40 |
| 2012 | 3.02 | 4.71 | 7.73 | 6.00 | 8.71 | 1.58 | 14.30 | 25.73 | 21.87 | 11.72 | 10.19 |
| 2013 | 3.02 | 4.71 | 7.73 | 6.00 | 8.71 | 1.58 | 14.49 | 26.39 | 22.43 | 15.20 | 10.48 |
| 2014 | 2.98 | 3.75 | 6.73 | 6.00 | 8.32 | 1.58 | 17.51 | 26.83 | 22.93 | 15.17 | 10.52 |
| 2015 | 2.44 | 3.75 | 6.19 | 6.00 | 8.32 | 1.58 | 17.55 | 26.71 | 22.97 | 18.16 | 10.50 |
| 2016 | 2.64 | 3.75 | 6.39 | 6.00 | 8.21 | 1.58 | 16.98 | 24.57 | 22.96 | 17.68 | 10.50 |
| 2017 | 2.55 | 3.75 | 6.30 | 6.00 | 8.13 | 1.57 | 15.82 | 22.38 | 23.02 | 17.88 | 10.40 |
| 2018 | 2.47 | 3.25 | 5.72 | 6.00 | 8.09 | 1.56 | 15.17 | 23.16 | 25.21 | 17.64 | 10.36 |

Source: Oakland County Equalization Department

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

| Fiscal Year | District Direct Rates | | | State of Michigan | Oakland County | Oakland | Overlapping Rates | | | | |
|-------------|-----------------------|---------------|-------|-------------------|-------------------|-------------------|-------------------|--------------------------|-------------------------|-------------------|--------------|
| | Operating | Non-Operating | Total | | Operating and ISD | Community College | City of Berkley | City of Huntington Woods | City of Madison Heights | City of Royal Oak | City of Troy |
| 2009 | 18.00 | 4.71 | 22.71 | 6.00 | 8.71 | 1.58 | 13.00 | 21.80 | 18.16 | 11.43 | 9.28 |
| 2010 | 18.00 | 4.71 | 22.71 | 6.00 | 8.71 | 1.58 | 13.08 | 21.95 | 18.00 | 11.69 | 9.28 |
| 2011 | 18.00 | 4.71 | 22.71 | 6.00 | 8.71 | 1.58 | 14.07 | 23.56 | 18.81 | 11.71 | 9.40 |
| 2012 | 18.00 | 4.71 | 22.71 | 6.00 | 8.71 | 1.58 | 14.30 | 25.73 | 21.87 | 11.72 | 10.19 |
| 2013 | 18.00 | 4.71 | 22.71 | 6.00 | 8.71 | 1.58 | 14.49 | 26.39 | 22.43 | 15.20 | 10.48 |
| 2014 | 18.00 | 4.75 | 22.75 | 6.00 | 8.91 | 1.58 | 17.51 | 26.83 | 22.93 | 15.17 | 10.52 |
| 2015 | 18.00 | 4.75 | 22.75 | 6.00 | 9.32 | 1.58 | 17.55 | 26.71 | 22.97 | 18.16 | 10.50 |
| 2016 | 18.00 | 4.75 | 22.75 | 6.00 | 8.21 | 1.58 | 16.98 | 24.57 | 22.96 | 17.68 | 10.50 |
| 2017 | 18.00 | 4.74 | 22.74 | 6.00 | 8.13 | 1.57 | 15.82 | 22.38 | 23.02 | 17.88 | 10.40 |
| 2018 | 18.00 | 4.23 | 22.23 | 6.00 | 8.09 | 1.56 | 15.17 | 23.16 | 25.21 | 17.64 | 10.36 |

Source: Oakland County Equalization Department

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

| Fiscal Year | Governmental Activities | | | Percentage of Personal Income | Per Capita |
|-------------|-------------------------|----------------|---------------|-------------------------------|------------|
| | Bonded Debt | Capital Leases | Total | | |
| 2009 | \$ 83,120,000 | \$ - | \$ 83,120,000 | 0.1370% | 1406 |
| 2010 | 75,590,000 | - | 75,590,000 | N/A | 1277 |
| 2011 | 72,845,000 | - | 72,845,000 | N/A | 1240 |
| 2012 | 66,995,000 | - | 66,995,000 | N/A | 1133 |
| 2013 | 59,170,000 | 314,529 | 59,484,529 | N/A | 993 |
| 2014 | 51,805,000 | 250,737 | 52,055,737 | N/A | 861 |
| 2015 | 39,075,000 | 184,341 | 39,259,341 | N/A | 648 |
| 2016 | 33,715,000 | 115,234 | 33,830,234 | N/A | 559 |
| 2017 | 26,260,000 | 43,306 | 26,303,306 | N/A | 435 |
| 2018 | 42,230,000 | - | 42,230,000 | N/A | 697 |

Source: Royal Oak Schools

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

Legal Debt Margin Calculation for Fiscal Year 2017

| | |
|-----------------------------------|------------------------------|
| Taxable value | \$ 2,595,499,660 |
| Debt limit (15%) of taxable value | 389,324,949 |
| Debt applicable to limit | <u>(42,230,000)</u> |
| Legal Debt Margin | <u><u>\$ 347,094,949</u></u> |

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Debt Limit | \$378,253,776 | \$375,671,945 | \$347,587,901 | \$337,466,840 | \$335,155,017 | \$339,307,632 | \$346,543,751 | \$360,580,793 | \$372,510,353 | \$389,324,949 |
| Total net debt applicable to limit | <u>83,120,000</u> | <u>75,590,000</u> | <u>72,845,000</u> | <u>66,995,000</u> | <u>59,170,000</u> | <u>51,805,000</u> | <u>51,805,000</u> | <u>33,715,000</u> | <u>30,138,465</u> | <u>42,230,000</u> |
| Legal debt margin | <u><u>\$295,133,776</u></u> | <u><u>\$300,081,945</u></u> | <u><u>\$274,742,901</u></u> | <u><u>\$270,471,840</u></u> | <u><u>\$275,985,017</u></u> | <u><u>\$287,502,632</u></u> | <u><u>\$294,738,751</u></u> | <u><u>\$326,865,793</u></u> | <u><u>\$342,371,888</u></u> | <u><u>\$347,094,949</u></u> |
| Total net debt applicable to the limit as a percentage of debt limit | 21.97% | 20.12% | 20.96% | 19.85% | 17.65% | 15.27% | 14.95% | 9.35% | 8.09% | 10.85% |

Source: Oakland County Equalization and Royal Oak Schools

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

| Fiscal Year | Estimated Population | Enrollment | Full-Time and Part-Time School District Employees |
|----------------|-------------------------|------------|--|
| 2009 | 59,110 | 5,445 | 738 |
| 2010 | 59,188 | 5,488 | 635 |
| 2011 | 58,736 | 5,306 | 493 |
| 2012 | 59,107 | 5,449 | 453 |
| 2013 | 59,910 | 6,124 | 453 |
| 2014 | 60,446 | 5,963 | 453 |
| 2015 | 60,569 | 5,915 | 465 |
| 2016 | 60,508 | 5,839 | 483 |
| 2017 | 60,506 | 5,921 | 508 |
| 2018 | 60,612 | 6,005 | 536 |

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

Royal Oak Schools

Demographic and Economic Statistics - Last Ten Calendar Years (Unaudited)

| Calendar Year | Oakland County Personal Income * | City of Royal Oak | | | | Unemployment Rate |
|---------------|----------------------------------|----------------------|----------------------------------|--------------------------------|--------------------------------|-------------------|
| | | Estimated Population | Estimated Total Household Income | Estimated Number of Households | Estimated Income Per Household | |
| 2009 | \$ 60,677,507,000 | 59,110 | \$ 1,634,404,626 | 27,639 | \$59,134 | 13.70% |
| 2010 | N/A | 59,188 | N/A | 28,063 | 60,184 | 12.50% |
| 2011 | N/A | 58,736 | N/A | 28,356 | 62,495 | 10.90% |
| 2012 | 68,065,416,000 | 59,107 | 1,764,234,797 | 28,249 | 62,453 | 8.80% |
| 2013 | 70,246,571,000 | 59,910 | 1,776,677,544 | 28,296 | 62,789 | 9.10% |
| 2014 | 73,973,217,000 | 60,446 | N/A | N/A | N/A | 8.10% |
| 2015 | N/A | 60,569 | N/A | N/A | 64,873 | 6.80% |
| 2016 | N/A | 60,508 | N/A | 29,033 | N/A | 4.60% |
| 2017 | N/A | 60,506 | N/A | 29,122 | N/A | 3.80% |
| 2018 | 81,802,445,000 | 60,612 | N/A | 28,552 | 68,504 | 4.00% |

* Years 2009 - 2010 are revised figures issued by the U.S. Department of Labor

* Year 2018 using 2016 figure from BEA, updated November 2017

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

N/A: Data is not available

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

| Taxpayer | 2018 | | | 2009 | | |
|---------------------------|---|------|--|---|------|--|
| | 2017 Tax Year Taxable Value Real and Personal Property | Rank | Percentage of Total Taxable Value | 2008 Tax Year Taxable Value Real and Personal Property | Rank | Percentage of Total Taxable Value |
| Consumers Energy | \$ 27,304,790 | 1 | 1.05% | \$ 9,673,320 | 7 | 0.38% |
| DTE/Detroit Edison | 24,519,980 | 2 | 0.94% | 17,671,340 | 2 | 0.70% |
| Beaumont Hospital | 9,660,340 | 3 | 0.37% | 16,120,760 | 3 | 0.64% |
| Meijer | 8,524,140 | 4 | 0.33% | 8,363,670 | 10 | 0.33% |
| Comcast of the South Inc | 7,905,060 | 5 | 0.30% | | | |
| The Kroger Company of MI | 6,305,680 | 6 | 0.24% | | | |
| H2 Royal Oak, LLC | 6,220,910 | 7 | 0.24% | | | |
| Garber Family Partnership | 6,003,790 | 8 | 0.23% | | | |
| Woodland Gardens MI | 5,660,270 | 9 | 0.22% | | | |
| Alidade Main N LLC | 5,107,330 | 10 | 0.20% | | | |
| Form Tech Industries | | | | 23,119,110 | 1 | 0.92% |
| Amber Equities LLC | | | | 15,731,310 | 4 | 0.62% |
| Flex-N-Gate | | | | 10,885,110 | 5 | 0.43% |
| Co-op Services | | | | 10,143,660 | 6 | 0 |
| National City Bank | | | | 8,840,540 | 9 | 0 |
| Main Eleven RO | | | | 9,462,220 | 8 | 0 |
| Total principal Taxpayers | 107,212,290 | | 4.13% | 130,011,040 | | 5.16% |
| Balance of Valuations | 2,488,287,370 | | 95.87% | 2,391,680,800 | | 94.84% |
| Total taxable valuation | <u>\$ 2,595,499,660</u> | | <u>100.00%</u> | <u>\$ 2,521,691,840</u> | | <u>100.00%</u> |

Source: City of Royal Oak Assessor

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

| Employer | 2017* | | | 2008 | | |
|------------------------------|------------------|-------------|--|------------------|-------------|--|
| | Employees | Rank | Percentage of Total County Employment | Employees | Rank | Percentage of Total County Employment |
| William Beaumont Hospital | 13,298 | 1 | 2.58% | 17,869 | 1 | 2.48% |
| City of Royal Oak | 507 | 2 | 0.51% | 350 | 5 | 0.10% |
| Royal Oak School District | 462 | 3 | 0.43% | 699 | 2 | 0.05% |
| Detroit Zoo | 413 | 4 | 0.36% | 510 | 3 | 0.05% |
| Consumers Energy | 374 | 5 | 0.29% | N/A | N/A | 0.07% |
| Flex-N-Gate Royal Oak | 355 | 6 | 0.24% | 350 | 6 | N/A |
| Comau, Inc | 315 | 7 | 0.18% | N/A | N/A | 0.35% |
| Holiday Market | 308 | 8 | 0.13% | 160 | 10 | 0.04% |
| Kroger | 291 | 9 | 0.08% | 260 | 8 | N/A |
| Meijer | 251 | 10 | 0.04% | 250 | 9 | N/A |
| Global Automotive System LLC | | | | 502 | 4 | 0.07% |
| Newcor, Inc | | | | 300 | 7 | 0.05% |
| | | | 4.85% | | | 3.26% |

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

* Data for 2017 is the most current available from the City of Royal Oak audit

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

| Fiscal Year Ended | Enrollment (1) | Operating Expenditures (2) | Cost per Pupil | Percentage Change |
|----------------------------------|-----------------------|---------------------------------------|-------------------------------|------------------------------|
| 2009 | 5,395 | \$ 54,344,255 | \$ 10,073 | (1.50) % |
| 2010 | 5,458 | 54,553,881 | 9,995 | (0.77) % |
| 2011 | 5,306 | 50,979,502 | 9,608 | (3.88) % |
| 2012 | 5,449 | 48,603,425 | 8,920 | (7.16) % |
| 2013 | 6,124 | 47,691,330 | 7,788 | (12.69) % |
| 2014 | 5,963 | 49,477,104 | 8,297 | 6.55 % |
| 2015 | 5,915 | 52,345,478 | 8,850 | 6.66 % |
| 2016 | 5,839 | 52,638,921 | 9,015 | 1.87 % |
| 2017 | 5,822 | 56,824,196 | 9,760 | 10.29 % |
| 2018 | 6,005 | 59,315,407 | 9,878 | 9.57 % |

Source: Royal Oak Schools

(1) Enrollment for special education Center Program students is excluded in Years 2009 - 2010.
Center Programs were discontinued beginning Year 2011.

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

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

| | 2017-18 | 2016-17 | 2015-16 | 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 | 2009-10 | 2008-09 | Percentage Change from 2007-08 to 2016-2017 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---|
| Administrative | | | | | | | | | | | |
| Building administration | 14.5 | 14.5 | 14.5 | 14.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 7.41 % |
| Central administration | 8.0 | 8.0 | 6.0 | 5.0 | 6.0 | 6.0 | 7.0 | 6.0 | 5.0 | 7.0 | 14.29 % |
| Operational administration | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 2.0 | 2.0 | 2.0 | (50.00)% |
| | <u>23.5</u> | <u>23.5</u> | <u>21.5</u> | <u>20.5</u> | <u>20.5</u> | <u>20.5</u> | <u>21.5</u> | <u>21.5</u> | <u>20.5</u> | <u>22.5</u> | 4.44 % |
| Instruction and pupil services | | | | | | | | | | | |
| Classroom teachers | 270.9 | 254.8 | 253.2 | 256.2 | 253.1 | 251.0 | 247.2 | 266.9 | 268.4 | 276.4 | (1.99)% |
| Counselors | 7.0 | 7.0 | 7.0 | 7.0 | 8.0 | 8.0 | 8.0 | 7.8 | 9.3 | 9.4 | (25.53)% |
| Media specialists | - | - | 2.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 2.0 | (100.00)% |
| Psychologists | 4.2 | 5.2 | 5.2 | 4.2 | 4.2 | 4.0 | 4.0 | 4.0 | 3.8 | 3.6 | 16.67 % |
| Social workers | 6.5 | 6.0 | 6.0 | 6.0 | 4.6 | 4.6 | 4.6 | 4.6 | 6.6 | 6.4 | 1.56 % |
| Pupil support - professional | 20.3 | 21.5 | 21.2 | 19.8 | 19.1 | 20.3 | 21.2 | 20.0 | 27.8 | 16.3 | 24.54 % |
| Paraprofessionals | 101.7 | 71.0 | 74.1 | 67.0 | 46.6 | 45.0 | 45.5 | 43.0 | 43.0 | 43.0 | 136.60 % |
| Secretarial | 21.5 | 21.5 | 20.0 | 21.0 | 21.0 | 22.0 | 22.5 | 23.5 | 23.5 | 23.5 | (8.51)% |
| Hall supervision | - | - | - | - | - | - | - | - (1) | 3.0 | 4.0 | (100.00)% |
| | <u>432.1</u> | <u>387.0</u> | <u>388.7</u> | <u>382.2</u> | <u>357.6</u> | <u>355.9</u> | <u>354.0</u> | <u>370.8</u> | <u>386.4</u> | <u>384.6</u> | 12.36 % |
| Business Services | | | | | | | | | | | |
| Custodial | - | - | - | - | - | - | - | - (1) | 33.5 | 38.5 | (100.00)% |
| Maintenance | - | - | - | - | - | - | - | - (1) | 14.0 | 15.0 | (100.00)% |
| Transportation | - | - | - | - | - | - | - | - (1) | 24.0 | 24.0 | (100.00)% |
| Secretarial/clerical | 14.0 | 13.0 | 13.0 | 12.0 | 11.0 | 10.5 | 9.0 | 11.0 | 13.5 | 14.0 | 0.00 % |
| Technical | - | - | - | - | - (3) | 1.5 (2) | 5.5 | 5.5 | 5.5 | 7.0 | (100.00)% |
| | <u>14.0</u> | <u>13.0</u> | <u>13.0</u> | <u>12.0</u> | <u>11.0</u> | <u>12.0</u> | <u>14.5</u> | <u>16.5</u> | <u>90.5</u> | <u>98.5</u> | (85.79)% |
| Total | <u>469.6</u> | <u>423.5</u> | <u>423.2</u> | <u>414.7</u> | <u>389.1</u> | <u>388.4</u> | <u>390.0</u> | <u>408.8</u> | <u>497.4</u> | <u>505.6</u> | (7.11)% |

Source: Royal Oak Schools

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

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

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

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

| Fiscal Year | BA Base Minimum Salary | MA / BA +30 Maximum Salary |
|----------------|------------------------------|----------------------------------|
| 2009 | \$ 38,452 | \$ 81,656 |
| 2010 | 38,452 | 81,656 |
| 2011 | 38,452 | 81,656 |
| 2012 | 38,452 | 81,656 |
| 2013 | 38,452 | 81,656 |
| 2014 | 38,452 | 81,656 |
| 2015 | 38,452 | 81,656 |
| 2016 | 38,452 | 82,473 |
| 2017 | 38,452 | 82,473 |
| 2018 | 38,452 | 82,473 |

Source: Royal Oak Schools

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

| School | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Elementary: | | | | | | | | | | |
| Addams (1952) | | | | | | | | | | |
| Square feet | 70,890 | 70,890 | 70,890 | 70,890 | 70,890 | 70,890 | 70,890 | 70,890 | 70,890 | 70,890 |
| Capacity | 625 | 625 | 625 | 625 | 625 | 625 | 625 | 625 | 625 | 625 |
| Enrollment | 414 | 418 | 417 | 452 | 442 | 464 | 464 | 466 | 469 | 469 |
| Keller (1961) | | | | | | | | | | |
| Square feet | 78,640 | 78,640 | 78,640 | 78,640 | 78,640 | 78,640 | 78,640 | 78,640 | 78,640 | 78,640 |
| Capacity | 675 | 675 | 675 | 675 | 675 | 675 | 675 | 675 | 675 | 675 |
| Enrollment | 361 | 338 | 314 | 379 | 394 | 400 | 402 | 421 | 453 | 445 |
| Northwood (2008) | | | | | | | | | | |
| Square feet | 65,000 | 65,000 | 65,000 | 65,000 | 65,000 | 65,000 | 65,000 | 65,000 | 65,000 | 65,000 |
| Capacity | 475 | 475 | 475 | 475 | 475 | 475 | 475 | 475 | 475 | 475 |
| Enrollment | 402 | 463 | 463 | 467 | 512 | 475 | 490 | 461 | 463 | 450 |
| Oakland (1924) | | | | | | | | | | |
| Square feet | 43,257 | 43,257 | 43,257 | 43,257 | 43,257 | 43,257 | 43,257 | 43,257 | 43,257 | 43,257 |
| Capacity | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 |
| Enrollment | 282 | 297 | 320 | 334 | 303 | 271 | 289 | 275 | 269 | 279 |
| Oak Ridge (1951) | | | | | | | | | | |
| Square feet | 51,619 | 51,619 | 51,619 | 51,619 | 51,619 | 51,619 | 51,619 | 51,619 | 51,619 | 51,619 |
| Capacity | 475 | 475 | 475 | 475 | 475 | 475 | 475 | 475 | 475 | 475 |
| Enrollment | 432 | 435 | 443 | 437 | 458 | 453 | 434 | 421 | 427 | 434 |
| Upton (1951) | | | | | | | | | | |
| Square feet | 35,708 | 35,708 | 35,708 | 35,708 | 35,708 | 35,708 | 35,708 | 35,708 | 35,708 | 35,708 |
| Capacity | 325 | 325 | 325 | 325 | 325 | 325 | 325 | 325 | 325 | 325 |
| Enrollment | 331 | 356 | 367 | 323 | 316 | 294 | 285 | 284 | 287 | 291 |

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

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Middle: | | | | | | | | | | |
| ROMS (1928) | | | | | | | | | | |
| Square feet | 277,161 | 277,161 | 277,161 | 277,161 | 277,161 | 277,161 | 277,161 | 277,161 | 277,161 | 277,161 |
| Capacity | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 |
| Enrollment | 1,204 | 1,172 | 1,127 | 1,094 | 1,049 | 1,044 | 1,055 | 1,138 | 1,161 | 1,187 |
| High: | | | | | | | | | | |
| ROHS (1957) | | | | | | | | | | |
| Square feet | 285,508 | 285,508 | 285,508 | 285,508 | 285,508 | 285,508 | 285,508 | 285,508 | 285,508 | 285,508 |
| Capacity | 1,998 | 1,998 | 1,998 | 1,998 | 1,998 | 1,998 | 1,998 | 1,998 | 1,998 | 1,998 |
| Enrollment | 1,743 | 1,713 | 1,614 | 1,533 | 1,441 | 1,358 | 1,278 | 1,225 | 1,255 | 1,282 |
| Other: | | | | | | | | | | |
| Oakland Technical Center, SE Campus (1971) | | | | | | | | | | |
| Square feet | 125,735 | 125,735 | 125,735 | 125,735 | 125,735 | 125,735 | 125,735 | 125,735 | 125,735 | 125,735 |
| Capacity | - | - | - | - | - | - | - | - | - | - |
| Enrollment | - | - | - | - | - | - | - | - | - | - |
| Community Education Center (1979) | | | | | | | | | | |
| Square feet | 78,583 | 78,583 | 78,583 | 78,583 | 78,583 | 78,583 | 51,079 | 51,079 | 51,079 | 51,079 |
| Capacity | 540 | 540 | 540 | 540 | 540 | 540 | 540 | 540 | 540 | 540 |
| Enrollment | 181 | 181 | 186 | 341 | 309 | 327 | 319 | 248 | 211 | 240 |
| Addams Early Childhood Center (1952) | | | | | | | | | | |
| Square feet | 25,913 | 25,913 | 25,913 | 25,913 | 25,913 | 25,913 | 25,913 | 25,913 | 25,913 | 25,913 |
| Capacity | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 |
| Enrollment | 101 | 103 | 55 | 68 | 77 | 82 | 82 | 82 | 104 | 104 |

Source: Royal Oak Schools

Royal Oak Schools

Single Audit Report

June 30, 2018



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

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Oak Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Royal Oak Schools' basic financial statements, and have issued our report thereon dated September 5, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Royal Oak Schools' Response to Findings and Corrective Action Plan

Royal Oak Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Royal Oak Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Yeo & Yeo, P.C.

Saginaw, Michigan
September 5, 2018



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

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited Royal Oak Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Royal Oak Schools' major federal programs for the year ended June 30, 2018. Royal Oak Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Royal Oak Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Oak Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Royal Oak Schools' basic financial statements. We issued our report thereon dated September 5, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the

basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
September 5, 2018

Royal Oak Schools
Schedule of Expenditures of Federal Awards
June 30, 2018

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Approved Awards Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue at July 1, 2017 | Federal Funds/ Payments In-kind Received | Expenditures | Adjustments | Accrued (Deferred) Revenue at June 30, 2018 | Subrecipients |
|--|----------------|------------------------------|---|---|---|------------------|-------------|--|---------------|
| U.S. Department of Agriculture | | | | | | | | | |
| Passed through the Michigan Department of Education | | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | | |
| National School Breakfast Program: | 10.553 | | | | | | | | |
| 2016-2017 - 171970 | | \$ 62,123 | \$ 56,383 | \$ - | \$ 5,740 | \$ 5,740 | \$ - | \$ - | \$ - |
| 2017-2018 - 181970 | | 59,929 | - | - | 59,929 | 59,929 | - | - | - |
| Total National School Breakfast Program | | <u>122,052</u> | <u>56,383</u> | <u>-</u> | <u>65,669</u> | <u>65,669</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| National School Lunch Program: | | | | | | | | | |
| Cash Assistance | 10.555 | | | | | | | | |
| 2016-2017 - 171960 | | 400,619 | 360,373 | - | 40,246 | 40,246 | - | - | - |
| 2017-2018 - 181960 | | 412,801 | - | - | 412,801 | 412,801 | - | - | - |
| Total Cash Assistance | | <u>813,420</u> | <u>360,373</u> | <u>-</u> | <u>453,047</u> | <u>453,047</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Non-cash Assistance: | 10.555 | | | | | | | | |
| Entitlement commodities - 2017-2018 | | 87,179 | - | - | 87,179 | 87,179 | - | - | - |
| Total National School Lunch Program | | <u>900,599</u> | <u>360,373</u> | <u>-</u> | <u>540,226</u> | <u>540,226</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Child Nutrition Cluster | | <u>1,022,651</u> | <u>416,756</u> | <u>-</u> | <u>605,895</u> | <u>605,895</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| CACFP: | 10.558 | | | | | | | | |
| 2016-2017 - 171920 | | 12,425 | 11,643 | - | 782 | 782 | - | - | - |
| 2017-2018 - 181920 | | 11,605 | - | - | 11,605 | 11,605 | - | - | - |
| Total CACFP | | <u>24,030</u> | <u>11,643</u> | <u>-</u> | <u>12,387</u> | <u>12,387</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total US Department of Agriculture | | <u>1,046,681</u> | <u>428,399</u> | <u>-</u> | <u>618,282</u> | <u>618,282</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| U.S. Department of Education | | | | | | | | | |
| Passed through the Oakland County ISD | | | | | | | | | |
| Special Education Cluster | | | | | | | | | |
| IDEA Flowthrough: | 84.027A | | | | | | | | |
| Project number 160450-1516 | | 1,004,326 | 10,930 | 1,996 | 1,996 | - | - | - | - |
| Project number 170450-1617 | | 1,096,461 | 1,086,596 | 214,501 | 224,366 | 9,865 | - | - | - |
| Project number 180450-1718 | | 1,213,902 | - | - | 937,877 | 1,188,779 | - | 250,902 | - |
| Total IDEA Flowthrough | | <u>3,314,689</u> | <u>1,097,526</u> | <u>216,497</u> | <u>1,164,239</u> | <u>1,198,644</u> | <u>-</u> | <u>250,902</u> | <u>-</u> |
| Handicapped Preschool Initiative: | 84.173A | | | | | | | | |
| Project number 170460-1617 | | 42,051 | 42,051 | 9,696 | 9,696 | - | - | - | - |
| Project number 180460-1718 | | 46,468 | - | - | 34,500 | 46,468 | - | 11,968 | - |
| Total Handicapped Preschool Initiative | | <u>88,519</u> | <u>42,051</u> | <u>9,696</u> | <u>44,196</u> | <u>46,468</u> | <u>-</u> | <u>11,968</u> | <u>-</u> |
| Total Special Education Cluster | | <u>3,403,208</u> | <u>1,139,577</u> | <u>226,193</u> | <u>1,208,435</u> | <u>1,245,112</u> | <u>-</u> | <u>262,870</u> | <u>-</u> |

See Notes to the Schedule of Expenditures of Federal Awards

Royal Oak Schools
Schedule of Expenditures of Federal Awards
June 30, 2018

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Approved Awards Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue at July 1, 2017 | Federal Funds/ Payments In-kind Received | Expenditures | Adjustments | Accrued (Deferred) Revenue at June 30, 2018 | Subrecipients |
|---|----------------|------------------------------|---|---|---|---------------------|------------------|--|------------------|
| Passed through the Michigan Department of Education | | | | | | | | | |
| Adult Basic Education: | 84.002 | | | | | | | | |
| Project number 171130-171137 | | \$ 60,000 | \$ 60,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Project number 181130-181137 | | <u>28,880</u> | <u>-</u> | <u>-</u> | <u>911</u> | <u>20,790</u> | <u>-</u> | <u>19,879</u> | <u>-</u> |
| Total Adult Basic Education | | <u>88,880</u> | <u>60,000</u> | <u>-</u> | <u>911</u> | <u>20,790</u> | <u>-</u> | <u>19,879</u> | <u>-</u> |
| Title I Part A: | 84.010 | | | | | | | | |
| Project number 171530-1617 | | 328,656 | 268,670 | 63,958 | 75,225 | 11,267 | - | - | - |
| Project number 181530-1718 | | <u>328,687</u> | <u>-</u> | <u>-</u> | <u>220,695</u> | <u>289,492</u> | <u>-</u> | <u>68,797</u> | <u>-</u> |
| Total Title I Part A | | <u>657,343</u> | <u>268,670</u> | <u>63,958</u> | <u>295,920</u> | <u>300,759</u> | <u>-</u> | <u>68,797</u> | <u>-</u> |
| Title IV: | 84.424 | | | | | | | | |
| Project number 181750-1718 | | <u>10,000</u> | <u>-</u> | <u>-</u> | <u>2,990</u> | <u>3,249</u> | <u>-</u> | <u>259</u> | <u>-</u> |
| Title II Part A: | 84.367 | | | | | | | | |
| Project number 170520-1617 | | 217,494 | 213,593 | 3,924 | (27,206) | 18,391 | 49,521 | - | - |
| Project number 180520-1718 | | <u>191,579</u> | <u>-</u> | <u>-</u> | <u>89,911</u> | <u>93,173</u> | <u>-</u> | <u>3,262</u> | <u>-</u> |
| Total Title II Part A | | <u>409,073</u> | <u>213,593</u> | <u>3,924</u> | <u>62,705</u> | <u>111,564</u> | <u>49,521</u> | <u>3,262</u> | <u>-</u> |
| Title III Part A: | 84.365 | | | | | | | | |
| Project number 170580-1617 LEP | | 27,474 | 21,382 | 4,739 | 6,929 | 5,408 | 3,218 | - | - |
| Project number 180580-1718 LEP | | <u>28,996</u> | <u>-</u> | <u>-</u> | <u>12,972</u> | <u>16,355</u> | <u>-</u> | <u>3,383</u> | <u>12,100</u> |
| Total Title III Part A passed through the Michigan Department of Education | | 56,470 | 21,382 | 4,739 | 19,901 | 21,763 | 3,218 | 3,383 | 12,100 |
| Passed through Wayne RESA | | | | | | | | | |
| Title III Part A | | | | | | | | | |
| Project number 170570-1617 IMMIGRANT | 84.365 | 4,577 | - | - | 4,485 | 4,485 | - | - | - |
| Total Title III Part A | | <u>61,047</u> | <u>21,382</u> | <u>4,739</u> | <u>24,386</u> | <u>26,248</u> | <u>3,218</u> | <u>3,383</u> | <u>12,100</u> |
| Total U.S Department of Education | | <u>4,629,551</u> | <u>1,703,222</u> | <u>298,814</u> | <u>1,595,347</u> | <u>1,707,722</u> | <u>52,739</u> | <u>358,450</u> | <u>12,100</u> |
| U.S. Department of Health and Human Services | | | | | | | | | |
| Passed through the Oakland County ISD | | | | | | | | | |
| Administrative Outreach Program FY 2018 | 93.778 | 8,119 | - | - | 8,119 | 8,119 | - | - | - |
| Total U.S. Department of Health and Human Services | | <u>8,119</u> | <u>-</u> | <u>-</u> | <u>8,119</u> | <u>8,119</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Federal Awards | | <u>\$ 5,684,351</u> | <u>\$ 2,131,621</u> | <u>\$ 298,814</u> | <u>\$ 2,221,748</u> | <u>\$ 2,334,123</u> | <u>\$ 52,739</u> | <u>\$ 358,450</u> | <u>\$ 12,100</u> |

See Notes to the Schedule of Expenditures of Federal Awards

Royal Oak Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Royal Oak Schools under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Royal Oak Schools, it is not intended to and does not present the financial position or changes in net position of Royal Oak Schools.

Note 2 - Summary of Significant Accounting Policies

Expenditures

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

Indirect Cost Rate

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

Note 3 - Reconciliation to the Financial Statements

| | |
|---|---------------------|
| Federal revenues per the financial statements | \$ 2,336,414 |
| Less federal reimbursed interest | (55,030) |
| Plus adjustments | <u>52,739</u> |
| Federal expenditures per Schedule of Expenditures of Federal Awards | <u>\$ 2,334,123</u> |

Note 4 - Explanation of Adjustments

The adjustments represent grant expenditures recorded in a previous year that were recaptured in fiscal year 2018.

Note 5 - Subrecipients

The School District provided \$12,100 Title III, Part A (CFDA number 84.365) funds to subrecipients.

Royal Oak Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

Note 6 - Michigan Department of Education Disclosures

The federal amounts reported on the Grant Auditor Report are in agreement with the schedule of expenditures of federal awards.

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

Royal Oak Schools
Schedule of Findings and Questioned Costs
June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? X yes _____ no

Royal Oak Schools
Schedule of Findings and Questioned Costs
June 30, 2018

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 2018-001 – Significant Deficiency

- Criteria:** Michigan Department of Education Bulletin 1022 Michigan Public School Accounting Manual states that financial statements and records should be free of errors that could change the users' overall assessment of the entity's finances.
- Condition:** An adjustment was required during the audit to adjust the year end accrual relating to the amounts owed to the Office of Retirement Services as of June 30, 2018.
- Cause and Effect:** The ORS remittance relating to the last payment in June crossed fiscal years, and was not paid until July. As part of the year end closeout, adjustments are required to retirement accruals in order to properly reflect the district's receipt and payment of 147c money for the MPSERS UAAL Rate Stabilization. This timing difference was not included in that reconciliation and calculation of the adjustment to the retirement accrual that was performed.
- Recommendation:** We recommend that timing differences be included in the calculation used to adjust retirement to agree to the amounts received under 147c.
- Views of Responsible Officials:** Management agrees with the finding.
- Corrective Action Plan:** See attached corrective action plan.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2018.

Royal Oak Schools
Summary Schedule of Prior Audit Findings
June 30, 2018

PRIOR AUDIT FINDINGS

SECTION IV - GOVERNMENT AUDITING STANDARDS FINDINGS

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

SECTION V - FEDERAL AWARD FINDINGS

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

CORRECTIVE ACTION PLAN

Government Auditing Standards Finding 2018-001 – Significant Deficiency:

Responsible Party – Katherine Abela, Executive Director, Finance & Operations

Management concurs with the recommendation of the auditors. Effective immediately, The School District has implemented new procedures to ensure that the reconciliation of the UAAL be calculated considering the timing differences. In addition, departmental procedures have been updated to include sign off of a second staff member for all departmental calculations regarding year-end entries.





September 5, 2018

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

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Royal Oak Schools as of and for the year ended June 30, 2018, and have issued our report dated September 5, 2018. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

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

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

II. Matters for Management's Consideration

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

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

Yeo & Yeo, P.C.

Saginaw, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted the new Government Accounting Standards Board Statements as noted in the notes to the financial statements, effective July 1, 2017.

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

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

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

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

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

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

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with

whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement.

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

Regulatory and Other Updates

Cybersecurity Posture

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

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving

the security and resilience of critical infrastructure.” The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

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

Uniform Guidance – Implementation of Federal Grant Procurement Standards

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity’s procurement policies. If an entity’s policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Fiscal Year (FY) 2019 School Aid

The School Aid budget for FY 2019 was signed in June, 2018. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2019 will increase by a range of \$120 to \$240 using the “2X formula.” The increase will be added to the FY 2018 foundation grant resulting in the lowest foundation for FY 2018 being \$7,871 and the maximum state guaranteed foundation being \$8,409.
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at \$499,000,000. Eligibility expanded to include grades K-12, from K-3, and shall use resources to address early literacy and numeracy through an evidence-based framework that uses data-driven problem solving through a multi-tiered system of supports. Adds language that for schools in which more than 40% of pupils are identified as At-Risk, a district may use the funds it receives to implement schoolwide reforms that are guided by the district’s comprehensive needs assessment and are included in the district improvement plan. Allows for up to 5% to be used for professional development.
- The per pupil funding under Section 20f will be equal to the per pupil funding in 2017-18.
- A New Section 31m has been created as a separate account to improve mental health and support services for K-12 pupils. A deposit of \$30 million has been allocated for this purpose.
- A new Section 54d appropriates \$5 million in grant funds for intermediate districts to provide pilot programs for children from birth to 3 years of age with developmental disability and/or delay.
- Section 147c has a MPSERS rate cap funding set at \$1.03 billion, which is an increase of \$72 million. The rate cap is estimated at \$690 per pupil.
- Section 147e includes \$37.6 million allocated as a direct reimbursement for additional retirement costs for specific qualified participants due to PA 92 of 2017.

Budget Assumptions & Early Warning

Each school district that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2015-2016 or 2016-2017 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)

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

Current Operating Expenditures (COE) for UAAL

Effective FY 2019, the percentage change in Current Operating Expenditures (COE) from one year to the next will be used to adjust the payroll on which the UAAL rate is charged. FY 2017 reported payroll will be adjusted by the percent change in COE from 2016 to 2017 to establish the FY19 adjusted payroll. The capped UAAL rate of 20.96% continues to be used in the calculation. ORS has put examples on their website to walk the school district through the calculation.

- UAAL contributions will no longer be calculated on member wages reported throughout the FY.
- This did not affect the 2018 fiscal year, but will impact the 2019 fiscal year.
- The FY 2019 payment process for contributions will be spread out over all Employer Statements in State FY 2019 (October 2018 through September 2019).

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

| <u>Decription</u> | <u>Over (Under) Stated</u> | | | | | |
|--|----------------------------|--------------------------|-------------------------------|-----------------|---------------------|-------------------------------|
| | <u>Total Assets</u> | <u>Total Liabilities</u> | <u>Beginning Fund Balance</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Change in Fund Balance</u> |
| UAAL Accrual timing difference carried forward from prior year | \$ - | \$ - | \$ 340,830 | \$ - | \$ 340,830 | \$ (340,830) |
| Revenues received outside of 60 days, should be deferred | - | (56,979) | - | 56,979 | - | 56,979 |
| Adjustments to prior year grant revenues | - | - | 49,521 | (49,521) | - | (49,521) |
| | <u>\$ -</u> | <u>\$ (56,979)</u> | <u>\$ 390,351</u> | <u>\$ 7,458</u> | <u>\$ 340,830</u> | <u>\$ (333,372)</u> |

Management has determined that the effects of the uncorrected misstatements above are immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. An additional adjustment of \$98,603 was posted to increase the UAAL Liability and expenditures to adjust the liability to actual amounts owed as of June 30, 2018.

Disagreements with Management

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

Management Representations

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

Management's Consultations with Other Accountants

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

Other Audit Findings or Issues

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

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Reports

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

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate

share of the net OPEB liability, schedule of the school district's OPEB contributions, and budgetary comparison information, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Report on Other Supplementary Information

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

Comprehensive Annual Financial Report

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

Appendix II
Matters for Management's Consideration

In planning and performing our audit of the financial statements of Royal Oak Schools as of and for the year ended June 30, 2018, we considered Royal Oak Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of the following matters for management's consideration that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated September 5, 2018, on the financial statements of Royal Oak Schools. Our comments and recommendations regarding those matters are:

Expenditure reimbursement

We noted again this year during our testing of expenditure transactions that there were employee reimbursement requests that were not provided to the business office in a timely manner. The current policy requires reimbursement requests to be made on a bi-monthly basis, or sooner, when practical. Of the five transactions tested, four of the reimbursement requests submitted could have been made more timely. While the amounts tested were immaterial, we recommend that all employees adhere to established policies for reimbursement requests. Furthermore, special attention should be considered for transactions near year-end to ensure expenditures are recorded in the proper period.

Grant Expenditures

During the audit it was noted that there were Title II, Part A grant expenditures charged in the prior year, that were different than what was included in the budget. As a result, funds were repaid during the 2018 year relating to revenues recorded in 2017. We recommend monitoring the grant budgets as part of the approval process for charging expenditures to grants. This includes monitoring budget amendments as well.