

School District of the City of Pontiac

Financial Statements

June 30, 2018



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School District of the City of Pontiac
Members of the Board of Education and Administration
June 30, 2018

Members of the Board of Education

Brenda Carter, President

William Carrington, Vice President

Caroll Turpin, Secretary

Sherman Williams, Treasurer

Michael McGuinness, Trustee

Dubrae Newman, Trustee

Kerry Tolbert, Trustee

Administration

Kelley Williams, Superintendent

Jamie Cowan, Director of Business Services



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Independent Auditors' Report

Management and the Board of Education
School District of the City of Pontiac
Pontiac, 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 the School District of the City of Pontiac, 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 School District of the City of Pontiac, as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The School District has an accumulated unassigned deficit in the General Fund of \$8,658,139 and an accumulated unassigned deficit in the Sinking Fund of \$208,611 as of June 30, 2018, which has resulted from operating deficits. The deficit and status of the School District's Deficit Elimination Plan that is required by the Michigan Department of Education, are disclosed in Note 2. Our opinions are not modified with respect to this matter.

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 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, 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 the School District of the City of Pontiac's basic financial statements. The other supplementary information, as identified in the table of contents, are presented for purposes of additional analysis and are 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, was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the other 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018 on our consideration of comprise the School District of the City of Pontiac's 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 the School District of the City of Pontiac's 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 School District of the City of Pontiac's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Saginaw, MI
October 12, 2018

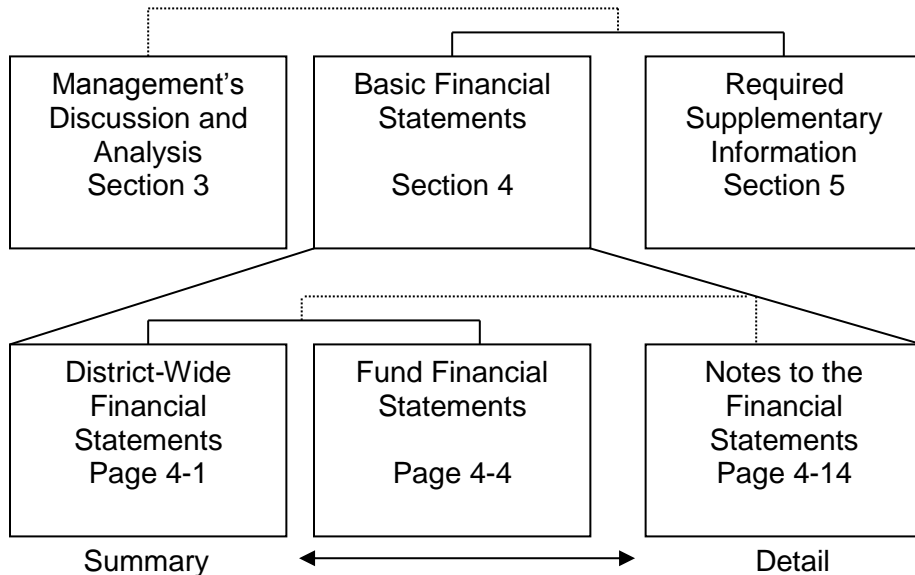
MANAGEMENT'S DISCUSSION AND ANALYSIS

School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2018

The School District of the City of Pontiac is a K-12 public school district located in Oakland County, Michigan.

This financial report is presented in the format required by the Governmental Accounting Standards Board (GASB). The overall organization of this report is shown in Figure A-1.

Figure A-1
School District of the City of Pontiac
Organization of Annual Financial Report



This section of the School District of the City of Pontiac’s (the “School District”) annual financial report presents our discussion and analysis of the School District’s financial performance during the year ended June 30, 2018. Please read it in conjunction with the School District’s financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District of the City of Pontiac financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District’s finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District’s operations in more detail than the government-wide financial statements by providing information about the School District’s most significant funds - the General Fund, Special Revenue Food Service Fund, and Sinking Fund, with all other funds presented in one column as non-major funds. The Risk Related Activity Fund, an Internal Service Fund, accounts for all of the costs associated with the School District’s property, unemployment and workman’s compensation insurance programs provided to other funds of the School District on a cost-reimbursement basis. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

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

School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2018

These two statements report the School District's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District. The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

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

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

The governmental funds of the School District use the following accounting approach:

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

Proprietary funds - The School District maintains a propriety fund, which is considered an Internal Service Fund. The Internal Service Fund accounts for all of the District's property, unemployment and workman's compensation insurance programs provided to other funds of the District on a cost-reimbursement basis as well as providing a claims fluctuation reserve for future insurance liabilities.

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

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

School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2018

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2018 and 2017:

Table 1	<u>Governmental Activities</u>	
	June 30	
	<u>2018</u>	<u>2017</u>
	(in millions)	
Assets		
Current and other assets	\$ 13.7	\$ 14.6
Capital assets	50.8	39.9
Deferred outflows of resources	<u>19.5</u>	<u>13.0</u>
Totals assets	<u>84.0</u>	<u>67.5</u>
Liabilities		
Current liabilities	18.8	34.6
Long-term liabilities	156.5	109.0
Deferred inflows of resources	<u>8.5</u>	<u>2.4</u>
Total liabilities	<u>183.8</u>	<u>146.0</u>
Net Position		
Net investment in capital assets	27.3	25.1
Restricted	1.8	-
Unrestricted	<u>(128.9)</u>	<u>(103.6)</u>
Total net position	<u>\$ (99.8)</u>	<u>\$ (78.5)</u>

The analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was (\$99.8 million) at June 30, 2018. Net investment in capital assets totaling \$27.3 million compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of \$1.8 million will be used to make interest payments in the upcoming years. The remaining amount of net position of (\$128.9 million) was unrestricted.

The (\$128.9 million) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position deficit represents the accumulated working capital and cash flow requirements of the School District as well as demonstrates the significant financial challenges that lie ahead. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year. In addition, as required by GASB 68 and 75 the school district's proportionate share of the net pension and net OPEB liabilities are included in non-current liabilities.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years ended June 30, 2018 and 2017.

School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2018

Table 2

	<u>Governmental Activities</u>	
	<u>June 30</u>	
	<u>2018</u>	<u>2017</u>
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.2	\$ 0.5
Operating grants and contributions	30.8	34.2
General Revenue:		
Property taxes	36.5	35.5
State aid	1.0	1.1
Gain on capital assets	-	0.8
Other	<u>1.7</u>	<u>2.6</u>
Total revenue	<u>70.2</u>	<u>74.7</u>
Functions/Program Expenses		
Instruction	32.1	30.9
Support services	30.1	30.7
Food services	3.4	3.0
Community services	0.3	0.5
Interest on long-term debt	<u>1.5</u>	<u>1.4</u>
Total functions/program expenses	<u>67.4</u>	<u>66.5</u>
Increase (Decrease) in Net Position	2.8	8.2
Net Position - Beginning of year	<u>(102.7)</u>	<u>(86.8)</u>
Net Position - End of year	<u>\$ (99.9)</u>	<u>\$ (78.6)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$67.4 million. Certain activities were partially funded from those who benefited from the programs (\$0.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$30.8 million). We paid for the remaining “public benefit” portion of our governmental activities with \$36.5 million in taxes, \$1.0 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements, totaling \$1.7 million.

The School District experienced an increase in net position of \$2.8 million. The key reason for the change in net position was the collection of additional property taxes. The School District also realized net revenue related to long-term refinancing.

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

The School District’s Funds

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

As the School District completed this year, the governmental funds reported a combined fund deficit of (\$5.7 million), which is a decrease of \$17.9 million from last year. The primary reasons for the decrease are as follows:

- Continuation of a 5-year \$2.87 million Sinking Fund.
- Continuation of a 20 year 18 mill non-homestead.

**School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2018**

- Continuing to structure the Tax Anticipation Note as a draw down note allowing the District to pay interest when used versus day of closing.
- Refinancing of the two Emergency Loans
- Refinancing of the 2006 Bond
- Proceeds from a Tax Anticipation Note now classified as long term

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

As a result of the deficit mentioned above, the School District was required to file a Deficit Elimination Plan (DEP). This DEP was filed and previously approved for a fourteen-year period (2015-2029). Due to the existence of the deficit, this DEP will be amended and submitted to the Department of Education for approval, along with the Finance and Operating Plan (FOP) and other required documents under the School District's consent agreement with the State of Michigan.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. There were revisions made to the 2017-2018 General Fund original budget. Budgeted revenues and other financing sources were increased by \$16 million mainly due to proceeds related to refinancing and grant allocations netted with removal of insurance recoveries and property sales. Budget expenditures and other financing uses were increased by \$4.2 million as a result of unfilled vacancies and long term debt refinancing.

A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the School District had \$50.8 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$11 million, or approximately a 27 percent increase, from last year.

	2018	2017
Land	\$ 2,169,804	\$ 2,169,804
Construction in progress	8,812,151	8,694,594
Land improvements	3,985,823	2,095,583
Buildings and building improvements	62,854,848	52,245,707
Buses and other vehicles	108,481	108,481
Furniture and equipment	4,516,138	3,932,204
Total capital assets	82,447,245	69,246,373
Less accumulated depreciation	31,633,858	29,388,660
Net capital assets	\$50,813,387	\$39,857,713

Several major capital projects are planned for the 2018-2019 fiscal year which includes new roofing at Parking Lots at Pontiac High School and Middle School, Paint, Carpet, Tile at Whitman, Kennedy and Owen, Doors and Windows at Pontiac High School and Middle School and Chemistry Labs for WHRC. We present more detailed information about our capital assets in the notes to the financial statements.

**School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2018**

Debt

At the end of this year, the School District had \$58 million in bonds outstanding versus \$37 million in the previous year - an increase of 57 percent due to the tax anticipation note and sinking fund revenue bond, both received in 2018. Those notes and bonds consisted of the following:

	2018	2017
Notes and bonds payable	\$57,955,000	\$36,915,000

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

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2018-2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2019 fiscal year is 10 percent and 90 percent of the February 2018 and October 2018 student counts, respectively. The 2018-2019 budget was adopted in June 2018, based on an estimate of students that will be enrolled in September 2018. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018-2019 school year, we anticipate that the fall student count will be over the estimates used in creating the 2018-2019 budget by approximately 40 students. The School District adopted the 2018-2019 General Fund budget with \$75,800 excess revenues.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State will increase the foundation allowance in 2018-2019 slightly from \$7,631 to \$7,781 for Pontiac Schools.

Pursuant to Public Act 436 of 2012, on August 6, 2013 the Governor determined that a financial emergency existed within Pontiac School District. Subsequently, the District entered into a Consent Agreement with the Michigan Department of Treasury which became effective September 18, 2013. Under the terms of the Consent Agreement the District then entered into an Alternate Service Provider Agreement with Oakland Schools dated October 28, 2013 which became effective on November 15, 2013. Oakland Schools has since reorganized and staffed the financial and human resource teams of the District. The District has also, with the assistance of Oakland Schools, provided and will continue to do so, all the required documents of the Michigan Department of Treasury and Michigan Department of Education under the timelines established within the Consent Agreement.

While working closely with the Michigan Department of Treasury, the District intends to refinance the 2014 school bond loan fund, benefitting the district with interest only payments for the first five (5) years.

In fiscal year 2018-2019 the District will also expand their International Language Academy, now K-3; and will continue to add a grade level each consecutive year through grade 6.

School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2018

Contacting the District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Business Office at 42700 Woodward Avenue, Pontiac, Michigan 48342, or telephone (248) 451-6820.

BASIC FINANCIAL STATEMENTS

School District of the City of Pontiac
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash	\$ 5,984,236
Cash held by fiscal agent	1,774,837
Deposits	28,584
Accounts receivable, net of allowance	310,179
Due from other governmental units	5,342,291
Inventory	16,431
Prepays and other deposits	202,623
Capital assets not being depreciated	10,981,955
Capital assets - net of accumulated depreciation	<u>39,831,432</u>
Total assets	<u>64,472,568</u>
Deferred Outflows of Resources	
Deferred amount relating to net pension liability	17,846,860
Deferred amount relating to net OPEB liability	1,522,790
Deferred amount on debt refunding	<u>132,303</u>
Total deferred outflows of resources	<u>19,501,953</u>
Total assets and deferred outflows of resources	<u>83,974,521</u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 3,419,593
State aid and tax anticipation notes payable	4,500,000
Interest payable	1,279,881
Due to other governmental units	928,037
Claims payable	104,367
Accrued expenditures	226,629
Accrued salaries payable	3,823,548
MESSA Judgment payable	2,901,904
Unearned revenue	1,600,480
Long-term liabilities	
Debt due within one year	15,713,337
Debt due in more than one year	43,237,553
Net pension liability	72,679,845
Net OPEB liability	<u>24,904,670</u>
Total liabilities	<u>175,319,844</u>
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	7,662,107
Deferred amount relating to net OPEB liability	<u>880,140</u>
Total deferred inflows of resources	<u>8,542,247</u>
Total liabilities and deferred inflows of resources	<u>183,862,091</u>
Net Position	
Net investment in capital assets	27,250,699
Restricted for:	
Debt service	1,774,837
Unrestricted (deficit)	<u>(128,913,106)</u>
Total net position	<u>\$ (99,887,570)</u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Statement of Activities
For the Year Ended June 30, 2018

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
Functions/Programs				
Governmental activities				
Instruction	\$ 32,056,910	\$ -	\$ 26,011,449	\$ (6,045,461)
Supporting services	30,095,656	23,757	1,421,290	(28,650,609)
Food services	3,430,000	33,822	3,338,286	(57,892)
Community services	300,747	127,084	-	(173,663)
Interest on long-term debt	1,519,864	-	-	(1,519,864)
Total governmental activities	\$ 67,403,177	\$ 184,663	\$ 30,771,025	(36,447,489)
General revenues				
				28,724,627
				781,257
				6,985,608
				1,019,045
				14,613
				1,710,409
				39,235,559
				2,788,070
				(102,675,640)
				\$ (99,887,570)

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Special Revenue Food Service Fund	Capital Project Fund Sinking Fund	Nonmajor Governmental Fund MESSA Levy Debt Fund	Total Governmental Funds
Assets					
Cash	\$ 3,265,613	\$ 1,475,156	\$ 133,873	\$ -	\$ 4,874,642
Cash held by fiscal agent	1,774,837	-	-	-	1,774,837
Accounts receivable, net of allowance	279,704	1,828	28,647	-	310,179
Due from other funds	-	73,028	368,142	-	441,170
Due from other governmental units	5,173,686	168,605	-	-	5,342,291
Inventory	-	16,431	-	-	16,431
Prepaid and other deposits	198,817	3,806	-	-	202,623
Total assets	\$ 10,692,657	\$ 1,738,854	\$ 530,662	\$ -	\$ 12,962,173
Liabilities					
Accounts payable	\$ 2,036,482	\$ 555,634	\$ 739,273	\$ -	\$ 3,331,389
State aid anticipation notes payable	4,500,000	-	-	-	4,500,000
Interest payable	867,374	-	-	-	867,374
Due to other funds	491,663	-	-	-	491,663
Due to other governmental units	928,037	-	-	-	928,037
Accrued expenditures	224,527	2,102	-	-	226,629
Accrued salaries payable	3,803,425	20,123	-	-	3,823,548
MESSA Judgment payable	2,901,904	-	-	-	2,901,904
Unearned revenue	1,600,480	-	-	-	1,600,480
Total liabilities	17,353,892	577,859	739,273	-	18,671,024

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Special Revenue Food Service Fund	Capital Project Fund Sinking Fund	Nonmajor Governmental Fund MESSA Levy Debt Fund	Total Governmental Funds
Deferred Inflows of Resources					
Unavailable revenue					
Grants received	\$ 23,250	\$ -	\$ -	\$ -	\$ 23,250
Total liabilities and deferred inflows of resources	<u>17,377,142</u>	<u>577,859</u>	<u>739,273</u>	<u>-</u>	<u>18,694,274</u>
Fund Balance					
Non-spendable					
Inventory	-	16,431	-	-	16,431
Prepaid items	198,817	3,806	-	-	202,623
Restricted for					
Food service	-	1,140,758	-	-	1,140,758
Debt service	1,774,837	-	-	-	1,774,837
Unassigned (deficit)	<u>(8,658,139)</u>	<u>-</u>	<u>(208,611)</u>	<u>-</u>	<u>(8,866,750)</u>
Total fund balance (deficit)	<u>(6,684,485)</u>	<u>1,160,995</u>	<u>(208,611)</u>	<u>-</u>	<u>(5,732,101)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 10,692,657</u>	<u>\$ 1,738,854</u>	<u>\$ 530,662</u>	<u>\$ -</u>	<u>\$ 12,962,173</u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

Total fund balances for governmental funds	\$ (5,732,101)
Total net position for governmental activities in the statement of net position is different because	
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	
Other governmental units	23,250
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	10,981,955
Capital assets - net of accumulated depreciation	39,831,432
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	132,303
Deferred inflows of resources resulting from the net pension liability	(7,662,107)
Deferred outflows of resources resulting from the net pension liability	17,846,860
Deferred inflows of resources resulting from the net OPEB liability	(880,140)
Deferred outflows of resources resulting from the net OPEB liability	1,522,790
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(412,507)
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	(72,679,845)
Net OPEB liability	(24,904,670)
Compensated absences and retirement incentives	(885,899)
Bonds payable	(57,955,000)
Capital lease	<u>(109,991)</u>
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position	<u>996,100</u>
Net position of governmental activities	<u>\$ (99,887,570)</u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	Special Revenue Food Service Fund	Capital Project Fund Sinking Fund	Governmental Fund MESSA Levy Debt Fund	Total Governmental Funds
Revenues					
Local sources	\$ 29,594,692	\$ 42,373	\$ 7,619,811	\$ 785,964	\$ 38,042,840
State sources	13,681,454	90,771	-	-	13,772,225
Federal sources	12,591,292	3,247,515	-	-	15,838,807
Interdistrict sources	5,525,874	-	-	-	5,525,874
Total revenues	<u>61,393,312</u>	<u>3,380,659</u>	<u>7,619,811</u>	<u>785,964</u>	<u>73,179,746</u>
Expenditures					
Current					
Education					
Instruction	29,571,141	-	-	-	29,571,141
Supporting services	27,894,234	6,062	41,108	-	27,941,404
Food services	-	3,202,338	-	-	3,202,338
Community services	262,034	-	-	-	262,034
Capital outlay	555,117	11,797	13,284,531	-	13,851,445
Debt service					
Principal	3,010,213	1,290	105,000	-	3,116,503
Interest and other expenditures	920,973	56	317,637	-	1,238,666
Payment to bond refunding escrow agent	51,610	-	-	-	51,610
Total expenditures	<u>62,265,322</u>	<u>3,221,543</u>	<u>13,748,276</u>	<u>-</u>	<u>79,235,141</u>
Excess (deficiency) of revenues over expenditures	<u>(872,010)</u>	<u>159,116</u>	<u>(6,128,465)</u>	<u>785,964</u>	<u>(6,055,395)</u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Special Revenue Food Service Fund</u>	<u>Capital Project Fund Sinking Fund</u>	<u>Governmental Fund MESSA Levy Debt Fund</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)					
Payment to bond refunding escrow agent	\$ (8,475,163)	\$ -	\$ -	\$ -	\$ (8,475,163)
Proceeds from loans	24,870,000	-	7,560,000	-	32,430,000
Transfers in	976,835	-	-	-	976,835
Transfers out	<u>-</u>	<u>(190,871)</u>	<u>-</u>	<u>(785,964)</u>	<u>(976,835)</u>
Total other financing sources (uses)	<u>17,371,672</u>	<u>(190,871)</u>	<u>7,560,000</u>	<u>(785,964)</u>	<u>23,954,837</u>
Net change in fund balance	16,499,662	(31,755)	1,431,535	-	17,899,442
Fund balance (deficit) - beginning	<u>(23,184,147)</u>	<u>1,192,750</u>	<u>(1,640,146)</u>	<u>-</u>	<u>(23,631,543)</u>
Fund balance (deficit) - ending	<u>\$ (6,684,485)</u>	<u>\$ 1,160,995</u>	<u>\$ (208,611)</u>	<u>\$ -</u>	<u>\$ (5,732,101)</u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
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	\$ 17,899,442
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Operating grants	(2,988,499)
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	(2,245,198)
Capital outlay	13,200,872
Expenses are recorded when incurred in the statement of activities.	
Accrued interest	(237,097)
Compensated absences and retirement incentives	22,786
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(1,615,594)
Net change in deferrals of resources related to the net pension liability	(438,689)
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in OPEB liability	249,567
Net change in deferrals of resources related to the net OPEB liability	(376,311)

School District of the City of Pontiac
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

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.

Debt issued	\$ (32,430,000)
Repayments of long-term debt	11,591,773
Repayments of capital lease	51,503
Amortization of deferred amount on debt refunding	<u>(44,101)</u>
Internal service fund revenues and expenses are included in governmental activities in the statement of activities	<u>147,616</u>
Change in net position of governmental activities	<u>\$ 2,788,070</u>

School District of the City of Pontiac
Proprietary Fund
Internal Service Fund
Statement of Net Position
June 30, 2018

	<u>Internal Service Fund</u>
Assets	
Cash	\$ 1,109,594
Due from other funds	50,493
Deposits	<u>28,584</u>
Total assets	<u>1,188,671</u>
Liabilities	
Accounts payable	88,204
Claims payable	<u>104,367</u>
Total liabilities	<u>192,571</u>
Net Position	
Unrestricted	<u>\$ 996,100</u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Proprietary Fund
Internal Service Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
June 30, 2018

	<u>Internal Service Fund</u>
Revenues	
Charges to other funds	\$ 1,102,261
Expenses	
Workers compensation, general liability, and unemployment expenses	<u>954,645</u>
Net income	147,616
Net position - beginning	<u>848,484</u>
Net position - ending	<u><u>\$ 996,100</u></u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Proprietary Fund
Internal Service Fund
Statement of Cash Flows
June 30, 2018

	<u>Internal Service Fund</u>
Cash flows from operating activities	
Charges to other funds	\$ 1,098,677
Payments to providers	<u>(887,128)</u>
Net cash provided by operating activities	211,549
Cash - beginning of year	<u>948,538</u>
Cash - end of year	<u><u>\$ 1,109,594</u></u>
Reconciliation of operating income to net cash from operating activities	
Operating income	\$ 147,616
Adjustments to reconcile operating income to net cash from operating activities	
Changes in assets and liabilities	
Deposits	(3,584)
Accounts payable	20,789
Claims payable	<u>46,728</u>
Net cash provided by operating activities	<u><u>\$ 211,549</u></u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2018

	<u>Agency Funds</u>
Assets	
Cash	\$ <u>94,072</u>
Liabilities	
Accounts payable	\$ 5,428
Due to agency fund activities	<u>88,644</u>
Total liabilities	<u>\$ 94,072</u>

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2018

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the School District of the City of Pontiac (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 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 under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2018

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 following major governmental funds:

General Fund - The General Fund 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. The General Fund includes the General Fund, categorical funded programs, noncenter special education programs, and athletic programs.

Food Service Fund - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds includes the Food Service Fund. Operating deficits generated by these activities are generally transferred from the General Fund.

Sinking Fund - The Sinking Fund is used to record bond proceeds, the sinking fund property tax levy or other revenue and the disbursement of invoices specifically for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

Additionally, the School District reports the following fund types:

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

Internal Service Fund - The School District's proprietary fund is the Internal Service Fund. The purpose of the fund is to finance services provided to other funds of the School District on a cost-reimbursement basis. The Internal Service Fund maintained by the School District accounts for unemployment, workers compensation, and other liability claims. It is funded through charges primarily from the General Fund and Food Service Fund.

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency 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 and staff groups for school and school-related purposes.

Assets, Liabilities and Net Position or Equity

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 has estimated an allowance of approximately \$30,000 as of June 30, 2018.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2018

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	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Sinking Fund	2.87000
MESSA Judgment	0.40000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 100% of the School District's tax roll lies within Oakland County.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Oakland and remitted to the School District by May 15.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets - Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their 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 and an estimated useful life in excess of one year. 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 additions	25-50 years
Equipment and furniture	5-20 years
Vehicles	8 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.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2018

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unpaid accumulated 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 the amount for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payment upon normal retirement are included.

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

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 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.

Deferred Inflows of Resources - A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension 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 MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2018

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 Board of Education. The Board of Education has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

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

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

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

Use of Estimates

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

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

School District of the City of Pontiac
Notes to the Financial Statements
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 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.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2018

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 that the above GASBs 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 and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter

the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Function</u>	<u>Final Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund			
Other	\$ 224,500	\$ 238,633	\$ 14,133
Capital outlay	550,500	555,117	4,617
Food Service Fund			
Food services	2,989,000	3,202,338	213,338
Transfers out	145,000	190,871	45,871

Fund Deficits

The School District has an accumulated unassigned fund deficit in the general fund in the amount of \$8,658,139 as of June 30, 2018, as well as a deficit in the sinking fund of \$208,611 as of June 30, 2018. These accumulated deficits raise substantial doubt about the ability of the School District to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

School District of the City of Pontiac
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The School District has filed a deficit elimination plan with the State of Michigan. The School District is in compliance with the plan as of June 30, 2018. Additionally the School District has entered into a consent agreement with the State Treasurer which requires the School District to enter into a cooperative agreement with an Alternate Service Provider (Oakland Schools) to provide certain services to the School District as part of the plan to address the financial emergency.

Compliance - Sinking Funds

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

Note 3 - Deposits

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

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash	<u>\$ 5,984,236</u>	<u>\$ 94,072</u>	<u>\$ 6,078,308</u>

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

Deposits (checking accounts, savings accounts, and money markets)	<u>\$6,078,308</u>
----------------------------------------------------------------------	--------------------

Interest rate risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

Credit risk - State statutes 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. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk - The School District has no policy that would limit the amount that may be invested with any one issuer.

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, \$6,049,305 of the School District's bank balance of \$6,331,672 was exposed to custodial credit risk because it was uninsured and uncollateralized.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2018

Note 4 - 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	\$ 2,169,804	\$ -	\$ -	\$ 2,169,804
Construction-in-progress	8,694,594	4,007,689	3,890,132	8,812,151
Total capital assets not being depreciated	<u>10,864,398</u>	<u>4,007,689</u>	<u>3,890,132</u>	<u>10,981,955</u>
Capital assets being depreciated				
Land improvements	2,095,583	1,890,240	-	3,985,823
Building and building improvements	52,245,707	10,609,141	-	62,854,848
Equipment and furniture	3,932,204	583,934	-	4,516,138
Vehicles	108,481	-	-	108,481
Total capital assets being depreciated	<u>58,381,975</u>	<u>13,083,315</u>	<u>-</u>	<u>71,465,290</u>
Less accumulated depreciation for				
Land improvements	311,820	199,291	-	511,111
Building and building improvements	27,520,779	1,564,419	-	29,085,198
Equipment and furniture	1,482,764	474,109	-	1,956,873
Vehicles	73,297	7,379	-	80,676
Total accumulated depreciation	<u>29,388,660</u>	<u>2,245,198</u>	<u>-</u>	<u>31,633,858</u>
Net capital assets being depreciated	<u>28,993,315</u>	<u>10,838,117</u>	<u>-</u>	<u>39,831,432</u>
Net capital assets	<u>\$39,857,713</u>	<u>\$14,845,806</u>	<u>\$3,890,132</u>	<u>\$50,813,387</u>

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

Governmental activities

Instruction	\$ 1,198,091
Supporting services	941,608
Food services	78,955
Athletics	<u>26,544</u>
Total governmental activities	<u>\$ 2,245,198</u>

Construction Contracts

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

	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
Kennedy Café Project	\$ 32,240	\$ -	\$ -
Carpet/Tile/Abatement	1,455,475	989,801	6,484
Controls Phase II	6,252,913	417,284	23,335
Fiber Infrastructure	572,375	160,977	-
Paving/Concrete	3,608,326	2,207,067	2,423
PHS Locker Room	614,380	418,654	111,859
Signage	100,060	94,620	5,440
Playground	461,714	47,425	99,675
Windows & Doors	<u>959,880</u>	<u>909,383</u>	<u>4,070</u>
Total	<u>\$14,057,363</u>	<u>\$ 5,245,211</u>	<u>\$ 253,286</u>

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Contracts payable at year end represent actual contractor billings and are recorded as a General Fund liability. All projects are expected to be complete during the 2018 school year.

Idle Facilities

As part of the terms of the emergency loan obtained in 2014, the Michigan Department of Treasury required the School District to approve a real estate plan that includes a disposal provision for any idle property that has not received any sale offers by December 31, 2014.

Those properties will be disposed of by one of three methods. The local unit of government has the first right of refusal to purchase the buildings. The second method allows for the Superintendent to select the auction process to sell the building. The final method of disposal would be to dispose of the building with the assistance of the State of Michigan Land Bank Fast Track Authority.

As of June 30, 2018, the School District has sold all but 2 parcels. The State of Michigan has not required the School District to surrender properties to the State of Michigan Land Bank Fast Track Authority. As of year-end, the School District is actively marketing one of the properties and has taken the second property off the market for possible repurposing for future educational needs.

Note 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
General Fund	Sinking Fund	\$ 368,142
General Fund	Food Service Fund	73,028
General Fund	Internal Service Fund	50,493
Total		\$ 491,663

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year, between the General Fund and the MESSA Levy Debt Fund, and the Food Service Fund totaling \$976,935. The transfers from General Fund to the MESSA Levy Debt Fund are to cover debt service for the MESSA Levy and the transfers from Food Service to General Fund is related to Indirect Costs.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2018

Note 6 - 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:

	<u>Unearned</u>
Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>\$ 1,600,480</u>

Note 7 - State Aid Anticipation Notes

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	\$6,800,000	\$4,500,000	\$ 6,800,000	\$ 4,500,000

Note 8 - MESSA Judgment Levy

In January 2013, a \$7.8 million judgment was levied against the School District related to outstanding health care premiums owed to its carrier, MESSA. This judgment was for the period from January 2012 through December 2013. Property taxes levied to satisfy this levy are being received by the School District over a one to ten year time period depending on how the respective jurisdiction issued its levy. Final payment will be received in fiscal year 2023 for the jurisdictions electing a ten year payback. As property taxes are collected and remitted to the School District by the taxing authority, they are submitted to the vendor as payment against the obligation. As of June 30, 2018, \$2,901,904 is the amount that is still owed.

Note 9 - Leases

Capital Leases

The School District has a capital lease for copiers. The future minimum lease payments are as follows:

Year ending June 30,	
2019	\$ 53,721
2020	53,720
2021	4,477
Total minimum lease payments	111,918
Less amount representing interest	1,927
Present value of minimum lease payments	\$ 109,991

The assets acquired through capital leases are as follows:

Furniture and equipment	\$ 258,270
Less accumulated depreciation	(154,962)
Total	\$ 103,308

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2018

Note 10 - 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. All loans and bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, capital leases, and claims and judgments.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Emergency loans	\$20,000,000	\$ -	\$ -	\$20,000,000	\$ -
Revenue bonds	2,850,000	10,500,000	660,000	12,690,000	695,000
Energy bond	8,325,000	-	8,325,000	-	-
SAN revenue note	2,300,000	-	2,300,000	-	-
Sinking fund revenue bonds	3,440,000	7,560,000	105,000	10,895,000	596,000
Tax anticipation note	-	14,370,000	-	14,370,000	14,370,000
Total loans and bonds payable	36,915,000	32,430,000	11,390,000	57,955,000	15,661,000
Compensated absences	908,685	1,360,085	1,382,871	885,899	-
Capital lease	161,494	-	51,503	109,991	52,337
Premium on bonds	25,369	-	25,369	-	-
Total	\$38,010,548	\$33,790,085	\$12,849,743	\$58,950,890	\$15,713,337

For governmental activities, capital leases and compensated absences are primarily liquidated by the General Fund.

Loans and bonds payable at year end, consist of the following:

\$4,070,000 local government loan program revenue bonds due in annual installments of \$625,000 to \$765,000 through May 1, 2021, interest at 5.15%	\$ 2,190,000
\$10,500,000 local government loan program revenue bonds due in annual installments of \$920,000 to \$1,450,000 through May 1, 2030, interest at 5.85%	\$ 10,500,000
\$10,000,000 emergency loan due in annual installments of \$5,000 to \$845,000 through May 1, 2044, interest at 2.75%	10,000,000
\$10,000,000 emergency loan due in annual installments of \$5,000 to \$795,000 through May 1, 2045, interest at 2.70%	10,000,000
\$14,370,000 TAN revenue loan due in one installment of \$14,370,000 due June 28, 2019, interest at 4.19%	14,370,000
\$3,440,000 sinking fund revenue bond due in annual installments of \$596,000 to \$5,071,000 through May 1, 2021, interest at 3.83%	<u>10,895,000</u>
Total debt	<u>\$57,955,000</u>

Future principal and interest requirements for debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2019	\$ 15,661,000	\$ 1,959,734	\$ 17,620,734
2020	5,958,000	1,559,980	7,517,980
2021	5,841,000	1,298,277	7,139,277
2022	930,000	1,159,115	2,089,115
2023	985,000	1,105,023	2,090,023
2024 - 2028	5,835,000	4,597,767	10,432,767
2029 - 2033	6,345,000	2,868,197	9,213,197
2034 - 2038	6,525,000	1,888,162	8,413,162
2039 - 2043	7,460,000	949,592	8,409,592
2044 - 2045	2,415,000	87,152	2,502,152
Total	<u>\$ 57,955,000</u>	<u>\$ 17,472,999</u>	<u>\$ 75,427,999</u>

School District of the City of Pontiac
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All loans and bonds, except for sinking fund revenue bond, are payable from the General Fund. Future debt and interest will be payable from state aid and future tax levies.

Compensated Absences

Accrued compensated absences at year end, consist of \$15,180 of vacation hours earned and vested and \$870,719 in accrued sick time benefits. 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.

Advance Refunding

On April 25, 2018, the School District issued local government revenue bonds of \$10,500,000 (par value) with an interest rate of 5.85% to advance refund local government revenue bonds with an interest rate of 4.50% to 4.55% and a par value of \$8,325,000. The revenue bonds mature on May 1, 2021. After paying issuance costs of \$250,000, the net proceeds of the new bonds were \$10,250,000. Of this total, \$8,526,773 of the net proceeds of the revenue bonds were deposited with an escrow agent to provide debt service payments until the term bonds mature. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the School District's financial statements. An additional \$1,774,837 was placed in escrow and dedicated to the repayment of the interest on the refunding debt. This total is reported as cash held by fiscal agent in the financial statements.

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 \$176,404. This amount is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2021.

Defeased Debt

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

Note 11 - 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 general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

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The School District estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded as liabilities in the Internal Service Fund in the amount of \$104,367.

Changes in the estimated liability for the past two fiscal years were as follows:

	2018	2017
Estimated liability at the beginning of the year	\$ 57,639	\$ 130,283
Estimated claims incurred including changes in estimates	954,645	1,021,209
Claim payments	(907,917)	(1,093,853)
Estimated liability end of year	\$ 104,367	\$ 57,639

Note 12 - 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 previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

School District of the City of Pontiac
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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 \$6,578,343 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 \$72,679,845 for its proportionate share of the MPERS 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 .2805 percent, which was a decrease of .0044 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was \$8,720,326.

School District of the City of Pontiac
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June 30, 2018

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	Total
Difference between expected and actual experience	\$ 631,637	\$ (356,625)	\$ 275,012
Changes of assumptions	7,962,445	-	7,962,445
Net difference between projected and actual earnings on pension plan investments	-	(3,474,575)	(3,474,575)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	<u>2,884,832</u>	<u>(979,007)</u>	<u>1,905,825</u>
Total to be recognized in future	11,478,914	(4,810,207)	6,668,707
School District contributions subsequent to the measurement date	<u>6,367,946</u>	<u>(2,851,900)</u>	<u>3,516,046</u>
Total	<u>\$17,846,860</u>	<u>\$ (7,662,107)</u>	<u>\$10,184,753</u>

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 Year (To Be Recognized in Future Pension Expenses)	
2018	\$ 2,511,024
2019	3,407,020
2020	1,043,175
2021	<u>(292,512)</u>
	<u>\$ 6,668,707</u>

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 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

School District of the City of Pontiac
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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: 4.5188 years

Recognition period for assets: 5 years

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)
	<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 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.

School District of the City of Pontiac
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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 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)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
\$ 94,677,663	\$ 72,679,845	\$ 54,159,082

**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 (MPERS) Fiduciary Net Position

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

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

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

Note 13 - Postemployment Benefits Other Than Pensions (OPEB)

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 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.

School District of the City of Pontiac
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June 30, 2018

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

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.

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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 \$2,189,531 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 \$24,904,670 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 .2812 percent, which was the same percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was \$1,657,280.

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	Total
Difference between expected and actual experience	\$ -	\$ (265,161)	\$ (265,161)
Net difference between projected and actual earnings on OPEB plan investments	-	(576,798)	(576,798)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	-	(38,181)	(38,181)
Total to be recognized in future	-	(880,140)	(880,140)
School District contributions subsequent to the measurement date	1,522,790	-	1,522,790
Total	\$ 1,522,790	\$ (880,140)	\$ 642,650

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:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2018	\$ (211,994)
2019	(211,994)
2020	(211,994)
2021	(211,994)
2022	(32,164)
	\$ (880,140)

School District of the City of Pontiac
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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 12
- 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: 5.4744 years

Recognition period for assets: 5 years

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

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2018

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 %	5.6 %
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)
	<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>\$ 29,170,566</u>	<u>\$ 24,904,670</u>	<u>\$ 21,284,259</u>

School District of the City of Pontiac
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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%
\$ 21,090,908	\$ 24,904,670	\$ 29,234,931

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS 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 14 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, 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. A separate report on federal compliance has been issued for the year June 30, 2018.

The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.

Note 15 - Tax Abatements

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, New Personal Property exemptions, and Payment in Lieu of Taxes (PILOT) abatement, granted by the Oakland County. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; New Personal Property Exemption affords a 100% property tax exemption for specific businesses located within eligible distressed communities; PILOT programs provide exemption of housing taxes for low income persons and families.

For the fiscal year ended June 30, 2018, the School District's property tax revenues were reduced by \$5,836,885 under these programs.

Note 16 - 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 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 \$24,135,276, restating it from (\$78,540,364) to (\$102,675,640).

School District of the City of Pontiac
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June 30, 2018

Note 17 - Subsequent Event

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 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 \$24,135,276, restating it from (\$78,540,364) to (\$102,675,640).

REQUIRED SUPPLEMENTARY INFORMATION

School District of the City of Pontiac
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 28,563,800	\$ 29,250,200	\$ 29,594,692	\$ 344,492
State sources	13,569,500	14,119,900	13,681,454	(438,446)
Federal sources	10,108,300	12,922,100	12,591,292	(330,808)
Interdistrict sources	<u>4,629,100</u>	<u>4,746,600</u>	<u>5,525,874</u>	<u>779,274</u>
Total revenues	<u>56,870,700</u>	<u>61,038,800</u>	<u>61,393,312</u>	<u>354,512</u>
Expenditures				
Instruction	29,728,500	30,085,800	29,571,141	(514,659)
Supporting services				
Pupil	4,770,100	5,069,000	4,635,057	(433,943)
Instructional staff	2,929,100	3,080,200	2,989,314	(90,886)
General administration	1,546,300	1,506,700	1,412,790	(93,910)
School administration	2,775,700	2,937,600	2,868,315	(69,285)
Business	1,955,300	1,911,500	1,852,945	(58,555)
Operations and maintenance	6,837,200	7,198,300	6,975,908	(222,392)
Pupil transportation services	4,426,700	4,708,800	4,257,366	(451,434)
Central	2,593,700	2,835,500	2,663,906	(171,594)
Other	224,500	224,500	238,633	14,133
Community services	249,100	356,600	262,034	(94,566)
Capital outlay	500,000	550,500	555,117	4,617
Debt service				
Principal	3,063,227	4,916,027	3,010,213	(1,905,814)
Interest and fiscal charges	721,000	1,123,800	920,973	(202,827)
Payment to bond refunding escrow agent	<u>51,610</u>	<u>51,610</u>	<u>51,610</u>	<u>-</u>
Total expenditures	<u>62,372,037</u>	<u>66,556,437</u>	<u>62,265,322</u>	<u>(4,291,115)</u>
Excess (deficiency) of revenues over expenditures	<u>(5,501,337)</u>	<u>(5,517,637)</u>	<u>(872,010)</u>	<u>4,645,627</u>

School District of the City of Pontiac
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Proceeds from loans	\$ 11,740,000	\$ 24,870,000	\$ 24,870,000	\$ -
Payment to bond refunding escrow agent	(8,475,163)	(8,475,163)	(8,475,163)	-
Insurance recoveries	320,000	-	-	-
Proceeds from sale of capital assets	900,000	-	-	-
Transfers in	1,612,800	1,568,600	976,835	(591,765)
Transfers out	(570,900)	(613,600)	-	(613,600)
Total other financing sources (uses)	<u>5,526,737</u>	<u>17,349,837</u>	<u>17,371,672</u>	<u>(1,205,365)</u>
Net change in fund balance	25,400	11,832,200	16,499,662	3,440,262
Fund balance - beginning	<u>(23,184,147)</u>	<u>(23,184,147)</u>	<u>(23,184,147)</u>	<u>-</u>
Fund balance - ending	<u>\$ (23,158,747)</u>	<u>\$ (11,351,947)</u>	<u>\$ (6,684,485)</u>	<u>\$ 3,440,262</u>

School District of the City of Pontiac
Required Supplementary Information
Budgetary Comparison Schedule - Food Service
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 85,000	\$ 73,000	\$ 42,373	\$ (30,627)
State sources	90,000	100,000	90,771	(9,229)
Federal sources	<u>2,850,000</u>	<u>2,932,000</u>	<u>3,247,515</u>	<u>315,515</u>
Total revenues	<u>3,025,000</u>	<u>3,105,000</u>	<u>3,380,659</u>	<u>275,659</u>
Expenditures				
Current				
Education				
Supporting services	18,000	22,500	6,062	(16,438)
Food services	2,673,300	2,989,000	3,202,338	213,338
Capital outlay	155,700	250,000	11,797	(238,203)
Debt service				
Principal	2,000	6,000	1,290	(4,710)
Interest	<u>-</u>	<u>1,500</u>	<u>56</u>	<u>(1,444)</u>
Total expenditures	<u>2,849,000</u>	<u>3,269,000</u>	<u>3,221,543</u>	<u>(47,457)</u>
Excess (deficiency) of revenues over expenditures	<u>176,000</u>	<u>(164,000)</u>	<u>159,116</u>	<u>323,116</u>
Other Financing Sources (Uses)				
Capital leases	6,500	-	-	-
Transfers out	<u>(135,000)</u>	<u>(145,000)</u>	<u>(190,871)</u>	<u>45,871</u>
Total other financing sources (uses)	<u>(128,500)</u>	<u>(145,000)</u>	<u>(190,871)</u>	<u>(45,871)</u>
Net change in fund balance	47,500	(309,000)	(31,755)	277,245
Fund balance - beginning	<u>1,192,750</u>	<u>1,192,750</u>	<u>1,192,750</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,240,250</u>	<u>\$ 883,750</u>	<u>\$ 1,160,995</u>	<u>\$ 277,245</u>

School District of the City of Pontiac
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 June Fiscal Year)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. School District's proportion of net pension liability (%)	0.28050%	0.28480%	0.27811%	0.25514%						
B. School District's proportionate share of net pension liability	\$ 72,679,845	\$ 71,064,251	\$ 67,929,260	\$ 56,197,431						
C. School District's covered-employee payroll	\$ 23,192,189	\$ 24,167,230	\$ 23,316,483	\$ 21,011,654						
D. School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	313%	294%	291%	267%						
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.

School District of the City of Pontiac
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	\$ 7,422,054	\$ 4,462,848	\$ 4,605,551	\$ 5,101,493						
B. Contributions in relation to statutorily required contributions	<u>7,422,054</u>	<u>4,462,848</u>	<u>4,605,551</u>	<u>5,101,493</u>						
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
D. School District's covered- employee payroll	\$ 22,963,157	\$ 23,805,351	\$ 23,459,289	\$ 23,387,029						
E. Contributions as a percentage of covered-employee payroll	32.32%	18.75%	19.63%	21.81%						

School District of the City of Pontiac
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 June Fiscal Year)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. School District's proportion of net OPEB liability (%)	0.28120%									
B. School District's proportionate share of net OPEB liability	\$ 24,904,670									
C. School District's covered-employee payroll	\$ 23,192,189									
D. School District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	107%									
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.

School District of the City of Pontiac
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,									
	2017	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Statutorily required contributions	\$ 1,851,950									
B. Contributions in relation to statutorily required contributions	1,851,950									
C. Contribution deficiency (excess)	\$ -									
D. School District's covered- employee payroll	\$ 22,963,157									
E. Contributions as a percentage of covered-employee payroll	8.06%									

OTHER SUPPLEMENTARY INFORMATION

School District of the City of Pontiac
Other Supplementary Information
General Fund
Combining Balance Sheet
June 30, 2018

	<u>General Fund</u>	<u>Categorical Funded Programs</u>	<u>Athletics</u>	<u>Noncenter Special Education Programs</u>	<u>Eliminations</u>	<u>Total</u>
Assets						
Cash	\$ 3,264,543	\$ -	\$ 1,070	\$ -	\$ -	\$ 3,265,613
Cash held by fiscal agent	1,774,837	-	-	-	-	1,774,837
Accounts receivable	277,080	40	-	2,584	-	279,704
Due from other funds	-	2,092,585	14,727	-	(2,107,312)	-
Due from other governmental units	785,565	2,486,911	-	1,901,210	-	5,173,686
Prepaid items and other deposits	<u>118,102</u>	<u>31,798</u>	<u>10,665</u>	<u>38,252</u>	<u>-</u>	<u>198,817</u>
Total assets	<u>\$ 6,220,127</u>	<u>\$ 4,611,334</u>	<u>\$ 26,462</u>	<u>\$ 1,942,046</u>	<u>\$ (2,107,312)</u>	<u>\$ 10,692,657</u>
Liabilities						
Accounts payable	1,385,584	109,682	6,287	534,929	-	2,036,482
State aid anticipation notes payable	4,500,000	-	-	-	-	4,500,000
Interest payable	867,374	-	-	-	-	867,374
Due to other funds	1,622,123	336,528	19,407	620,917	(2,107,312)	491,663
Due to other governmental units	926,829	1,163	-	45	-	928,037
Accrued expenditures	215,473	5,482	567	3,005	-	224,527
Accrued salaries payable	1,304,806	1,715,469	-	783,150	-	3,803,425
MESSA judgments payable	2,901,904	-	-	-	-	2,901,904
Unearned revenue	<u>3,462</u>	<u>1,596,817</u>	<u>201</u>	<u>-</u>	<u>-</u>	<u>1,600,480</u>
Total liabilities	13,727,555	3,765,141	26,462	1,942,046	(2,107,312)	17,353,892

School District of the City of Pontiac
Other Supplementary Information
General Fund
Combining Balance Sheet
June 30, 2018

	<u>General Fund</u>	<u>Categorical Funded Programs</u>	<u>Athletics</u>	<u>Noncenter Special Education Programs</u>	<u>Eliminations</u>	<u>Total</u>
Deferred Inflows of Resources						
Grant funds	\$ -	\$ 23,250	\$ -	\$ -	\$ -	\$ 23,250
Fund Balance						
Non-spendable						
Prepaid items	118,102	31,798	10,665	38,252	-	198,817
Restricted for:						
Debt service	1,774,837	-	-	-	-	1,774,837
Unassigned (deficit)	<u>(9,400,367)</u>	<u>791,145</u>	<u>(10,665)</u>	<u>(38,252)</u>	<u>-</u>	<u>(8,658,139)</u>
Total fund balance (deficit)	<u>(7,507,428)</u>	<u>822,943</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,684,485)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 6,220,127</u>	<u>\$ 4,611,334</u>	<u>\$ 26,462</u>	<u>\$ 1,942,046</u>	<u>\$ (2,107,312)</u>	<u>\$ 10,692,657</u>

School District of the City of Pontiac
Other Supplementary Information
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund
For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Categorical Funded Programs</u>	<u>Athletics</u>	<u>Noncenter Special Education Programs</u>	<u>Eliminations</u>	<u>Funds</u>
Revenues						
Local sources	\$ 29,386,314	\$ 186,201	\$ 22,177	\$ -	\$ -	\$ 29,594,692
State sources	5,183,453	4,188,227	-	4,309,774	-	13,681,454
Federal sources	-	11,099,623	-	1,491,669	-	12,591,292
Interdistrict sources	-	-	-	5,525,874	-	5,525,874
Total revenues	<u>34,569,767</u>	<u>15,474,051</u>	<u>22,177</u>	<u>11,327,317</u>	<u>-</u>	<u>61,393,312</u>
Expenditures						
Current						
Education						
Instruction	12,807,699	8,429,473	-	8,333,969	-	29,571,141
Supporting services	18,191,700	4,169,984	306,729	5,225,821	-	27,894,234
Community services	2,160	255,519	-	4,355	-	262,034
Capital outlay	555,117	-	-	-	-	555,117
Debt service						
Principal	3,010,213	-	-	-	-	3,010,213
Interest and other expenditures	920,973	-	-	-	-	920,973
Payment to bond refunding escrow agent	51,610	-	-	-	-	51,610
Total expenditures	<u>35,539,472</u>	<u>12,854,976</u>	<u>306,729</u>	<u>13,564,145</u>	<u>-</u>	<u>62,265,322</u>
Excess (deficiency) of revenues over expenditures	<u>(969,705)</u>	<u>2,619,075</u>	<u>(284,552)</u>	<u>(2,236,828)</u>	<u>-</u>	<u>(872,010)</u>

School District of the City of Pontiac
Other Supplementary Information
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund
For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Categorical Funded Programs</u>	<u>Athletics</u>	<u>Noncenter Special Education Programs</u>	<u>Eliminations</u>	<u>Funds</u>
Other Financing Sources (Uses)						
Proceeds from refinancing debt	\$ 10,500,000	\$ -	\$ -	\$ -	\$ -	\$ 10,500,000
Payment to bond refunding escrow agent	(8,475,163)	-	-	-	-	(8,475,163)
Proceeds from loans	14,370,000	-	-	-	-	14,370,000
Transfers in	1,310,492	-	284,552	2,293,306	(2,911,515)	976,835
Transfers out	<u>(2,577,862)</u>	<u>(277,175)</u>	<u>-</u>	<u>(56,478)</u>	<u>2,911,515</u>	<u>-</u>
Total other financing sources (uses)	<u>15,127,467</u>	<u>(277,175)</u>	<u>284,552</u>	<u>2,236,828</u>	<u>-</u>	<u>17,371,672</u>
Net change in fund balance	14,157,762	2,341,900	-	-	-	16,499,662
Fund balance (deficit) - beginning	<u>(21,665,190)</u>	<u>(1,518,957)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(23,184,147)</u>
Fund balance (deficit) - ending	<u>\$ (7,507,428)</u>	<u>\$ 822,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,684,485)</u>

School District of the City of Pontiac
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2018

Year Ending June 30,	Emergency Loan 2014	2014E Refunding Bond	Emergency Loan 2015	Sinking Fund Revenue Bond	2018A Revenue Bond	Tax Anticipation Note	Total
2019	\$ -	\$ 695,000	\$ -	\$ 596,000	\$ -	\$ 14,370,000	\$ 15,661,000
2020	-	730,000	-	5,228,000	-	-	5,958,000
2021	-	765,000	5,000	5,071,000	-	-	5,841,000
2022	5,000	-	5,000	-	920,000	-	930,000
2023	5,000	-	5,000	-	975,000	-	985,000
2024	5,000	-	5,000	-	1,030,000	-	1,040,000
2025	5,000	-	5,000	-	1,090,000	-	1,100,000
2026	5,000	-	5,000	-	1,155,000	-	1,165,000
2027	5,000	-	5,000	-	1,220,000	-	1,230,000
2028	5,000	-	5,000	-	1,290,000	-	1,300,000
2029	5,000	-	5,000	-	1,370,000	-	1,380,000
2030	5,000	-	5,000	-	1,450,000	-	1,460,000
2031	590,000	-	545,000	-	-	-	1,135,000
2032	610,000	-	560,000	-	-	-	1,170,000
2033	625,000	-	575,000	-	-	-	1,200,000
2034	645,000	-	590,000	-	-	-	1,235,000
2035	660,000	-	610,000	-	-	-	1,270,000
2036	680,000	-	625,000	-	-	-	1,305,000
2037	700,000	-	640,000	-	-	-	1,340,000
2038	715,000	-	660,000	-	-	-	1,375,000
2039	735,000	-	675,000	-	-	-	1,410,000
2040	755,000	-	695,000	-	-	-	1,450,000
2041	775,000	-	715,000	-	-	-	1,490,000
2042	800,000	-	735,000	-	-	-	1,535,000
2043	820,000	-	755,000	-	-	-	1,575,000
2044	845,000	-	775,000	-	-	-	1,620,000
2045	-	-	795,000	-	-	-	795,000
Total	\$ 10,000,000	\$ 2,190,000	\$ 10,000,000	\$ 10,895,000	\$ 10,500,000	\$ 14,370,000	\$ 57,955,000
Principal payments due	May 1	May 1	May 1	May 15 and November 15	May 1	June 28	
Interest payments due	May 1 and November 1	May 1 and November 1	May 1 and November 1	15th of each month	May 1 and November 1	June 28	
Interest rate	2.75%	5.15%	2.70%	3.83% - 4.45%	5.85%	4.19%	
Original issue	\$ 10,000,000	\$ 4,070,000	\$ 10,000,000	\$ 3,440,000	\$ 10,500,000	\$ 14,370,000	

School District of the City of Pontiac

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
School District of the City of Pontiac
Pontiac, MI

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 the School District of the City of Pontiac, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District of the City of Pontiac's basic financial statements, and have issued our report thereon dated October 12, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-002 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of the City of Pontiac's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying of findings and questioned costs as item 2018-001.

School District of the City of Pontiac's Response to Findings and Corrective Action Plan

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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, MI
October 12, 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 Guidance

Independent Auditors' Report

Members of the Board of Education
School District of the City of Pontiac
Pontiac, MI

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School District of the City of Pontiac's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 Pontiac School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School District of the City of Pontiac's compliance.

Opinion on Each Major Federal Program

In our opinion, the School District of the City of Pontiac 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 the School District of the City of Pontiac 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 the School District of the City of Pontiac's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Pontiac's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 the School District of the City of Pontiac, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise School District of the City of Pontiac's basic financial statements. We issued our report thereon dated October 12, 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 expenditures 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, MI
October 12, 2018

**School District of the City of Pontiac
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018**

Program Title/Project Number/Subrecipient Name	Grant/Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year(s) Expenditures	Accrued Revenue at July 1, 2017	Adjustments and Transfers	Federal Funds/ Payments In-kind	Expenditures	Accrued Revenue at June 30, 2018
U.S. Department of Agriculture									
Passed through the Michigan Department of Education (MDE)									
Child Nutrition Cluster									
Noncash Assistance (Commodities):									
National School Lunch Program:									
Entitlement Commodities	N/A	10.555	\$ 227,348	\$ -	\$ -	\$ -	\$ 227,348	227,348	\$ -
Cash Assistance:									
School Breakfast Program 2016-17	171970	10.553	866,363	775,390	189,537	-	280,510	90,973	-
School Breakfast Program 2017-18	181970	10.553	760,905	-	-	-	719,083	760,905	41,822
Total School Breakfast Program			1,627,268	775,390	189,537	-	999,593	851,878	41,822
National School Lunch Program 2016-17	171960	10.555	1,989,496	1,778,601	422,297	-	633,192	210,895	-
National School Snack Program 2016-17	171980	10.555	157	157	105	-	105	-	-
National School Lunch Program 2017-18	181960	10.555	1,750,035	-	-	-	1,652,882	1,750,035	97,153
National School Snack Program 2017-18	181980	10.555	408	-	-	-	408	408	-
Total National School Lunch Program			3,740,096	1,778,758	422,402	-	2,286,587	1,961,338	97,153
Total Child Nutrition Cluster			5,594,712	2,554,148	611,939	-	3,513,528	3,040,564	138,975
Child & Adult Care Food Program 2016-2017	171920	10.558	66,799	58,046	12,536	(100)	21,189	8,753	-
Child & Adult Care Food Program 2016-2017	172010	10.558	4,862	4,225	912	(14)	1,535	637	-
Child & Adult Care Food Program 2017-2018	181920	10.558	70,211	-	-	100	69,881	70,211	430
Child & Adult Care Food Program 2017-2018	182010	10.558	5,047	-	-	14	5,030	5,047	31
Total Child & Adult Care Food Program			146,919	62,271	13,448	-	97,635	84,648	461
Fresh Fruit and Vegetable Program 2016-2017	170950	10.582	70,006	62,993	19,710	(151)	26,572	7,013	-
Fresh Fruit and Vegetable Program 2017-2018	180950	10.582	115,290	-	-	151	103,587	115,290	11,854
Total Fresh Fruit and Vegetable Program			185,296	62,993	19,710	-	130,159	122,303	11,854
Total U.S. Department of Agriculture			5,926,927	2,679,412	645,097	-	3,741,322	3,247,515	151,290

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**School District of the City of Pontiac
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018**

Program Title/Project Number/Subrecipient Name	Grant/Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year(s) Expenditures	Accrued Revenue at July 1, 2017	Adjustments and Transfers	Federal Funds/ Payments In-kind	Expenditures	Accrued Revenue at June 30, 2018
U.S. Department of Defense									
Direct Programs									
JROTC 2017 Grant	MI-171530 & MI-171531	12.357	\$ 53,701	\$ 53,701	\$ 3,776	\$ -	\$ 3,776	\$ -	\$ -
JROTC 2018 Grant	MI-171530 & MI-171531	12.357	55,560	-	-	-	50,130	55,560	5,430
Total U.S. Department of Defense			109,261	53,701	3,776	-	53,906	55,560	5,430
U.S. Department of Education									
Passed through Oakland County ISD									
Special Education Cluster									
Special Education Grants to States	160450	84.027	1,359,319	1,359,319	9,791	-	9,791	-	-
Special Education Grants to States	170450	84.027	1,399,896	1,355,755	634,966	-	634,966	44,141	44,141
Special Education Grants to States	180450	84.027	1,443,865	-	-	-	353,551	1,385,564	1,032,013
Total Special Education Grants to States			4,203,080	2,715,074	644,757	-	998,308	1,429,705.00	1,076,154
Special Education Preschool Grants	170460	84.173	72,543	72,543	34,207	-	34,207	-	-
Special Education Preschool Grants	180460	84.173	59,247	-	-	-	29,318	59,247	29,929
Total Special Education Preschool Grants			131,790	72,543	34,207	-	63,525	59,247	29,929
Total Special Education Cluster			4,334,870	2,787,617	678,964	-	1,061,833	1,488,952	1,106,083
Passed through the MDE									
Title I Grants to Local Educational Agencies	171530	84.010	8,530,252	7,731,288	2,771,191	-	2,784,046	12,855	-
Title I Grants to Local Educational Agencies	181530	84.010	6,193,594	-	-	-	4,642,566	5,647,067	1,004,501
Total Title I Grants to Local Educational Agencies			14,723,846	7,731,288	2,771,191	-	7,426,612	5,659,922	1,004,501
21st Century Community Learning Centers	172110 I14005	84.287	540,000	540,000	140,683	-	140,683	-	-
21st Century Community Learning Centers	172110 I14006	84.287	405,000	404,620	102,769	-	102,769	-	-
21st Century Community Learning Centers	182110 I14005	84.287	540,000	-	-	-	349,804	536,810	187,006
21st Century Community Learning Centers	182110 I14006	84.287	405,000	-	-	-	220,465	401,686	181,221
Total 21st Century Community Learning Center			1,890,000	944,620	243,452	-	813,721	938,496	368,227

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**School District of the City of Pontiac
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018**

Program Title/Project Number/Subrecipient Name	Grant/Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year(s) Expenditures	Accrued Revenue at July 1, 2017	Adjustments and Transfers	Federal Funds/ Payments In-kind	Expenditures	Accrued Revenue at June 30, 2018
U.S. Department of Education (continued)									
Passed through MDE (continued)									
English Language Acquisition Grants	170580 1617	84.365	\$ 144,091	\$ 140,714	\$ 82,461	\$ -	\$ 82,461	\$ -	\$ -
English Language Acquisition Grants	180580 1718	84.365	109,720	-	-	-	87,812	109,720	21,908
English Language Acquisition Grants	170570 1617	84.365	13,079	11,854	4,680	-	4,680	-	-
English Language Acquisition Grants	180570 1718	84.365	1,224	-	-	-	-	1,224	1,224
Total English Language Acquisition Grants			<u>268,114</u>	<u>152,568</u>	<u>87,141</u>	<u>-</u>	<u>174,953</u>	<u>110,944</u>	<u>23,132</u>
Supporting Effective Instruction State Grant	170520 1517	84.367	2,524,460	1,784,877	674,598	-	965,986	291,388	-
Supporting Effective Instruction State Grant	180520 1718	84.367	1,218,914	-	-	-	875,961	973,446	97,485
Total Supporting Effective Instruction State Grant			<u>3,743,374</u>	<u>1,784,877</u>	<u>674,598</u>	<u>-</u>	<u>1,841,947</u>	<u>1,264,834</u>	<u>97,485</u>
Student Support and Academic Enrichment Grants	180750 1718	84.424	91,615	-	-	-	-	67,359	67,359
Hurricane Education Recovery	2018-126	84.938C	23,250	-	-	-	-	23,250	23,250
Total U.S. Department of Education			<u>25,075,069</u>	<u>13,400,970</u>	<u>4,455,346</u>	<u>-</u>	<u>11,319,066</u>	<u>9,553,757</u>	<u>2,690,037</u>
U.S. Department of Health and Human Services									
Passed through Oakland County ISD									
Medicaid Cluster									
Medicaid - Administrative outreach	N/A	93.778	2,717	-	-	-	2,717	2,717	-
Total Federal Awards			<u>\$ 31,113,974</u>	<u>\$ 16,134,083</u>	<u>\$ 5,104,219</u>	<u>\$ -</u>	<u>\$ 15,117,011</u>	<u>\$ 12,859,549</u>	<u>\$ 2,846,757</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

School District of the City of Pontiac
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 the School District of the City of Pontiac 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 the School District of the City of Pontiac, it is not intended to and does not present the financial position and changes in financial positions of the School District of the City of Pontiac.

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

The School District of the City of Pontiac has elected not to use the de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

Expenditures per the schedule of expenditures of federal awards	\$ 12,859,549
Prior year deferred inflows of resources	3,002,508
Current year deferred inflows of resources	<u>(23,250)</u>
Federal revenues per the financial statements	<u>\$ 15,838,807</u>

Note 4 - Subrecipients

No amounts were provided to subrecipients.

School District of the City of Pontiac
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

Note 5 - Michigan Department of Education Disclosures

The federal amounts reported on the grant auditor report are in agreement with the schedule of expenditures of federal awards except for the following timing difference of when the deposit was made:

	<u>Per Grant Auditor Report</u>	<u>Per Schedule of Expenditures of Federal Awards</u>	<u>Variance</u>
Child & Adult Care Food Program			
Project Number: 171920	\$ 12,436	\$ 21,189	\$ 8,753
Project Number: 172010	898	1,535	637
Summer Food Service Program			
Project Number: 180900	6,696	-	(6,696)
Project Number: 181900	351	-	(351)
Fresh Fruit and Vegetable Program			
Project Number: 170950	19,559	26,572	7,013
21st Century Community Learning Centers			
Project Number: 172110 I14005	95,482	140,683	45,201
Project Number: 172110 I14006	71,094	102,769	31,675
	<u>\$ 206,516</u>	<u>\$ 292,748</u>	<u>\$ 86,232</u>

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

School District of the City of Pontiac
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? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted?

 X yes no

Federal Awards

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? 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:

CFDA Number(s)

Name of Federal Program or Cluster

10.553 & 10.555

Child Nutrition Cluster
 21st Century Community Learning
 Centers

84.287

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 X yes no

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2018

Section II - Government Auditing Standards Findings

Finding 2018-001, 2017-001, 2016-001 - Material Noncompliance - Operational Deficit

- Criteria:** In accordance with Public Act 621 of 1978, no fund shall have a deficit fund balance.
- Condition:** As of June 30, 2018, the General Fund has an operating deficit of \$6,684,485 as well as an accumulated operating deficit in the Sinking Fund of \$208,611.
- Cause and Effect:** Due to an operating deficit incurred in the General Fund during the preceding years, the School District has a cumulative deficit in the General Fund as of June 30, 2018. During the year ended June 30, 2018, General Fund operations decreased the cumulative deficit by \$16,499,662. However, the School District is in violation of Public Act 621. During the year ended June 30, 2018, the Sinking Fund operating deficit decreased \$1,431,525 and is in violation of Public Act 621 as well.
- Recommendation:** In accordance with Public Act 621 of 1978, the Deficit Elimination Plan should be updated as necessary. Additional cost cutting and revenue enhancement alternatives must continue during the next year to reduce the deficit and continue to meet the goals of the School District's Deficit Elimination Plan.
- Views of Responsible Officials:** Management agrees with the finding.
- Corrective Action Plan:** See attached corrective action plan from management.

Finding 2018-002 - Material Weakness

- Criteria:** Management is responsible for the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).
- Condition:** An adjusting journal entry was recorded in the amount of \$ 1,774,837.
- Cause and Effect:** As part of the issuance of the 2018A Revenue Bonds during the year, an escrow deposit was established with a fiscal agent to hold the funds required to make the first three years of interest payments. These amounts should have been recorded in the governmental funds of the School District as an asset, however, were improperly recorded as an expenditure.

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2018

Recommendation: When activities outside of the normal course of business are performed, the School District should review the guidelines carefully to verify it is recorded properly. We further recommend the School District contact an outside party for guidance, if needed.

Views of Responsible Officials: Management agrees with the finding.

Corrective Action Plan: See attached corrective action plan from management.

Section III - Federal Award Findings

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

**School District of the City of Pontiac
Summary Schedule of Prior Audit Findings
June 30, 2018**

Section IV - Prior Audit Findings

Finding 2017-001, 2016-001- Material Noncompliance - Operational Deficit

Criteria: In accordance with Public Act 621 of 1978, no fund shall have a deficit fund balance.

Status: The District continues to have an unassigned operating deficit in the General Fund as well as an unassigned operating deficit in the Sinking Fund in the current year (see 2018-001).

School District of the City of Pontiac
Corrective Action Plan
June 30, 2018



School District of the City of Pontiac

Business Services | Jamie Cowan, Director

October 12, 2018

Yeo & Yeo
3023 Davenport
Saginaw, MI 48065

Response to Fiscal Year 2018 Audit Findings

Within the course of completing the 2017-18 annual audit, one (1) material non-compliance and (1) material weakness were identified.

The District administration is aware of the ramification of these noted findings and has addressed them in the following attachment entitled "Corrective Action Plan for Fiscal Year Ending 2018".

Jamie M. Cowan

Jamie Cowan
Director of Business Services

School District of the City of Pontiac

Corrective Action Plan

June 30, 2018

Pontiac School District
 Corrective Action Plan for Fiscal Year Ending 2018 – as of October 12, 2018

Finding Number:	2018-001 Material Noncompliance – Operational Deficit
Finding Description:	Due to an operating deficit incurred in the General Fund during the preceding years, the School District has a cumulative deficit in the General Fund as of June 30, 2018. During the year ended June 30, 2018, General Fund operations decreased the cumulative deficit by \$16,499,662. However, the School District is in violation of Public Act 621. The During the year ended June 30, 2018, the Sinking Fund operating deficit decreased by \$1,431,535 in the current year and is in violation of Public Act 621 as well.
Response:	<p>The District is currently under a Consent Agreement with the State of Michigan (dated September 18, 2013) and operating under an approved 10-year Deficit Elimination Plan (DEP) and Finance and Operating Plan (FOP). The District will continue to review and amend both the DEP and FOP throughout each fiscal year to maintain compliance under the Consent Agreement.</p> <p>The incurrance of the operating deficit in the Sinking Fund was purposeful as the District had the ability to recognize additional revenue from the Site Bonds for the accrued expenditures; but chose to be fiscally responsible in opting to minimize interest costs. This deficit was reduced by \$1,431,535 as of July 1, 2018.</p>
Responsibility:	Business Office
Update:	October 12, 2018
Finding Number:	2018-002 Material Weakness
Finding Description:	As part of the issuance of the 2018A Revenue Bonds during the year, an escrow deposit was established with a fiscal agent to hold the funds required to make the first three years of interest payments. These amounts should have been recorded in the governmental funds of the School District as an asset, however, were improperly recorded as expenditure.
Response:	<p>The District is fully knowledgeable and capable of recording debt transactions. The change in the financing structure with the outside agent escrow account, which benefits the District, was something that had not been done in the past and, as a result, the transaction was reported like every other past transaction.</p> <p>As this was highly unusual for the district, and the district had many conversations with bond counsel on whether there would be any change in process and the answer was no. Had the District known through those conversations, that things were different, the District is capable of making the right adjustments. In the future, if outside agent escrow accounts are used, the District is knowledgeable as to the appropriate accounting.</p>
Responsibility:	Business Office
Update:	October 12, 2018



October 12, 2018

Management and the Board of Education
School District of the City of Pontiac
Pontiac, Michigan

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the School District of the City of Pontiac as of and for the year ended June 30, 2018, and have issued our report dated October 12, 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.

We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Net OPEB liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Management's estimate of the accrued compensated absences is based on the accumulated vacation and sick days and salary and wage rates in effect

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 are 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 School 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 School 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 School 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 MPERS 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 adjustments.

The following material misstatement was detected as a result of our audit procedures and corrected by management:

- As part of the issuance of the 2018A Revenue Bonds during the year, an escrow deposit was established with a fiscal agent to hold the funds required to make the first three years of interest payments. These amounts should have been recorded in the governmental funds of the School District as an asset, however, were improperly recorded as an expenditure. An adjusting journal entry was recorded in the amount of \$ 1,774,837.

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

- In the prior year, interest payable was improperly recorded in the sinking fund. Thus, the beginning fund balance was understated by \$11,549 and current year expenses are understated by the same amount.
- In the current year, reconciliation differences were identified in the student activity funds. As a result, assets and the corresponding liability are overstated by \$7,470.

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 paragraphs:

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.

Emphasis of Matter

The School District has an accumulated unassigned deficit in the General Fund of \$8,658,139 and an accumulated unassigned deficit in the Sinking Fund of \$208,611 as of June 30, 2018, which has resulted from operating deficits. The deficit and status of the School District's Deficit Elimination Plan that is required by the Michigan Department of Education, are disclosed in Note 2. 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; 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.

Appendix II Matters for Management's Consideration

In planning and performing our audit of the financial statements of the School District of the City of Pontiac as of and for the year ended June 30, 2018, we considered the School District of the City of Pontiac's 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 several matters for management's consideration that are opportunities for strengthening internal controls. This letter does not affect our report dated October 12, 2018, on the financial statements of the School District of the City of Pontiac. Our comments and recommendations regarding those matters are:

Passed Audit Adjustments

As noted in Appendix I, *Corrected and Uncorrected Misstatements*, two misstatements were identified as a result of our audit procedures. They are addressed individually below:

Activity Funds

During our audit procedures, we walked through the process in place related to student activity accounts held as agency funds at the School District. During this test work, we noted a variety of situations when individuals within the School District did not appropriately follow the policies in place related to activity fund reporting. We noted that there was no supporting documentation provided in regards to the revenue sources in the activity fund accounts. In addition, the School District's policy requires a monthly reconciliation to be completed and submitted by the activity account advisor no later than the 5th of the following month. It was noted that this deadline is not being consistently met, and that many reconciliations are not received until much later in the month.

Furthermore, the School District was unable to reconcile the bank balance to the activity recorded within the individual funds. Due to the timing of the audit, it was determined to pass on an adjustment to settle this difference. The issue will be investigate in the upcoming fiscal year.

We recommend that the School District work towards more consistently applying the procedures in place for activity fund reporting. This will not only help ensure that all funds are being properly handled, but will also protect those individuals that are currently involved in the process. Furthermore, with the upcoming implementation of GASB 84, it will be imperative that they funds are being handled in a more appropriate manner.

Interest Payable

The School District maintains both current and noncurrent debt obligations. Because the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting, debt service expenditures are recorded only when the payment is due. We noted that interest payable was incorrectly recorded in the fund financial statements for noncurrent debt. This amount should be recorded in the district-wide financial statements only. We understand that the accounts are used for budgeting and cash flow purposes by management, however, the accounts should be cleared at year end.

Time and Effort Record Keeping

Per the School District's federal procedures, "If an employee works on more than one activity and/or cost objective, the employee will be required to complete a Personnel Activity Report (PAR) Form at least once a month and aligned to district pay periods (training on completing this form will be provided) and submit to the appropriate Grant Program Manager." This procedure is not being followed for building helpers charged to the Child Nutrition Cluster. Instead, a study was performed to determine the percentage of time spent performing these functions, and the percentage was applied to the individuals' wages for the whole year.

While we were able to substantiate these wages and determined that the allocation appeared reasonable, we recommend that the School District either modify their federal procedures or implement the use of PAR forms for these employees.

Furthermore, we noted that when timesheets/PAR forms are being used, they are often signed prior to the end of the reporting period. Thus, it could not be determined that the information is truly correct. We also noted one instance when a timesheet was not signed by a supervisor. We recommend that all timesheets/PAR forms be completed after the fact, so they can be relied upon for accurate information and support for allowance salary expenditures charged to the grants.

Excess Food Service Fund Balance

As of year-end food service fund balance exceeded three months of expenditures by \$93,066. The School District and MDE are aware of the excess fund balance and a spend-down plan is already in place which includes updating of kitchen equipment throughout the district. The plan was executed in the prior year and the School District was successful in lowering the fund balance by \$31,755 during the current year.

We would encourage the School District to continue to monitor fund balance and follow the spend down plan.

Office of Retirement Services (ORS) Census Data

Due to the implementation of GASB 68 and GASB 75, we are required to perform census testing on the data provided to ORS. We noted two errors in the current year related to the date of birth of one participant and the gender of another. This is a repeat issue from the prior year. ORS relies on the accurate reporting of the census data for the actuarial studies to determine the proportionate share of the net pension liability and net OPEB liability for all of the districts in the State of Michigan. Therefore, it is imperative that this information be correct.

The errors noted above were corrected by management during fieldwork. We recommend that additional controls be put in place to double check the entry and maintenance of new hires information.

Federal Equipment Management

All equipment over \$5,000 purchased with federal funds is required to be tagged and separately identified from those items not purchased with federal funds. These items must be listed with the following characteristics: serial number (or other identifying number), source, who holds title, acquisition date and cost, percentage of federal participation in the cost, location, condition, and disposition data (if applicable). During our audit procedures, we noted that although the School District maintains an equipment listing for Food Service items, there are certain attributes in the list above that should be added to keep the School District in compliance with Uniform Guidance.

We suggest records are reviewed and modified to include all required data for federal compliance.