

School District of the City of Pontiac

Financial Statements

June 30, 2016

Table of Contents

<u>Section</u>		<u>Page</u>
1	Members of the Board of Education and Administration	1 - 1
2	Independent Auditors' Report	2 - 1
3	Management's Discussion and Analysis	3 - 1
4	Basic Financial Statements	
	District-wide Financial Statements	
	Statement of Net Position	4 - 1
	Statement of Activities	4 - 3
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 - 4
	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4 - 6
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 7
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 9
	Proprietary Funds	
	Statement of Net Position – Internal Service Fund	4 - 10
	Statement of Revenues, Expenses, and Changes in Fund Net Position – Internal Service Fund	4 - 11
	Statement of Cash Flows – Internal Service Fund	4 - 12
	Fiduciary Funds	
	Statement of Fiduciary Net Position	4 - 13
	Notes to the Financial Statements	4 - 14

<u>Section</u>		<u>Page</u>
5	Required Supplementary Information	
	Budgetary Comparison Schedule – General Fund	5 – 1
	Budgetary Comparison Schedule – Food Service Fund	5 – 3
	Schedule of School District’s Proportionate Share of Net Pension Liability	5 – 4
	Schedule of School District’s Contributions	5 – 5
6	Other Supplementary Information	
	Nonmajor Governmental Funds	
	Combining Balance Sheet	6 – 1
	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	6 – 2
	General Fund	
	Combining Balance Sheet	6 – 3
	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	6 – 5
	Schedule of Outstanding Bonded Indebtedness	6 – 6

School District of the City of Pontiac
Members of the Board of Education and Administration
June 30, 2016

Members of the Board of Education

Brenda Carter, President

William Carrington, Vice President

Caroll Turpin, Secretary

Karen Cain, Treasurer

Susan Loveland, Parliamentarian

April Hernandez, Trustee

Sherman Williams, Trustee

Administration

Kelley Williams, Superintendent

Cyndi Toupin, Director of Business Services



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Independent Auditors' Report

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

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, 2016, 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, 2016, 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 accompanying financial statements have been prepared assuming that the School District of the City of Pontiac continues as a going concern. As discussed in Note 2 to the financial statements, the School District has a general fund deficit of \$25,085,066, and a nonmajor governmental fund deficit of \$1,000,000. This raises substantial doubt about the ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the School District adopted GASB Statements No. 72, 76, 79, and 82, *Fair Value Measurement and Application*, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, *Certain External Investment Pools and Pool Participants*, and *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, respectively. Our opinion is not modified with respect to this matter.

Other Matters:

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 4, 2016 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 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 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 4, 2016

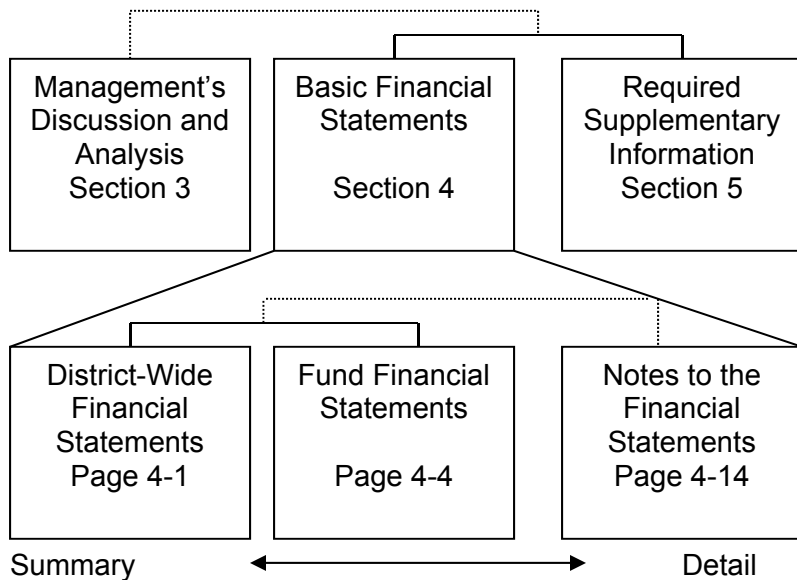
MANAGEMENT'S DISCUSSION AND ANALYSIS

School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2016

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, 2016. 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 and Special Revenue Food Service 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

School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2016

revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between 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, 2016

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, 2016 and 2015:

	Governmental Activities	
	June 30	
	2016	2015
	(in millions)	
Assets		
Current and other assets	\$ 10.9	\$ 12.4
Capital assets	30.8	26.9
Deferred outflows of resources	<u>11.4</u>	<u>6.3</u>
Totals assets	<u>53.1</u>	<u>45.6</u>
Liabilities		
Current liabilities	35.3	41.7
Noncurrent liabilities	102.6	82.7
Deferred inflows of resources	<u>2.0</u>	<u>6.2</u>
Total liabilities	<u>139.9</u>	<u>130.6</u>
Net Position		
Net investment in capital assets	17.2	11.4
Restricted	-	2.5
Unrestricted	<u>(104.0)</u>	<u>(98.9)</u>
Total net position	<u>\$ (86.8)</u>	<u>\$ (85.0)</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 (\$86.8 million) at June 30, 2016. Net investment in capital assets totaling \$17.2 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. The remaining amount of net position of (\$104.0 million) was unrestricted.

The (\$104.0 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 the school district's proportionate share of the net pension liability is 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, 2016 and 2015.

School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2016

Table 2

	Governmental Activities	
	June 30	
	2016	2015
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.5	\$ 0.4
Operating grants and contributions	34.0	32.2
General Revenue:		
Property taxes	28.1	37.7
State foundation allowance	1.8	2.8
Gain on capital assets	-	2.5
Other	2.4	3.4
Total revenue	<u>66.8</u>	<u>79.0</u>
Functions/Program Expenses		
Instruction	31.1	31.3
Support services	32.0	33.8
Food services	4.0	2.5
Community services	0.3	0.3
Interest on long-term debt	1.3	1.3
Total functions/program expenses	<u>68.7</u>	<u>69.2</u>
Increase (Decrease) in Net Position	(1.9)	9.8
Net Position - Beginning of year	<u>(84.9)</u>	<u>(94.7)</u>
Net Position - End of year	<u>\$ (86.8)</u>	<u>\$ (84.9)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$66.9 million. Certain activities were partially funded from those who benefited from the programs (\$0.5 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$34.0 million). We paid for the remaining “public benefit” portion of our governmental activities with \$28.2 million in taxes, \$1.8 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements, totaling \$2.4 million.

The School District experienced a decrease in net position of \$1.8 million. Several reasons for the change in net position was the retirement of the 1991-C2 and 1985 Refunding 1991-D bonded debt in fiscal year 2015, the continued collections on old insurance claims, the ability to utilize grant dollars and reduce the amount of carryover dollars and upgrading the food service kitchen and serving lines throughout the district.

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.

School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2016

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 (\$25.3 million), which is a decrease of \$5.4 million from last year. The primary reasons for the decrease are as follows:

- Obtaining a \$10 million Emergency Loan in July, 2015.
- Passage of a 5-year 2.87 mil Sinking Fund.
- Passage of a 20 year 18 mil non-homestead renewal.
- Insurance claim proceeds from claims dated prior to 2014.
- Meeting the terms of vendor payment agreements; and the forgiveness of previously expensed interest costs.
- The structuring of the Tax Anticipation Note as a draw down note allowing the District to pay interest when used versus day of closing.

General Fund 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 significant revisions made to the 2015-2016 General Fund original budget. Budgeted revenues and other financing sources were decreased by \$17.5 million this was largely due to not refinancing the 2006 Energy Bonds prior to June 30, 2016 as well as the completion of several federal grant programs (PLAY, PRIDE and SOS). Budget expenditures and other financing uses were decreased by \$8 million to follow the reduction in expected revenues.

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.

**School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2016**

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2016, the School District had \$30.9 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 \$4.0 million, or approximately a 15 percent increase, from last year.

	2016	2015
Land	\$ 2,169,804	\$ 2,169,804
Construction in progress	1,667,952	92,084
Land improvements	1,558,438	193,525
Buildings and building improvements	50,060,064	48,770,901
Buses and other vehicles	108,481	85,797
Furniture and equipment	2,794,960	1,356,238
Total capital assets	58,359,699	52,668,349
Less accumulated depreciation	27,508,540	25,774,279
Net capital assets	<u>\$ 30,851,159</u>	<u>\$ 26,894,070</u>

Several major capital projects are planned for the 2016-2017 fiscal year which includes an installation of new playground equipment at all elementary buildings, new flooring at Alcott and Herrington Elementary Schools, installation of heating controls at Pontiac High School and other improvements. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$33.4 million in bonds outstanding versus \$25.4 million in the previous year – an increase of 31.1 percent due to the \$10 million emergency loan, received in July, 2015. Those bonds consisted of the following:

	2016	2015
Notes and bonds payable	<u>\$ 33,395,000</u>	<u>\$ 25,415,000</u>

Other obligations include compensated absences, capital lease, and premium of bonds. 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 2016-2017 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 2017 fiscal year is 10 percent and 90 percent of the February 2016 and October 2016 student counts, respectively. The 2016-2017 budget was adopted in June 2016, based on an estimate of students that will be enrolled in September 2016. 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 2016-2017 school year, we anticipate that the Fall student count will be under the estimates used in creating the 2016-2017 budget by approximately 185 students.

School District of the City of Pontiac Management Discussion and Analysis Year Ended June 30, 2016

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 2016-2017 slightly from \$7,390 to \$7,511 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 2006 energy conservation bonds as well as the 2014 school bond loan fund, benefitting the district with interest only payments for the first five (5) years. The District also intends to pay off the last remaining vendor payment agreement by December 31st (Office of Retirement Services) enabling the District to become current on all outstanding obligations.

In fiscal year 2016-2017 the District will also expand their International Technical Academy and become K-12 as well as create an International Language Academy. 2016-2017 will also bring art and music back into the elementary schools.

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, 2016

	<u>Governmental Activities</u>
Assets	
Cash	\$ 5,285,437
Deposits	128,919
Accounts receivable, net of allowance	400,586
Due from other governmental units	4,820,284
Inventory	13,998
Prepays and other assets	207,652
Capital assets not being depreciated	3,837,756
Capital assets - net of accumulated depreciation	<u>27,013,403</u>
 Total assets	 <u>41,708,035</u>
 Deferred Outflows of Resources	
Deferred amount relating to net pension liability	<u>11,362,774</u>
 Total assets and deferred outflows of resources	 <u>\$ 53,070,809</u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Statement of Net Position
June 30, 2016

	Governmental Activities
Liabilities	
Accounts payable	\$ 2,340,169
State aid and tax anticipation notes payable	19,770,000
Interest payable	1,042,295
Due to other governmental units	984,258
Claims payable	130,283
Accrued expenditures	421,922
Accrued salaries payable	3,339,007
MESSA Judgment payable	4,457,824
Vendor repayment plans payable	2,211,972
Unearned revenue	587,683
Noncurrent liabilities	
Debt due within one year	2,273,720
Debt due in more than one year	32,396,835
Net pension liability	67,929,260
Total liabilities	137,885,228
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	1,956,430
Total liabilities and deferred inflows of resources	139,841,658
Net Position	
Net investment in capital assets	17,212,272
Unrestricted (deficit)	(103,983,121)
Total net position	\$ (86,770,849)

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Statement of Activities
For the Year Ended June 30, 2016

	Program Revenues				
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
Functions/Programs					
Governmental activities					
Instruction	\$ 31,108,248	\$ -	\$ 29,137,468	\$ -	\$ (1,970,780)
Supporting services	32,007,654	323,953	1,441,957	-	(30,241,744)
Food services	3,975,392	84,840	3,415,860	-	(474,692)
Community services	252,893	74,072	-	-	(178,821)
Interest on long-term debt	1,348,880	-	-	-	(1,348,880)
Total governmental activities	\$ 68,693,067	\$ 482,865	\$ 33,995,285	\$ -	(34,214,917)
General revenues					
					27,431,624
					761,069
					1,748,773
					6,478
					1,537,414
					887,511
Total general revenues					32,372,869
Change in net position					(1,842,048)
Net position - beginning					(84,928,801)
Net position - ending					\$(86,770,849)

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Governmental Funds
Balance Sheet
June 30, 2016

	General Fund	Special Revenue Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 3,288,641	\$ 1,161,879	\$ -	\$ 4,450,520
Accounts receivable, net of allowance	399,954	632	-	400,586
Due from other funds	1,095,326	-	-	1,095,326
Due from other governmental units	4,211,755	608,529	-	4,820,284
Inventory	-	13,998	-	13,998
Prepaid and other assets	207,019	633	-	207,652
	<u>9,202,695</u>	<u>1,785,671</u>	<u>-</u>	<u>10,988,366</u>
Total assets	<u>\$ 9,202,695</u>	<u>\$ 1,785,671</u>	<u>\$ -</u>	<u>\$ 10,988,366</u>
Liabilities				
Accounts payable	\$ 1,457,763	\$ 873,127	\$ -	\$ 2,330,890
State aid and tax anticipation notes payable	19,770,000	-	-	19,770,000
Interest payable	846,077	-	-	846,077
Due to other funds	-	95,326	1,000,000	1,095,326
Due to other governmental units	960,186	6,100	-	966,286
Accrued expenditures	414,406	7,516	-	421,922
Accrued salaries payable	3,312,075	26,932	-	3,339,007
MESSA Judgment payable	4,457,824	-	-	4,457,824
Vendor repayment plans payable	2,211,972	-	-	2,211,972
Unearned revenue	587,683	-	-	587,683
	<u>34,017,986</u>	<u>1,009,001</u>	<u>1,000,000</u>	<u>36,026,987</u>
Total liabilities	<u>34,017,986</u>	<u>1,009,001</u>	<u>1,000,000</u>	<u>36,026,987</u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Governmental Funds
Balance Sheet
June 30, 2016

	General Fund	Special Revenue Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Deferred Inflows of Resources				
Unavailable revenue				
Grants received	\$ 269,775	\$ -	\$ -	\$ 269,775
Total liabilities and deferred inflows of resources	<u>34,287,761</u>	<u>1,009,001</u>	<u>1,000,000</u>	<u>36,296,762</u>
Fund Balance				
Non-spendable				
Inventory	-	13,998	-	13,998
Prepaid items	207,019	633	-	207,652
Restricted for				
Food service	-	762,039	-	762,039
Unassigned (deficit)	<u>(25,292,085)</u>	<u>-</u>	<u>(1,000,000)</u>	<u>(26,292,085)</u>
Total fund balance (deficit)	<u>(25,085,066)</u>	<u>776,670</u>	<u>(1,000,000)</u>	<u>(25,308,396)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 9,202,695</u>	<u>\$ 1,785,671</u>	<u>\$ -</u>	<u>\$ 10,988,366</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, 2016

Total fund balances for governmental funds	\$(25,308,396)
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	269,775
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	3,837,756
Capital assets - net of accumulated depreciation	27,013,403
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from net pension liability	(1,956,430)
Deferred outflows of resources resulting from net pension liability	11,362,774
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(196,218)
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	(67,929,260)
Compensated absences	(1,031,668)
Bonds payable	(33,395,000)
Capital lease	(212,176)
Premium on bond	(31,711)
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position	<u>806,302</u>
Net position of governmental activities	<u>\$(86,770,849)</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, 2016

	General Fund	Special Revenue Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 29,045,822	\$ 84,840	\$ 761,069	\$ 29,891,731
State sources	15,058,827	88,156	-	15,146,983
Federal sources	12,652,014	3,327,704	-	15,979,718
Interdistrict sources	4,908,549	-	-	4,908,549
	<u>61,665,212</u>	<u>3,500,700</u>	<u>761,069</u>	<u>65,926,981</u>
Expenditures				
Current				
Education				
Instruction	29,502,513	-	-	29,502,513
Supporting services	29,959,885	-	-	29,959,885
Food services	-	3,771,477	-	3,771,477
Community services	223,904	-	-	223,904
Intergovernmental payments	650,000	-	-	650,000
Capital outlay	4,118,572	-	1,000,000	5,118,572
Debt service				
Principal	2,020,000	1,155	-	2,021,155
Interest and other expenditures	1,261,942	79	65,668	1,327,689
	<u>67,736,816</u>	<u>3,772,711</u>	<u>1,065,668</u>	<u>72,575,195</u>
Excess (deficiency) of revenues over expenditures	<u>(6,071,604)</u>	<u>(272,011)</u>	<u>(304,599)</u>	<u>(6,648,214)</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, 2016

	General Fund	Special Revenue Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Proceeds from loans	\$ 10,000,000	\$ -	\$ -	\$ 10,000,000
Proceeds from capital leases	251,800	6,470	-	258,270
Interest forgiveness	288,025	-	-	288,025
Insurance recoveries	1,537,414	-	-	1,537,414
Transfers in	2,309,009	-	-	2,309,009
Transfers out	-	(140,711)	(2,168,298)	(2,309,009)
	<u>14,386,248</u>	<u>(134,241)</u>	<u>(2,168,298)</u>	<u>12,083,709</u>
Total other financing sources (uses)				
Net change in fund balance	8,314,644	(406,252)	(2,472,897)	5,435,495
Fund balance (deficit) - beginning, as restated	<u>(33,399,710)</u>	<u>1,182,922</u>	<u>1,472,897</u>	<u>(30,743,891)</u>
Fund balance (deficit) - ending	<u>\$ (25,085,066)</u>	<u>\$ 776,670</u>	<u>\$ (1,000,000)</u>	<u>\$ (25,308,396)</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, 2016

Net change in fund balances - Total governmental funds	\$ 5,435,495
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	(901,401)
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	(1,734,261)
Capital outlay	5,691,350
Expenses are recorded when incurred in the statement of activities.	
Accrued interest	(27,533)
Compensated absences and retirement incentives	(12,991)
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 pension liability	(11,731,829)
Net change in the deferred inflow of resources related to the net pension liability	6,559,582
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	2,767,377
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	(10,000,000)
Capital lease	(258,270)
Repayments of long-term debt	2,020,000
Repayments of capital lease	46,094
Amortization of premiums	6,342
Internal service fund revenues and expenses are included in governmental activities in the statement of activities	297,997
Change in net position of governmental activities	\$ (1,842,048)

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Proprietary Fund
Internal Service Fund
Statement of Net Position
June 30, 2016

	<u>Internal Service Fund</u>
Assets	
Cash	\$ 834,917
Deposits	<u>128,919</u>
Total assets	<u>963,836</u>
Liabilities	
Accounts payable	9,279
Due to other governmental units	17,972
Claims payable	<u>130,283</u>
Total liabilities	<u>157,534</u>
Net Position	
Unrestricted	<u><u>\$ 806,302</u></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, 2016

	<u>Internal Service Fund</u>
Revenues	
Charges to other funds	<u>\$ 1,502,870</u>
Expenses	
Workers compensation and unemployment expenses	<u>1,204,873</u>
Net income	297,997
Net position - beginning	<u>508,305</u>
Net position - ending	<u><u>\$ 806,302</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, 2016

	<u>Internal Service Fund</u>
Cash flows from operating activities	
Charges to other funds	\$ 1,414,951
Payments to providers	<u>(1,321,648)</u>
Net cash provided by operating activities	93,303
Cash - beginning of year	<u>741,614</u>
Cash - end of year	<u>\$ 834,917</u>
Reconciliation of operating income to net cash from operating activities	
Operating income	\$ 297,997
Adjustments to reconcile operating income to net cash from operating activities	
Changes in assets and liabilities	
Deposits	(87,919)
Accounts payable	(125,052)
Due to other governmental units	(122,006)
Claims payable	<u>130,283</u>
Net cash provided by operating activities	<u>\$ 93,303</u>

See Accompanying Notes to the Financial Statements

School District of the City of Pontiac
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2016

	<u>Agency Funds</u>
Assets	
Cash	<u>\$ 102,768</u>
Liabilities	
Due to agency fund activities	<u>\$ 102,768</u>

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

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.). 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

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

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

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

The School District reports the 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.

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.

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.

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 \$132,000 as of June 30, 2016.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2016, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
 MESSA Judgment	 0.34240

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 estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$16,000 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. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

Compensated Absences – The liability for compensated absences reported in the district-wide 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

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

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.

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

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.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to

MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

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.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

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

The Governmental Accounting Standards Board (“The GASB”) has issued Statement No. 72 *Fair Value Measurements and Applications*. Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. Statement 72 is effective for the year ending June 30, 2016.

GASB No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the

GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Statement 76 is effective for the year ending June 30, 2016.

GASB No. 79, Certain External Investment Pools and Pool Participants, establishes criteria that, if met, permit external investment pools to elect to measure all of their investments at amortized cost for financial reporting purposes. Also, it establishes additional disclosure requirements for qualifying external investment pools that make that election and for governments that participate in such external investment pools. Statement 79 is effective for the year ending June 30, 2016.

GASB No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement 82 is effective for the year ending June 30, 2016.

Upcoming Accounting and Reporting Changes

In addition, the Governmental Accounting Standards Board has released the following Statements.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

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.

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

GASB Statement No. 80, *Blending Requirements for Certain Component Units*—an amendment of GASB Statement No. 14 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary

government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB 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.

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.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

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:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
School administration	2,765,700	2,772,029	6,329
Athletic activities	234,500	237,546	3,046
Food Service Fund			
Food services	3,680,900	3,771,477	90,577
Debt service	-	1,234	1,234

Fund and District-Wide Deficits

The School District has an accumulated fund deficit in the general fund in the amount of \$25,085,066 as of June 30, 2016, as well as a deficit in the nonmajor governmental funds of \$1,000,000 as of June 30, 2016. The School District also has a deficit unrestricted net position in the amount of \$103,983,121 on the statement of net position. 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.

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, 2016. 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>\$ 5,285,437</u>	<u>\$ 102,768</u>	<u>\$ 5,388,205</u>

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

Deposits (checking accounts, savings accounts, and money markets)	<u>\$ 5,388,205</u>
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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

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

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, \$5,829,096 of the School District's bank balance of \$6,329,096 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Long-Term Receivable

During 2014, the School District entered into an agreement to sell equipment in the amount of \$167,250 with a repayment period of 60 months with zero percent interest and a monthly payment of \$2,787.

As of June 30, 2016, the remaining receivable amount was \$100,350, and is included in accounts receivable. A corresponding deferred inflow is recorded for this amount on the fund statements. The amounts that are expected to be received over the term of the payment plan are as follows:

2017	\$	33,450
2018		33,450
2019		<u>33,450</u>
	\$	<u><u>100,350</u></u>

Note 5 - 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	<u>92,084</u>	<u>1,667,952</u>	<u>92,084</u>	<u>1,667,952</u>
Total capital assets not being depreciated	<u>2,261,888</u>	<u>1,667,952</u>	<u>92,084</u>	<u>3,837,756</u>
Capital assets being depreciated				
Land improvements	193,525	1,364,913	-	1,558,438
Building and building improvements	48,770,901	1,289,163	-	50,060,064
Equipment and furniture	1,356,238	1,438,722	-	2,794,960
Vehicles	<u>85,797</u>	<u>22,684</u>	<u>-</u>	<u>108,481</u>
Total capital assets being depreciated	<u>50,406,461</u>	<u>4,115,482</u>	<u>-</u>	<u>54,521,943</u>
Less accumulated depreciation for				
Land improvements	129,119	77,922	-	207,041
Building and building improvements	24,813,727	1,331,526	-	26,145,253
Equipment and furniture	772,894	317,434	-	1,090,328
Vehicles	<u>58,539</u>	<u>7,379</u>	<u>-</u>	<u>65,918</u>
Total accumulated depreciation	<u>25,774,279</u>	<u>1,734,261</u>	<u>-</u>	<u>27,508,540</u>
Net capital assets being depreciated	<u>24,632,182</u>	<u>2,381,221</u>	<u>-</u>	<u>27,013,403</u>
Net capital assets	<u>\$ 26,894,070</u>	<u>\$ 4,049,173</u>	<u>\$ 92,084</u>	<u>\$ 30,851,159</u>

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

Governmental activities	
Instruction	\$ 925,443
Supporting services	727,327
Food services	60,987
Athletics	<u>20,504</u>
Total governmental activities	<u>\$ 1,734,261</u>

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

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
Alcott playground update	\$ 98,532	\$ 79,051	\$ -
Concrete/asphalt parking lot renovation	476,165	449,921	20,669
Controls upgrades	557,583	61,924	9,311
Flooring upgrades	50,000	48,394	1,606
HVAC System	2,669,392	2,243,240	30,745
Phone system upgrades	277,540	56,029	-
Security projects	394,529	9,429	47,584
Food service kitchen upgrades	96,541	4,341	90,440
Total	<u>\$ 4,620,282</u>	<u>\$ 2,952,329</u>	<u>\$ 200,355</u>

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 2017 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. The estimated net book value of idle buildings at year end was \$1,800,000.

As of June 30, 2016, the School District has sold all but 3 parcels, which are estimated at a net book value of \$300,000. The State of Michigan has granted the School District an extension on the requirement to surrender properties to the State of Michigan Land Bank Fast Track Authority. As of year-end, the School District has two tentative purchase agreements in the development stages and has taken the third property off the market for possible repurposing for future educational needs.

Note 6 - 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	Nonmajor Fund	\$ 1,000,000
General Fund	Food Service	<u>95,326</u>
	Total	<u>\$ 1,095,326</u>

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. In addition, the General Fund advanced the Sinking Fund an amount of \$1,000,000 for project costs incurred prior to tax collections.

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

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

Note 7 - Unearned Revenue

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

	Unearned
Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>\$ 587,683</u>

Note 8 - State Aid and Tax Anticipation Notes

The School District issues state aid and tax anticipation notes in advance of state aid collections and property tax collections, depositing the proceeds in the General Fund. The state aid anticipation notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th. The tax anticipation note is necessary to finance current operations prior to the receipt of the tax revenues. When the tax revenues are received the proceeds are used to retire the debt.

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

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid note	\$ 5,340,000	\$ 6,800,000	\$ 5,340,000	\$ 6,800,000
Tax anticipation note	<u>13,677,000</u>	<u>12,970,000</u>	<u>13,677,000</u>	<u>12,970,000</u>
	<u>\$ 19,017,000</u>	<u>\$ 19,770,000</u>	<u>\$ 19,017,000</u>	<u>\$ 19,770,000</u>

Note 9 - 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. 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, 2016, \$4,457,824 is the amount that is still owed.

Note 10 - Vendor Repayment Plans Payable

In prior periods, the School District accumulated a large payable due to the Office of Retirement Services (ORS) for unpaid pension contributions. ORS and the School District mutually agreed upon a repayment plan to satisfy the School District's obligation over several years. As of June 30, 2016, the amount still owed on this repayment plan is \$2,211,972.

The future requirements in association with the ongoing payments to ORS' repayment plan is as follows:

	Due to Other Governments
Year Ending June 30,	
2017	\$ 633,517
2018	770,248
2019	<u>808,207</u>
Total	<u>\$ 2,211,972</u>

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

Note 11 - Leases

Capital Leases

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

Year ending June 30,	
2017	\$ 53,720
2018	53,721
2019	53,721
2020	53,720
2021	<u>4,475</u>
Total minimum lease payments	219,357
Less amount representing interest	<u>7,181</u>
Present value of minimum lease payments	<u>\$ 212,176</u>

The assets acquired through capital leases are as follows:

Furniture and equipment	\$ 258,270
Less accumulated depreciation	<u>(51,654)</u>
Total	<u>\$ 206,616</u>

Note 12 - 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, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning			Ending	Amount Due
	Balance	Additions	Reductions	Balance	Within One
					Year
Emergency loans	\$ 10,000,000	\$ 10,000,000	\$ -	\$ 20,000,000	\$ -
Revenue bonds	4,070,000	-	595,000	3,475,000	625,000
Energy bond	11,345,000	-	1,425,000	9,920,000	1,595,000
Compensated absences	1,018,677	12,991	-	1,031,668	-
Capital lease	-	258,270	46,094	212,176	53,720
Premium on bonds	<u>38,053</u>	<u>-</u>	<u>6,342</u>	<u>31,711</u>	<u>-</u>
Total	<u>\$ 26,471,730</u>	<u>\$ 10,271,261</u>	<u>\$ 2,072,436</u>	<u>\$ 34,670,555</u>	<u>\$ 2,273,720</u>

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

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

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%	\$ 3,475,000
\$18,395,000 limited tax energy conservation bonds due in annual installments of \$1,595,000 to \$2,400,000 through May 1, 2021, interest at 4.0% to 5.0%	9,920,000
\$10,000,000 emergency loan due in annual installments of \$170,000 to \$1,695,000 through May 1, 2034, interest at 2.75%	10,000,000
\$10,000,000 emergency loan due in annual installments of \$5,000 to \$1,470,000 through May 1, 2035, interest at 2.70%	<u>10,000,000</u>
Total debt	<u>\$ 33,395,000</u>

Future principal and interest requirements for debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2017	\$ 2,220,000	\$ 1,187,727	\$ 3,407,727
2018	2,440,000	1,068,275	3,508,275
2019	2,665,000	953,296	3,618,296
2020	2,905,000	828,618	3,733,618
2021	3,170,000	691,647	3,861,647
2022-2026	5,480,000	2,437,099	7,917,099
2027-2031	6,605,000	1,631,683	8,236,683
2032-2036	<u>7,910,000</u>	<u>663,037</u>	<u>8,573,037</u>
Total	<u>\$ 33,395,000</u>	<u>\$ 9,461,382</u>	<u>\$ 42,856,382</u>

All loans and bonds are payable from the General Fund. Future debt and interest will be payable from state aid and future tax levies.

Accrued Interest

Interest payable is accrued in the General Fund for the interest expense relating to the State Aid Anticipation Note, Tax Anticipation Note, and the MESSA Levy in the amount of \$846,077. Additional interest relating to long term debt is accrued on the statement of net position in the amount of \$196,218. The total amount of accrued interest for the School District at June 30, 2016 is \$1,042,295.

Compensated Absences

Accrued compensated absences at year end, consist of \$8,701 of vacation hours earned and vested and \$1,022,967 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.

Note 13 - 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 School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District for the year. These estimates are recorded as liabilities in the Internal Service Fund in the amount of \$17,972.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

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 \$130,283.

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

	2016	2015
Estimated liability at the beginning of the year	\$ 126,422	\$ 1,534,323
Estimated claims incurred including changes in estimates	1,204,873	1,176,582
Claim payments	(1,201,012)	(2,584,483)
Estimated liability end of year	\$ 130,283	\$ 126,422

Note 14 - Pension Plans and Post-Employment Benefits

Organization

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

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management &

Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

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

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

Contributions and Funding Status

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

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

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

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, 2015 valuation will be amortized over a 21 year period for the plan's 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 – 4.0%	22.52 – 23.07%
Member Investment Plan	3.0 – 7.0	22.52 – 23.07
Pension Plus	3.0 – 6.4	21.99
Defined Contribution	0.0	17.72 - 18.76

Required contributions to the pension plan from the School District were \$5,365,168 for the year ending September 30, 2015.

Net Pension Liability

June 30, 2016, the School District reported a liability of \$67,929,260 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2015, the School District's proportionate share percent was .2781 percent, which was an increase of .0230 percent since the prior measurement date.

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

For the year ended June 30, 2016, the School District recognized total pension expense of \$6,893,748. The School District's actual contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$4,605,551, \$5,101,493, and \$3,870,000, respectively.

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (225,002)
Changes in assumptions	1,672,771	-
Net difference between projected and actual earnings on pension plan investments	346,724	-
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	4,281,797	(155)
Reporting Unit contributions subsequent to the measurement date	5,061,482	(1,731,273)
	\$ 11,362,774	\$ (1,956,430)

\$5,061,482 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, 2017. \$1,731,273 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the measurement date are 147c revenues received that will be

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

recognized in the year ended June 30, 2017 when the related payments reduce the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ended September 30	Amount
2016	\$ 1,342,887
2017	1,342,887
2018	1,252,204
2019	2,137,948
	<u>\$ 6,075,926</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, 2014
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%

- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 8.5% 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.

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.7158 for non-university employers). The recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (CAFR) (www.michigan.gov/mpsers-cafr).

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.

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

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, 2015, are summarized in the following table:

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

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

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially-determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for

the Pension Plus Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 87,578,230	\$ 67,929,260	\$ 51,364,374

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

Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2015 MPERS CAFR (www.michigan.gov/mpsers-cafr).

Payables to the Pension Plan

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

Post-Employment Benefits

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

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare

School District of the City of Pontiac
Notes to the Financial Statements
June 30, 2016

Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

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

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

For the periods July 1, 2015 through September 30, 2015, and October 1, 2015 through June 30, 2016, the employer contribution rate ranged from 2.20% to 2.71% and 6.40% to 6.83%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$1,353,973, \$ 796,000, and \$ 1,570,000, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2016, the School District had contributions in the amount of \$ 2,665,547 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 10.53% for the year ending June 30, 2016

Note 15 - 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, 2016.

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 16 - Prior Period Adjustment

During the year, the School District received additional guidance on the proper recording of UAAL revenue that allowed them to move revenue recorded in the food service fund back to the general fund. This reduced the food service fund balance by \$38,714 and increased the general fund balance by \$38,714.

	As originally stated	As restated	Prior period adjustment
General Fund fund balance	\$(33,438,424)	\$(33,399,710)	\$ (38,714)
Food Service fund balance	1,221,636	1,182,922	38,714

REQUIRED SUPPLEMENTARY INFORMATION

School District of the City of Pontiac
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 27,652,100	\$ 28,735,100	\$ 29,045,822	\$ 310,722
State sources	15,562,700	15,226,700	15,058,827	(167,873)
Federal sources	16,117,600	12,640,400	12,652,014	11,614
Interdistrict sources	4,458,900	4,569,700	4,908,549	338,849
Total revenues	<u>63,791,300</u>	<u>61,171,900</u>	<u>61,665,212</u>	<u>493,312</u>
Expenditures				
Instruction	30,512,400	31,155,420	29,502,513	(1,652,907)
Supporting services				
Pupil	4,328,800	4,848,100	4,654,047	(194,053)
Instructional staff	4,982,600	3,773,580	3,414,840	(358,740)
General administration	1,470,000	2,045,800	1,681,473	(364,327)
School administration	2,916,200	2,765,700	2,772,029	6,329
Business	3,492,200	3,348,600	2,493,638	(854,962)
Operations and maintenance	7,030,000	8,741,000	7,741,522	(999,478)
Pupil transportation services	4,546,660	4,534,860	4,370,642	(164,218)
Central	3,058,940	2,828,440	2,594,148	(234,292)
Other	223,100	234,500	237,546	3,046
Community services	662,500	240,400	223,904	(16,496)
Intergovernmental payments	-	650,000	650,000	-
Capital outlay	3,568,000	4,760,600	4,118,572	(642,028)
Debt service				
Principal	595,000	2,020,000	2,020,000	-
Interest and fiscal charges	901,000	1,337,000	1,261,942	(75,058)
Total expenditures	<u>68,287,400</u>	<u>73,284,000</u>	<u>67,736,816</u>	<u>(5,547,184)</u>
Excess (deficiency) of revenues over expenditures	<u>(4,496,100)</u>	<u>(12,112,100)</u>	<u>(6,071,604)</u>	<u>6,040,496</u>

School District of the City of Pontiac
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Other Financing Sources (Uses)				
Proceeds from loans	\$ 26,365,000	\$ 10,000,000	\$ 10,000,000	\$ -
Proceeds from capital leases	-	-	251,800	251,800
Interest forgiveness	-	-	288,025	288,025
Insurance recoveries	750,000	1,537,500	1,537,414	(86)
Proceeds from sale of capital assets	600,000	-	-	-
Transfers in	1,626,500	2,963,900	2,309,009	(654,891)
Transfers out	<u>(13,666,800)</u>	<u>(664,800)</u>	<u>-</u>	<u>(664,800)</u>
Total other financing sources (uses)	<u>15,674,700</u>	<u>13,836,600</u>	<u>14,386,248</u>	<u>(779,952)</u>
Net change in fund balance	11,178,600	1,724,500	8,314,644	5,260,544
Fund balance - beginning	<u>(33,399,710)</u>	<u>(33,399,710)</u>	<u>(33,399,710)</u>	<u>-</u>
Fund balance - ending	<u>\$ (22,221,110)</u>	<u>\$ (31,675,210)</u>	<u>\$ (25,085,066)</u>	<u>\$ 5,260,544</u>

School District of the City of Pontiac
Required Supplementary Information
Budgetary Comparison Schedule - Food Service
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 65,000	\$ 80,000	\$ 84,840	\$ 4,840
State sources	83,000	87,000	88,156	1,156
Federal sources	2,799,500	3,125,000	3,327,704	202,704
Total revenues	<u>2,947,500</u>	<u>3,292,000</u>	<u>3,500,700</u>	<u>208,700</u>
Expenditures				
Current				
Education				
Food services	2,812,500	3,680,900	3,771,477	90,577
Debt service				
Principal	-	-	1,155	1,155
Interest	-	-	79	79
Total expenditures	<u>2,812,500</u>	<u>3,680,900</u>	<u>3,772,711</u>	<u>91,811</u>
Excess (deficiency) of revenues over expenditures	<u>135,000</u>	<u>(388,900)</u>	<u>(272,011)</u>	<u>116,889</u>
Other Financing Sources (Uses)				
Capital leases	-	-	6,470	6,470
Transfers out	(135,000)	(135,000)	(140,711)	5,711
Total other financing sources (uses)	<u>(135,000)</u>	<u>(135,000)</u>	<u>(134,241)</u>	<u>759</u>
Net change in fund balance	-	(523,900)	(406,252)	117,648
Fund balance - beginning, as restated	<u>1,182,922</u>	<u>1,182,922</u>	<u>1,182,922</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,182,922</u>	<u>\$ 659,022</u>	<u>\$ 776,670</u>	<u>\$ 117,648</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)

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. School District's proportion of net pension liability (%)	0.27811%	0.25514%								
B. School District's proportionate share of net pension liability	\$ 67,929,260	\$ 56,197,431								
C. School District's covered-employee payroll	\$ 23,316,483	\$ 21,011,654								
D. School District's proportionate share of net pension liability as a percentage of its covered- employee payroll	291%	267%								
E. Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%								

School District of the City of Pontiac
Required Supplementary Information
Schedule of the School District's Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. Statutorily required contributions	\$ 4,605,551	\$ 5,101,493								
B. Contributions in relation to statutorily required contributions	<u>4,605,551</u>	<u>5,101,493</u>								
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
D. School District's covered-employee payroll	\$ 23,459,289	\$ 23,387,029								
E. Contributions as a percentage of covered-employee payroll	19.63%	21.81%								

Notes: Benefit Changes - There were no changes of benefit terms in 2016. Changes in Assumptions - There were no changes of benefit assumptions in 2016.

OTHER SUPPLEMENTARY INFORMATION

School District of the City of Pontiac
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

	Debt Service Funds		Capital Projects Fund	Total Nonmajor
	Building and Site 2006	MESSA Levy	Sinking Fund	Governmental Funds
Liabilities				
Due to other funds	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Fund Balance				
Unassigned (deficit)	\$ -	\$ -	\$ (1,000,000)	\$ (1,000,000)

School District of the City of Pontiac
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	<u>Debt Service Funds</u>		<u>Capital Projects Fund</u>	<u>Total Nonmajor</u>
	<u>Building and Site 2006</u>	<u>MESSA Levy</u>	<u>Sinking Fund</u>	<u>Governmental Funds</u>
Revenues				
Local sources	\$ 58,319	\$ 702,750	\$ -	\$ 761,069
Expenditures				
Capital outlay	-	-	1,000,000	1,000,000
Debt service				
Interest and other expenditures	65,668	-	-	65,668
Total expenditures	65,668	-	1,000,000	1,065,668
Excess (deficiency) of revenues over expenditures	(7,349)	702,750	(1,000,000)	(304,599)
Other Financing Sources (Uses)				
Transfers out	(1,465,548)	(702,750)	-	(2,168,298)
Net change in fund balance	(1,472,897)	-	(1,000,000)	(2,472,897)
Fund balance - beginning	1,472,897	-	-	1,472,897
Fund balance - ending	\$ -	\$ -	\$ (1,000,000)	\$ (1,000,000)

School District of the City of Pontiac
Other Supplementary Information
General Fund
Combining Balance Sheet
June 30, 2016

	<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	\$ 4,821,424	\$ 959,346	\$ (127,194)	\$ (2,364,935)	\$ -	\$ 3,288,641
Accounts receivable	396,520	-	-	5,301	-	401,821
Due from other funds	1,887,287	-	129,423	-	(921,384)	1,095,326
Due from other governmental units	1,089,773	2,040,004	-	1,081,978	-	4,211,755
Prepaid items	98,246	42,641	-	66,132	-	207,019
	<u>8,293,250</u>	<u>3,041,991</u>	<u>2,229</u>	<u>(1,211,524)</u>	<u>(921,384)</u>	<u>9,204,562</u>
Total assets	<u>\$ 8,293,250</u>	<u>\$ 3,041,991</u>	<u>\$ 2,229</u>	<u>\$ (1,211,524)</u>	<u>\$ (921,384)</u>	<u>\$ 9,204,562</u>
Liabilities						
Accounts payable	\$ 883,276	\$ 271,938	\$ 319	\$ 304,097	\$ -	\$ 1,459,630
State aid and tax anticipation notes payable	19,770,000	-	-	-	-	19,770,000
Interest payable	846,077	-	-	-	-	846,077
Due to other funds	-	286,153	-	635,231	(921,384)	-
Due to other governmental units	900,194	52,042	-	7,950	-	960,186
Accrued expenditures	181,255	76,868	1,013	155,270	-	414,406
Accrued salaries payable	1,630,464	946,813	897	733,901	-	3,312,075
MESSA Judgments payable	4,457,824	-	-	-	-	4,457,824
Vendor repayment plans payable	2,211,972	-	-	-	-	2,211,972
Unearned revenue	-	587,683	-	-	-	587,683
	<u>30,881,062</u>	<u>2,221,497</u>	<u>2,229</u>	<u>1,836,449</u>	<u>(921,384)</u>	<u>34,019,853</u>
Total liabilities	<u>30,881,062</u>	<u>2,221,497</u>	<u>2,229</u>	<u>1,836,449</u>	<u>(921,384)</u>	<u>34,019,853</u>

School District of the City of Pontiac
Other Supplementary Information
General Fund
Combining Balance Sheet
June 30, 2016

	<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	\$ 269,775	\$ -	\$ -	\$ -	\$ -	\$ 269,775
Fund Balance						
Non-spendable						
Prepaid items	98,246	42,641	-	66,132	-	207,019
Unassigned (deficit)	<u>(22,955,833)</u>	<u>777,853</u>	<u>-</u>	<u>(3,114,105)</u>	<u>-</u>	<u>(25,292,085)</u>
Total fund balance (deficit)	<u>(22,857,587)</u>	<u>820,494</u>	<u>-</u>	<u>(3,047,973)</u>	<u>-</u>	<u>(25,085,066)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 8,293,250</u>	<u>\$ 3,041,991</u>	<u>\$ 2,229</u>	<u>\$ (1,211,524)</u>	<u>\$ (921,384)</u>	<u>\$ 9,204,562</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, 2016

	General Fund	Categorical Funded Programs	Athletics	Noncenter Special Education Programs	Eliminations	Funds
Revenues						
Local sources	\$ 28,920,342	\$ 91,179	\$ 33,801	\$ 500	\$ -	\$ 29,045,822
State sources	5,202,256	5,642,771	-	4,213,800	-	15,058,827
Federal sources	-	11,154,534	-	1,497,480	-	12,652,014
Interdistrict sources	63,962	-	-	4,844,587	-	4,908,549
Total revenues	<u>34,186,560</u>	<u>16,888,484</u>	<u>33,801</u>	<u>10,556,367</u>	<u>-</u>	<u>61,665,212</u>
Expenditures						
Current						
Education						
Instruction	11,082,449	10,263,778	-	8,156,286	-	29,502,513
Supporting services	19,499,930	4,950,067	311,694	5,198,194	-	29,959,885
Community services	1,718	212,459	-	9,727	-	223,904
Intergovernmental payments	650,000	-	-	-	-	650,000
Capital outlay	3,628,812	428,337	-	61,423	-	4,118,572
Debt service						
Principal	2,020,000	-	-	-	-	2,020,000
Interest and other expenditures	1,261,942	-	-	-	-	1,261,942
Total expenditures	<u>38,144,851</u>	<u>15,854,641</u>	<u>311,694</u>	<u>13,425,630</u>	<u>-</u>	<u>67,736,816</u>
Excess (deficiency) of revenues over expenditures	<u>(3,958,291)</u>	<u>1,033,843</u>	<u>(277,893)</u>	<u>(2,869,263)</u>	<u>-</u>	<u>(6,071,604)</u>
Other Financing Sources (Uses)						
Proceeds from loans	10,000,000	-	-	-	-	10,000,000
Proceeds from capital leases	251,800	-	-	-	-	251,800
Interest forgiveness	288,025	-	-	-	-	288,025
Insurance recoveries	1,537,414	-	-	-	-	1,537,414
Transfers in	2,701,068	-	277,893	-	(669,952)	2,309,009
Transfers out	(277,893)	(213,349)	-	(178,710)	669,952	-
Total other financing sources (uses)	<u>14,500,414</u>	<u>(213,349)</u>	<u>277,893</u>	<u>(178,710)</u>	<u>-</u>	<u>14,386,248</u>
Net change in fund balance	10,542,123	820,494	-	(3,047,973)	-	8,314,644
Fund balance (deficit) - beginning, as restated	(33,399,710)	-	-	-	-	(33,399,710)
Fund balance (deficit) - ending	<u>\$ (22,857,587)</u>	<u>\$ 820,494</u>	<u>\$ -</u>	<u>\$ (3,047,973)</u>	<u>\$ -</u>	<u>\$ (25,085,066)</u>

School District of the City of Pontiac
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2016

Year Ending June 30,	2006 Energy Conservation Bonds	Emergency Loan 2014	2014E Refunding Bond	Emergency Loan 2015	Total
2017	\$ 1,595,000	\$ -	\$ 625,000	\$ -	\$ 2,220,000
2018	1,780,000	-	660,000	-	2,440,000
2019	1,970,000	-	695,000	-	2,665,000
2020	2,175,000	-	730,000	-	2,905,000
2021	2,400,000	-	765,000	5,000	3,170,000
2022	-	460,000	-	555,000	1,015,000
2023	-	485,000	-	570,000	1,055,000
2024	-	505,000	-	590,000	1,095,000
2025	-	530,000	-	605,000	1,135,000
2026	-	560,000	-	620,000	1,180,000
2027	-	590,000	-	635,000	1,225,000
2028	-	620,000	-	650,000	1,270,000
2029	-	650,000	-	670,000	1,320,000
2030	-	680,000	-	690,000	1,370,000
2031	-	715,000	-	705,000	1,420,000
2032	-	745,000	-	725,000	1,470,000
2033	-	780,000	-	745,000	1,525,000
2034	-	815,000	-	765,000	1,580,000
2035	-	170,000	-	1,470,000	1,640,000
2036	-	1,695,000	-	-	1,695,000
Total	<u>\$ 9,920,000</u>	<u>\$ 10,000,000</u>	<u>\$ 3,475,000</u>	<u>\$ 10,000,000</u>	<u>\$ 33,395,000</u>
Principal payments due	May 1	May 1	May	May 1	
Interest payments due	May 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	
Interest rate	4.00% to 5.00%	2.75%	5.15%	2.70%	
Original issue	<u>\$ 18,395,000</u>	<u>\$ 10,000,000</u>	<u>\$ 4,070,000</u>	<u>\$ 10,000,000</u>	

School District of the City of Pontiac

Single Audit Report

June 30, 2016

CONTENTS

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures for Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	10
Summary of Schedule of Prior Audit Findings	12
Corrective Action Plan	13

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

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, the aggregate, 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, 2016, 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 4, 2016.

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 the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 schedule of findings and questioned costs as item 2016-001.

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 finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The 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, Michigan
October 4, 2016

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

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 the School District of the City of Pontiac's major federal programs for the year ended June 30, 2016. 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.

Auditor's 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 the School District of the City of Pontiac'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 Title I

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, 2016.

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, 2016, and the related notes to the financial statements, which collectively comprise the School District of the City of Pontiac's basic financial statements. We issued our report thereon dated October 4, 2016, 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, Michigan
October 4, 2016

School District of the City of Pontiac
Schedule of Expenditures of Federal Awards
June 30, 2016

Program Title/Project Number/Subrecipient Name	Grant/Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2015	Adjustments and Transfers	Federal Funds/ Payments In-kind	Expenditures	Accrued Revenue at June 30, 2016
U.S. Department of Agriculture									
Passed through the Michigan Department of Education:									
Child Nutrition Cluster									
Noncash Assistance (Commodities):									
National School Lunch Program:									
Entitlement Commodities	N/A	10.555	\$ 233,262	\$ -	\$ -	\$ -	\$ 233,262	\$ 233,262	\$ -
Cash Assistance:									
National School Breakfast Program 2014-15	141970	10.553	890,452	734,318	73,886	-	230,020	156,134	-
National School Breakfast Program 2015-16	151970	10.553	773,151	-	-	-	590,771	773,151	182,380
Total National School Breakfast Program			<u>1,663,603</u>	<u>734,318</u>	<u>73,886</u>	<u>-</u>	<u>820,791</u>	<u>929,285</u>	<u>182,380</u>
National School Lunch Program 2014-15	141960	10.555	1,963,965	1,624,489	162,396	-	501,872	339,476	-
National School Lunch Program 2015-16	151960	10.555	1,658,645	-	-	-	1,279,190	1,658,645	379,455
Total National School Lunch Program			<u>3,622,610</u>	<u>1,624,489</u>	<u>162,396</u>	<u>-</u>	<u>1,781,062</u>	<u>1,998,121</u>	<u>379,455</u>
Summer Food Service Program 2015-2016	150900 1 15	10.559	14,702	-	-	-	14,702	14,702	-
Summer Food Service Program 2015-2016	160900 1 16	10.559	1,281	-	-	-	1,281	1,281	-
Total Summer Food Service Program			<u>15,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,983</u>	<u>15,983</u>	<u>-</u>
Total Child Nutrition Cluster			<u>5,535,458</u>	<u>2,358,807</u>	<u>236,282</u>	<u>-</u>	<u>2,851,098</u>	<u>3,176,651</u>	<u>561,835</u>
Child & Adult Care Food Program 2014-2015	151920	10.558	87,043	73,940	4,899	-	18,002	13,103	-
Child & Adult Care Food Program 2014-2015	152010	10.558	7,155	6,141	407	-	1,421	1,014	-
Child & Adult Care Food Program 2015-2016	161920	10.558	60,927	-	-	-	49,059	60,927	11,868
Child & Adult Care Food Program 2015-2016	162010	10.558	4,713	-	-	-	3,795	4,713	918
Total Child & Adult Care Food Program			<u>159,838</u>	<u>80,081</u>	<u>5,306</u>	<u>-</u>	<u>72,277</u>	<u>79,757</u>	<u>12,786</u>
Fresh Fruit and Vegetable Program 2014-2015	150950	10.582	114,063	114,063	36,179	-	36,179	-	-
Fresh Fruit and Vegetable Program 2015-2016	160950	10.582	97,700	-	-	-	52,996	71,296	18,300
Total Fresh Fruit and Vegetable Program			<u>211,763</u>	<u>114,063</u>	<u>36,179</u>	<u>-</u>	<u>89,175</u>	<u>71,296</u>	<u>18,300</u>
Total U.S. Department of Agriculture			<u>5,907,059</u>	<u>2,552,951</u>	<u>277,767</u>	<u>-</u>	<u>3,012,550</u>	<u>3,327,704</u>	<u>592,921</u>
U.S. Department of Defense - Direct Programs:									
Project Number JROTC 2015 Grant	MI-171530 & MI-171531	12.357	49,538	49,538	2,914	-	2,914	-	-
Project Number JROTC 2016 Grant	MI-171530 & MI-171531	12.357	55,254	-	-	-	49,874	55,254	5,380
Total U.S. Department of Defense			<u>104,792</u>	<u>49,538</u>	<u>2,914</u>	<u>-</u>	<u>52,788</u>	<u>55,254</u>	<u>5,380</u>

School District of the City of Pontiac
Schedule of Expenditures of Federal Awards
June 30, 2016

Program Title/Project Number/Subrecipient Name	Grant/Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2015	Adjustments and Transfers	Federal Funds/ Payments In-kind	Expenditures	Accrued Revenue at June 30, 2016
U.S. Department of Education									
Passed through Oakland County ISD									
Special Education Cluster									
IDEA Flowthrough	140450	84.027	\$ 1,451,823	\$ 1,451,823	\$ 52,227	\$ -	\$ 52,227	\$ -	\$ -
IDEA Flowthrough	150450	84.027	1,344,172	1,262,384	261,402	-	322,843	81,788	20,347
IDEA Flowthrough	160450	84.027	1,359,319	-	-	-	1,034,189	1,349,528	315,339
Total IDEA Flowthrough			<u>4,155,314</u>	<u>2,714,207</u>	<u>313,629</u>	<u>-</u>	<u>1,409,259</u>	<u>1,431,316</u>	<u>335,686</u>
Preschool Incentive	160460	84.173	65,686	-	-	-	46,613	62,368	15,755
Total Special Education Cluster			<u>4,221,000</u>	<u>2,714,207</u>	<u>313,629</u>	<u>-</u>	<u>1,455,872</u>	<u>1,493,684</u>	<u>351,441</u>
Direct Programs:									
Fund for the Improvement of Education									
PLAY - Promoting Lifetime Activity in Youth 2012	Q215F110284	84.215F	988,406	807,420	82,625	-	107,411	24,786	-
Passed through the Michigan Department of Education:									
Title I, Part A	151530 1415	84.010	13,223,698	8,576,964	1,181,805	-	1,246,130	64,325	-
Title I, Part A	161530 1516	84.010	10,635,322	-	-	-	7,174,541	7,993,708	819,167
Total Title I, Part A			<u>23,859,020</u>	<u>8,576,964</u>	<u>1,181,805</u>	<u>-</u>	<u>8,420,671</u>	<u>8,058,033</u>	<u>819,167</u>
21st Century Community Learning Centers	152110 I14005	84.287	540,000	540,000	27,896	-	27,896	-	-
21st Century Community Learning Centers	152110 I14006	84.287	405,000	405,000	39,087	-	39,087	-	-
21st Century Community Learning Centers	162110 I14005	84.287	540,000	-	-	-	455,119	532,786	77,667
21st Century Community Learning Centers	162110 I14006	84.287	405,000	-	-	-	341,631	396,576	54,945
Total 21st Century Community Learning Center			<u>1,890,000</u>	<u>945,000</u>	<u>66,983</u>	<u>-</u>	<u>863,733</u>	<u>929,362</u>	<u>132,612</u>
Direct Program:									
SOS -Strengthening the Odds for Success 2012	S360A100030	84.360A	3,429,045	2,304,628	278,818	-	278,818	-	-
Passed through the Michigan Department of Education:									
Title III English Language Acquisition	150580 1415	84.365	130,016	130,016	16,074	-	16,074	-	-
Title III English Language Acquisition	160580 1516	84.365	134,803	-	-	-	108,765	114,945	6,180
Title III English Language Acquisition	140570 1314	84.365	15,000	14,779	14,779	-	14,779	-	-
Total Title III			<u>279,819</u>	<u>144,795</u>	<u>30,853</u>	<u>-</u>	<u>139,618</u>	<u>114,945</u>	<u>6,180</u>
Title II Part A Improving Teacher Quality	150520 1415	84.367	2,755,042	918,409	151,258	-	192,639	41,381	-
Title II Part A Improving Teacher Quality	160520 1516	84.367	2,752,695	-	-	-	1,113,866	1,300,865	186,999
Total Title II Part A			<u>5,507,737</u>	<u>918,409</u>	<u>151,258</u>	<u>-</u>	<u>1,306,505</u>	<u>1,342,246</u>	<u>186,999</u>
Total U.S. Department of Education			<u>40,175,027</u>	<u>16,411,423</u>	<u>2,105,971</u>	<u>-</u>	<u>12,572,628</u>	<u>11,963,056</u>	<u>1,496,399</u>
U.S. Department of Health and Human Services									
Passed through Oakland County ISD:									
Medicaid - Administrative outreach	N/A	93.778	3,796	-	-	-	3,796	3,796	-
Total Federal Awards			<u>\$ 46,190,674</u>	<u>\$ 19,013,912</u>	<u>\$ 2,386,652</u>	<u>\$ -</u>	<u>\$ 15,641,762</u>	<u>15,349,810</u>	<u>\$ 2,094,700</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, 2016

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of School District of the City of Pontiac under programs of the federal government for the year ended June 30, 2016. 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 School District of the City of Pontiac, it is not intended to and does not present the financial position, changes in financial positions, and where applicable, cash flows of 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.

Indirect Cost Rate

School District of the City of Pontiac has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

The following is a reconciliation of federal revenues per the financial statements and the schedule of federal awards:

Federal revenue per financial statements	\$ 15,979,718
Prior year deferred inflow of resources collected in the current year, but reported on prior Schedule of Expenditures of Federal Awards	<u>(629,908)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 15,349,810</u></u>

School District of the City of Pontiac
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2016

Note 4 - 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 variances:

<u>Grant</u>	<u>Reported on Grant Auditor Report</u>	<u>Reported on Schedule of Expenditures of Federal Awards</u>	<u>Variance</u>
161920 CACFP Meals	\$ 56,553	\$ 49,059	\$ 7,494
162010 CACFP Meals	4,375	3,795	580
131530 Title I Part A	(61,331)	-	(61,331)
151530 Title I Part A	604,304	1,246,130	(641,826)
152110 I14005 21st CCLC	9,174	27,896	(18,722)
152110 I14006 21st CCLC	18,191	39,087	(20,896)
150580 Title III Limited English	6,049	16,074	(10,025)

The differences in CACFP were related to the timing of deposits. The remaining amounts reported in Title I, 21st CCLC, and Title III were related to differences in the report timing of MDE.

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

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? X yes _____ no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
84.010	Title I Part A

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

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

**School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2016**

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 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, 2016, the General Fund has an operating deficit of \$25,085,066 as well as an accumulated operating deficit in the Nonmajor Governmental Funds of \$1,000,000.

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, 2016. During the year ended June 30, 2016, General Fund operations decreased the cumulative deficit by \$8,314,644. However, the School District is in violation of Public Act 621. The Nonmajor Governmental Funds incurred an operating deficit of \$1,000,000 in the current year 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.

SECTION III - FEDERAL AWARD FINDINGS

There were no federal award findings in the current year.

School District of the City of Pontiac
Summary Schedule of Prior Audit Findings
June 30, 2016

SECTION IV – PRIOR AUDIT FINDINGS

Finding 2015-001, 2014-004 - Material Weakness and 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 Nonmajor Governmental Funds in the current year (see 2016-001).

Finding 2015-002, 2014-005 – Significant Deficiency and Noncompliance - Budgeting

Criteria: The Public Act 621 prohibits the adoption of a deficit budget. Further, the State of Michigan Uniform Budgeting and Accounting Act prohibits school Districts from expending funds that are not authorized in their approved budgets.

Status: RESOLVED.

Finding 2015-003, 2014-010 – Significant Deficiency and Noncompliance – Equipment Management

Criteria: As per the Michigan Department of Education (MDE) auditing manual, an inventory must be maintained for all equipment purchased with grant funds.

Status: RESOLVED.

Finding 2015-004, 2014-013 – Significant Deficiency and Noncompliance - Reporting

Criteria: 34 CFR 75.720 requires that annual performance reports and annual expenditure reports be submitted as part of form ED 524B. EDGAR for direct grant programs (34 CFR part 75) requires records related to grant funds, compliance, and performance to be maintained for a period of 5 years after completion. In addition, grantees are required to adhere to grant compliances and must implement the program in accordance with grant application.

Status: RESOLVED.



School District of the City of Pontiac

47200 Woodward Avenue · Pontiac, MI 48342.2243 · 248.451.6820
Cyndi Toupin, Director of Business Services

October 4, 2016

Yeo & Yeo
3023 Davenport
Saginaw, MI 48065

Response to Fiscal Year 2016 Audit Finding

Within in the course of completing the 2015-16 annual audit, one (1) material non-compliance was identified.

The District administration is aware of the ramifications of this noted finding and has addressed it in the following attachment entitled “Corrective Action Plan for Fiscal Year Ending 2016”.

Cyndi Toupin
Director of Business Services

Pontiac School District
 Corrective Action Plan For Fiscal Year Ending 2016 – as of October 4, 2016

Finding Number:	2016-001 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, 2016. During the year ended June 30, 2016, General Fund operations decreased the cumulative deficit by \$8,314,644. However, the School District is in violation of Public Act 621. The Nonmajor Government Funds incurred an operating deficit of \$1,000,000 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 incurrence of the operating deficit in Nonmajor Government Fund was due to a timing issue of receiving of revenue. This was corrected and the deficit eliminated as of August 19, 2016.</p>
Responsibility:	Business Office
Update:	October 4, 2016



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October 4, 2016

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, 2016, and have issued our report dated October 4, 2016. 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 have already met 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 March 15, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted Government Accounting Standards Statement (GASB) No. 72, 76, 79, and 82, *Fair Value Measurement and Application, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, Certain External Investment Pools and Pool Participants, and Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. GASB No. 72, 76, and 79 are effective July 1, 2015, and GASB 82 is effective for years beginning July 1, 2016, however, early implementation is encouraged. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. Statement 76 identifies the hierarchy of generally accepted accounting principles. Statement 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Statement 82 amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. 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.
- Compensated absences. Compensated absences are based on the accumulated vacation and sick days and salary and wage rates in effect.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We have evaluated management's estimates in these areas and the process used for making the accounting estimates, the risk of material misstatement, and the indication of possible bias and disclosure and uncertainty in the financial statements. We noted no bias on the calculation of these estimates.

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. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

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.

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

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB 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.

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

Regulatory and Other Updates

Cybersecurity and data backup best practices

The School District's data is critically important. There are millions of ways data can be compromised. It is vitally important that all employees have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event a School District's information is targeted by malware or a phishing attack. A School District's vital information is always a moment away from being compromised. Encouraging and educating employees to pay attention to what they click on and what they do is the first step in keeping information safe.

Having a proper data backup solution in place can mean the difference between a School District surviving a cyber-attack or losing valuable data and time. Every School District should know the answer to two questions when looking at data backup solutions.

1. How long can my District survive a network outage?
Many School Districts assume that they are properly backing up their network but how often are those backups tested? Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.
2. Does our District understand the difference between a backup and disaster recovery?
Management often assumes that simply backing up files is “good enough”. Backing up files is something all School Districts should do. However, it’s important to remember that restoring files and emails is one thing, but recovering and restoring all company data in the event of a disaster is another.

Audit and FID Submission Deadline

Beginning in the previous year, the deadline to submit the Financial Information Database (FID) and the school district financial audits will be November 1st. This will continue to be the deadline for future fiscal years.

Uniform Grant Guidance (Super Circular)

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

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

Fiscal Year (FY) 2017 School Aid

- The Omnibus Education Bill (Senate Bill 801) for FY 2017 has been passed by the legislature. It has been presented to the Governor for signature. There is always the possibility of vetoes. Following are some highlights of the bill:
- The per pupil Foundation Grants for FY 2017 will increase by a range of \$60 to \$120 using the “2X formula.” The increase will be added to the FY 2016 foundation grant resulting in the lowest foundation for FY 2017 being \$7,511 and the maximum state guaranteed foundation being \$8,229.
- A new Section 20m would provide hold harmless districts with the difference in per pupil funding between \$60 and the increase in their foundation which is limited to the rate of inflation (.1% in this case).
- 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 \$389,685,500.
- The per pupil funding under Sections 20f(2) and 20f(4) will be equal to the per pupil funding under those Sections in 2015-16.
- ISD General Operation funding under Section 81 will remain at \$67.1 million.
- An additional \$90 million is appropriated in Section 147c to reflect the actuarially estimated costs of the required state share of the MPSERS Unfunded Accrued Liability (UAL) and maintain the UAL cap at 20.96%.

Other School Aid “Boilerplate” Changes

- Section 18 has been amended to require that the FID data and audited financial statements must be consistent or school aid must be withheld.
- Section 51a(15) has been amended to state that there will be a 10% state school aid penalty for a district or ISD that does not comply with the language in Section 51a(14) that requires the pupil’s resident district and/or ISD to provide special education services and cover special education added costs for pupils educated in a Public School Academy who reside outside of the ISD in which the academy is located.
- The Section 101 Instructional Day requirement will go from a minimum of 175 days to a minimum of 180 days beginning with the 2016-17 school year.

Early Warning

Pursuant to Public Act 109 of 2015, each school district and public school academy that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2013-2014 or 2014-2015 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 UB&AA 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 UB&AA, including but not limited to general fund deficits, should be reported as financial statement findings in the audit report. UB&AA 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 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.

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, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were more than trivial.

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

- In the prior year, the district did not record a prepaid expense for the portion of the July 2015 MESSA invoice related to twelve month employees in the prior fiscal year. In addition, there was an additional liability that should have been booked in the prior fiscal year related to the non-health portion of insurance premiums owed for ten month employees in August 2015. The net effect of this difference overstates net income in the current year for the general fund and district-wide statements by \$271,826. However, net income was understated by this amount in the prior year, so the net effect on ending fund balance is zero.

- In the prior year, the district did not record the full amount of the MESSA payment plan liability as of June 30, 2015. The net effect of this difference understates net income in the current year for the general fund and district-wide statements by \$86,691. However, net income was overstated by this amount in the prior year, so the net effect on ending fund balance is zero.
- In the prior year, the district did not record the full amount of the SOS grant questioned costs liability as of June 30, 2015. The net effect of this difference understates net income in the current year for the general fund and district-wide statements by \$93,817. However, net income was overstated by this amount in the prior year, so the net effect on ending fund balance is zero.

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

The School District has an accumulated deficit in the general fund and the nonmajor governmental funds, which we thought to be important information for the users of the financial statements. Our report will therefore include the following emphasis of matter paragraphs:

Deficit Fund Balance

The accompanying financial statements have been prepared assuming that the School District of the City of Pontiac continues as a going concern. As discussed in Note 2 to the financial statements, the School District has a general fund deficit of \$25,085,066, and a nonmajor governmental funds deficit of \$1,000,000. This raises substantial doubt about the ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The School District adopted a new accounting standard, and our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standard

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the School District adopted GASB No. 72, 76, 79, and 82, *Fair Value Measurement and Application, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, Certain External Investment Pools and Pool Participants*, and *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. 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: 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*; Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards Required by the Uniform Grant Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in that report (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 school district's proportionate share of net pension liability, schedule of school district's contributions, and budgetary comparison information, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Report on Other Supplementary Information

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

Appendix II Matters for Management's Consideration

In planning and performing our audit of the financial statements of Pontiac School District as of and for the year ended June 30, 2016, we considered Pontiac School District'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, improving operating efficiency and reducing expenses. This letter does not affect our report dated October 4, 2016, on the financial statements of Pontiac School District. Our comments and recommendations regarding those matters are:

Athletic Cash Receipt Process

During our audit procedures, we walked through the cash collection process at athletic events. During this testing, we noted that the total number of tickets sold multiplied by the ticket price did not consistently equal the total amount of cash collected and deposited. In several instances, the total number of tickets sold did not agree to the difference between the beginning and ending ticket numbers recorded at the start of the game. In addition, there were several instances where the appropriate signatures were not on the supporting count sheets and/or deposit information.

We recommend that the District work towards more consistently applying the procedures in place for athletic cash receipts. This will not only help ensure that all funds are being deposited, but will also protect those individuals that are currently involved in the process.

Activity Funds

During our audit procedures, we walked through the process in place related to student activity accounts held as agency funds at the District. During this test work, we noted a variety of situations when individuals within the District did not appropriately follow the policies in place related to activity fund reporting. In several instances, we noted that there was no supporting documentation provided in regards to the revenue sources in the activity fund accounts. In addition, the 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.

We recommend that the 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.

Title I School Selection

During our audit procedures, we verified the Title I School Selection (TISS) worksheet and related to support to ensure that the District was in compliance with the state and federal grant guidelines. These guidelines state that both the enrollment information and the low income information entered into the School Selection worksheet are from the same period. Since the District runs a Community Eligibility Program (CEP) for food service, the low income information is obtained from their CEP application in the spring. However, the enrollment information utilized on the TISS was obtained from the District's fall counts.

Although there would be no change to the final results of the TISS, we recommend that the District utilize their spring enrollment information to be in compliance with the "same period" requirement on a go-forward basis.