

**School District of the City of Saginaw
Saginaw, Michigan**



**Management Discussion and Analysis
and
Basic Financial Statements
and
Supplementary Information**

For the Fiscal Year Ended June 30, 2017



**Members of the Board of Education and Administration
of the
School District of the City of Saginaw
Saginaw, Michigan
For the Fiscal Year Ended June 30, 2017**

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Independent Auditors' Report

To Management and the Board of Education
School District of the City of Saginaw
Saginaw, Michigan

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 Saginaw, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements 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 the School District of the City of Saginaw, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, and schedule of the 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 Saginaw's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and, 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 24, 2017 on our consideration of the School District of the City of Saginaw's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District of the City of Saginaw's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering School District of the City of Saginaw's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Saginaw, Michigan
October 24, 2017



MANAGEMENT DISCUSSION and ANALYSIS

School District of the City of Saginaw
Management Discussion and Analysis
Year Ended June 30, 2017

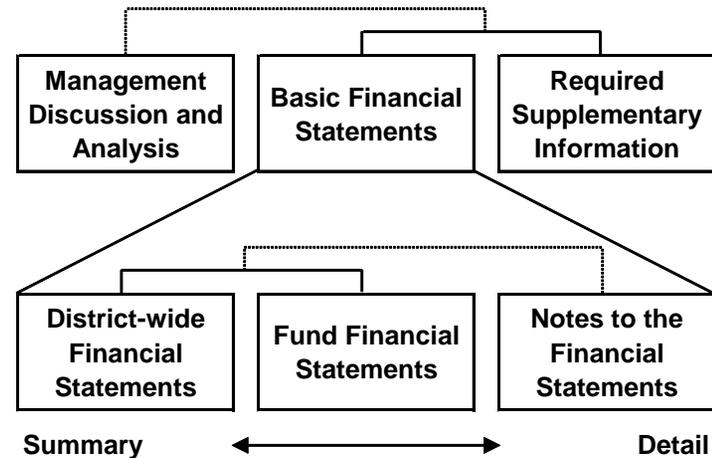
The discussion and analysis of the School District of the City of Saginaw’s financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to provide, in layman’s terms, a look at the district’s performance and past and current position. Readers should also review the notes to the financial statements, and financial statements to enhance their understanding of the district’s financial performance.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000.

Overview of the Financial Statements

This annual report consists of three parts: management discussion and analysis (this section), the basic financial statements, and required supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

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



The basic financial statements include two kinds of statements that present different views of the district.

District-wide Financial Statements

The district-wide financial statements are full accrual basis statements and provide information about the district’s *overall* financial status. They are used to help determine whether or not the District is better off or worse off as the result of the year’s activities. The *Statement of Net position* reports all of the district’s assets and liabilities, both short-term and long-term, regardless if they are “currently available” or not. Capital assets and long-term obligations of the district are reported in this statement. All of the current year’s revenues and expenditures are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

School District of the City of Saginaw

Management Discussion and Analysis

Year Ended June 30, 2017

The two district-wide statements report the district's *net position* and how they have changed. Net position – the difference between the district's assets and liabilities – is one way to measure the district's financial health or position.

- Over time, increases or decreases in the district's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the district's overall health, you need to consider additional non-financial factors such as changes in the district's property tax base, the quality of the education provided, and the condition of District's buildings.

In the district-wide statements, the district's activities are classified as governmental activities. This includes most of the District's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes and state aid finance most of these services.

Fund Financial Statements

The fund financial statements focus on individual parts of the district, reporting the district's operations in more detail than the district-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the district's major instructional and instructional support activities are reported in the *General Fund*. Additional activities are reported in their relevant funds including: *Special Revenue Funds for Food Service*, *Debt Service Funds*, *Capital Project Funds*, and *Fiduciary Funds*.

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Financial Analysis of the District as a Whole

The net position of the district at June 30, 2017 amounted to a deficit of \$59.6 million. Figure A-2 shows a condensed breakdown of the net position.

The largest portions of the District's net position reflect investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding, and the net position relative to the bond issues. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves would not be used to liquidate these liabilities. The remaining net position (deficit) represent resources that are subject to external restrictions on how they may be used.

School District of the City of Saginaw
Management Discussion and Analysis
Year Ended June 30, 2017

Figure A-2
Condensed Statement of Net Position
(in millions)

	June 30, 2017	June 30, 2016	Change
Current assets	\$ 32.2	\$ 34.2	\$ (2.0)
Noncurrent assets	62.5	63.9	(1.4)
Total assets	<u>94.7</u>	<u>98.1</u>	<u>(3.4)</u>
Deferred outflows	12.5	9.2	3.3
Current liabilities	19.2	24.7	(5.5)
Noncurrent liabilities	136.9	135.1	1.8
Total liabilities	<u>156.1</u>	<u>159.8</u>	<u>(3.7)</u>
Deferred inflows	10.7	13.1	(2.4)
Net position			
Net investment			
in capital assets	10.5	10.8	(0.3)
Restricted	1.1	0.2	0.9
Unrestricted	(71.2)	(76.6)	5.4
Total net position	<u>\$ (59.6)</u>	<u>\$ (65.6)</u>	<u>\$ 6.0</u>

The net position of the District increased by \$6.0 million in the current year due to a decrease of \$6.0 million in total liabilities and deferred outflows.

Figure A-3
Condensed Statement of Activities
(in millions)

	June 30, 2017	June 30, 2016	Difference
Revenues			
Program revenues			
Charges for services	\$ 0.5	\$ 0.5	\$ (0.0)
Operating grants/contri	30.1	34.0	(3.9)
General revenues			
Property taxes	10.4	10.3	0.1
State formula aid	38.3	39.0	(0.7)
Other	0.4	0.2	0.2
Total revenues	<u>79.7</u>	<u>84.0</u>	<u>(4.3)</u>
Expenses			
Instruction	40.5	43.7	(3.2)
Support services	25.7	24.6	1.1
Community services	0.5	0.4	0.1
Food services	4.6	4.8	(0.2)
Interest on long-term debt	2.4	2.0	0.4
Total expenses	<u>73.7</u>	<u>75.5</u>	<u>(1.8)</u>
Change in net position	6.0	8.5	(2.5)
Net position - July 1	(65.6)	(74.1)	8.5
Net position - June 30	<u>\$ (59.6)</u>	<u>\$ (65.6)</u>	<u>\$ 6.0</u>

School District of the City of Saginaw

Management Discussion and Analysis

Year Ended June 30, 2017

Figure A-3 shows the breakdown of this change. The Statement of Activities presented later in the district-wide financial statements, provides greater detail on the District's annual activity. The total cost of the District's governmental activities for the year was \$73.7 million. Those activities are primarily funded by grants and contributions which totaled \$30.1 million and \$38.3 million of state aid was also used to fund programs. Direct services charges to the users of activities totaled \$0.5 million. The remaining "public benefit" portion was paid for with other funding sources include property taxes of \$10.4 million and other sources of \$0.4 million.

A substantial portion (48%) of the District's revenues are received from state formula aid. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan.

55% of the District's resources are spent on instruction and 35% are spent on pupil support services.

Financial Analysis of the District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well. The combined governmental funds equity increased by \$6.0 million during the 2016-17 fiscal year. The primary reasons for the increase in fund balance are:

Factors Increasing Fund Equity

- ◆ *Revenue* – Tax revenue came in higher than budgeted for the 2016-17 fiscal year. There also was an unexpected payment made from the ISD for the Medicaid Outreach program.
- ◆ *Arthur Eddy Bond* – The Arthur Eddy bond was paid off during the 2015-16 school year; therefore, this was an expense that did not need to be considered for the 2016-17 school year.

- ◆ *Employee Benefit Plans* – Benefit plans for some employees were restructured to provide premium decreases while the district continues to evaluate benefit programs on a continuous basis.
- ◆ *Staffing* – There were many vacancies at different periods throughout the 2016-17 school year. These vacancies occurred in both ancillary and instructional positions. Although this is not an ideal situation academically, it does result in lower costs for the District.
- ◆ *Unemployment costs* – This year the District changed the timing of the unemployment payment. No payment for unemployment was made in the 2016-17 fiscal year. This payment will now be paid as it is billed, rather than when the expenditure is incurred.
- ◆ *Food Service* – There was a substantial increase in equity in the food service fund for the 2016-17 fiscal year. The fund increased by \$0.8 million.

Factors Decreasing Fund Equity

- ◆ *State aid funding* - The State of Michigan continues to experience severe economic constraints. State funding for school districts has not kept pace with inflation.
- ◆ *Enrollment* – The district's blended count for state aid funding purposes decreased by 295 FTEs, continuing a downward trend over the past ten years.
- ◆ *State aid loan* – In order to meet cash flow needs the district had to borrow \$7.0 million during the 2016-17 fiscal year.

General Fund Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming

School District of the City of Saginaw
Management Discussion and Analysis
Year Ended June 30, 2017

fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget periodically during the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for the difference in the budgeted expenditure and actual results during the year. Amounts are expressed to the nearest million.

Revenues – There was an \$8.1 million General Fund budget to actual variance during this fiscal year. Much of this was due to the method used to budget the federal revenues. Other factors include:

- ◆ The *local source* revenues came in \$0.1 million higher than budgeted due to local property taxes coming in higher than expected.
- ◆ The *state source* revenues were \$2.0 million less than budgeted primarily due to deferring At Risk funds and funds not used in the GSRP grant which does not end until September 30th.
- ◆ The *federal source* revenues were \$6.4 million less than budgeted. This was due to the budgeting of the entire grant which would not have been received by the end of the fiscal year for grants such as Title I and Title II part A.

Expenditures – Actual expenditures were under budget by \$10.7 million in the total General Fund. The significant changes by functional category are as follows:

- ◆ The *instruction* budget was under budget by \$5.8 million due to inability to staff positions, payout for retirees less than anticipated and the method of budgeting used for the federal funds.
- ◆ The *supporting services* expenditures were under budget by \$4.6 million. This is primarily due to the budgeting of the Instructional Staff Category area which, again, ties to the budgeting method of

the grant funds. There were some vacancies that could not be filled that account for the differences in other areas such as pupil services and staff services.

- ◆ The *community services* category is under budget by \$0.3 million due to the budgetary method for grant funds.

The other financing uses expenditures were close to the budgeted amounts and mainly consist of transfers to cover other funds including the transfers out to the debt service fund.

Major Fund Highlights

The 2017 Refunding Bond Debt Service Fund is presented as a major fund in the financial statements. The District continues to spend the bond proceeds on projects deemed necessary to improve facilities. The proceeds are spent in accordance with the original bond issuance.

On May 2, 2017, the School District issued general obligation bonds of \$15,735,000 (par value) with an interest rate of 4.00% to 5.00% to advance refund term bonds with an interest rate of 4.00% to 5.00% and a par value of \$17,230,000. The term bonds mature on May 1, 2038.

School District of the City of Saginaw
Management Discussion and Analysis
Year Ended June 30, 2017

Capital Asset and Debt Administration

Capital Assets – By the end of 2017, the district had invested \$108.8 million (before depreciation) in a broad range of capital assets, including land, buildings and improvements, and other vehicles, and furniture and equipment. This amount represents an increase from last year. This increase is primarily due to reroofing projects during the year. More detailed information about capital assets can be found in the Notes to the financial statements.

The District's capital projects funds are used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring major equipment necessary for providing educational programs for all students within the District.

The District had no significant construction in progress related to school building renovations and new construction at the end of the 2016-17 fiscal year.

The District's capital assets at year end are outlined in statement of net position and described in the notes to basic financial statements.

Building Fund Series III - This fund is used to account for the proceeds of the third series of bonds issued as part of the \$70,000,000 in bonds approved by the District's voters. The proceeds were used to construct a new middle school and provide security enhancements at two high schools and other various projects within the scope of the bond.

Debt Administration – On August 3, 2004 the taxpayers of the District approved a \$70,000,000 bond for improvement of the District's facilities. The bonds were issued in three series.

- ◆ The first series was issued in October of 2004 for \$22,130,000.
- ◆ In December 2014, the 2004 series was defeased by refunding bonds. This should result in an economic gain to the

taxpayers of \$1.6 million over the remaining life of the bond through 2034.

- ◆ The second series was issued in June of 2006 for \$28,160,000. The bonds mature in 2036.
- ◆ In June of 2008, the third series were issued for \$19,540,000. The bonds mature in 2038. All three series are paid for through an annual debt service tax levy.

More detailed information about the district's long-term debt is presented in the notes to the financial statements.

The district currently holds a Standard & Poor's "BBB" rating on its bonded debt.

Under State statute, the District is legally restricted from incurring long-term bonded debt in excess of 15% of the assessed value of taxable property within the school district. At June 30, 2017 the District's net bonded debt of \$53.1 million was well below the legal limit of approximately \$100 million.

Other Considerations

The District conforms to the pronouncements of GASB (Governmental Accounting Standards Board) which apply to all state and local governmental entities. The Governmental Accounting Standards Board ("The GASB") has issued Statement No. 77, Tax Abatement Disclosures. Statement No. 77 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.

School District of the City of Saginaw
Management Discussion and Analysis
Year Ended 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. 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.

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

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust

or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

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

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

Economic Factors and Next Year's Budget and Rates

One of the most important factors when setting the District's budget is the uncertainty of the State's financial outlook. 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 2017 and September 2016 student counts, respectively. The 2017-18 budget was adopted in June 2017, based on an estimate of students that will be enrolled in September 2017 and February 2018. Once the final student count and related per pupil funding is validated, state law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations. Any reduction could result in further budget cuts.

School District of the City of Saginaw
Management Discussion and Analysis
Year Ended June 30, 2017

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Executive Director of Financial Services, School District of the City of Saginaw, 550 Millard Street, Saginaw, Michigan, 48607-1193, (989) 399-6521.



BASIC FINANCIAL STATEMENTS

School District of the City of Saginaw
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets and Deferred Outflows of Resources	
Current Assets	
Cash	\$ 19,848,842
Accounts receivable	61,395
Due from other governmental units	12,206,322
Inventory	57,187
Total Current Assets	32,173,746
Non-Current Assets	
Capital assets not being depreciated	
Land	5,607,492
Capital assets - net of accumulated depreciation	
Buildings and additions	97,479,969
Equipment and furniture	4,621,506
Buses and other vehicles	1,069,085
Less: accumulated depreciation	(46,294,200)
Total Non-Current Assets	62,483,852
Total Assets	94,657,598
Deferred Outflows of Resources	
Deferred amount relating to net pension liability	11,747,607
Deferred amount on refunding	732,669
Total Deferred Outflows of Resources	12,480,276
Total Assets and Deferred Outflows of Resources	107,137,874

See Accompanying Notes to the Financial Statements

School District of the City of Saginaw
Statement of Net Position
June 30, 2017

	Governmental Activities
Liabilities and Deferred Inflows of Resources	
Current Liabilities	
Accounts payable	\$ 2,918,550
Due to other governmental units	1,908,290
State aid anticipation note	7,084,000
Accrued payroll and related liabilities	4,940,988
Unearned revenue	813,572
Current portion of debt	1,160,000
Accrued interest	372,000
Total Current Liabilities	19,197,400
 Non-Current Liabilities	
Compensated absences	704,739
Debt due in more than one year	51,876,859
Net pension liability	84,239,093
Total Non-Current Liabilities	136,820,691
Total Liabilities	156,018,091
 Deferred Inflows of Resources	
Deferred amount relating to net pension liability	10,728,520
 Net Position	
Net investment in capital assets	10,483,502
Restricted for:	
Food service	1,091,660
Unrestricted:	
Unrestricted (deficit)	(71,183,899)
Total Net Position	\$ (59,608,737)

See Accompanying Notes to the Financial Statements

School District of the City of Saginaw
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Program Revenues			Governmental Activities	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities					
Instruction	\$ 40,532,324	\$ 154,409	\$ 17,514,878	\$ -	\$ (22,863,037)
Supporting services	25,747,116	31,080	7,121,307	-	(18,594,729)
Community services	518,870	173,344	174,197	-	(171,329)
Food services	4,572,746	100,408	5,294,196	-	821,858
Interest and other charges	2,351,777	-	-	-	(2,351,777)
Total Governmental activities	\$ 73,722,833	\$ 459,241	\$ 30,104,578	-	(43,159,014)
General Revenues					
					6,867,241
					3,566,147
					38,313,236
					5,956
					349,647
					49,102,227
					5,943,213
					(65,551,950)
					\$ (59,608,737)

See Accompanying Notes to the Financial Statements

School District of the City of Saginaw
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Major	Nonmajor	Total Governmental Funds
		Debt Service Fund	Other Governmental Funds	
		2017 Refunding Bond Fund		
Assets				
Cash	\$ 17,714,820	\$ -	\$ 2,134,022	\$ 19,848,842
Accounts receivable	58,154	-	3,241	61,395
Due from other governmental units	11,946,101	-	260,221	12,206,322
Inventory	57,187	-	-	57,187
Total assets	<u>\$ 29,776,262</u>	<u>\$ -</u>	<u>\$ 2,397,484</u>	<u>\$ 32,173,746</u>
Liabilities				
Accounts payable	\$ 2,098,472	\$ -	\$ 763,078	\$ 2,861,550
State aid anticipation note	7,084,000	-	-	7,084,000
Due to other governmental units	1,908,290	-	-	1,908,290
Accrued payroll and related liabilities	4,940,988	-	-	4,940,988
Unearned revenue	813,572	-	-	813,572
Total liabilities	<u>16,845,322</u>	<u>-</u>	<u>763,078</u>	<u>17,608,400</u>

See Accompanying Notes to the Financial Statements

School District of the City of Saginaw
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Major	Nonmajor	Total Governmental Funds
		Debt Service Fund	Other Governmental Funds	
		2017 Refunding Bond Fund		
Fund Balance				
Non-spendable				
Inventory	\$ 57,187	\$ -	\$ -	\$ 57,187
Restricted				
Food service	-	-	1,169,401	1,169,401
Debt service	-	-	161,165	161,165
Capital projects	-	-	303,840	303,840
Unassigned	12,873,753	-	-	12,873,753
Total fund balance	<u>12,930,940</u>	<u>-</u>	<u>1,634,406</u>	<u>14,565,346</u>
Total liabilities and fund balance	<u>\$ 29,776,262</u>	<u>\$ -</u>	<u>\$ 2,397,484</u>	<u>\$ 32,173,746</u>

See Accompanying Notes to the Financial Statements

School District of the City of Saginaw
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2017

Total Fund Balances - Governmental Funds		\$	14,565,346
Total net position reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			
Land		\$	5,607,492
Buildings and improvements			97,479,969
Furniture and other equipment			4,621,506
Buses and other vehicles			1,069,085
Less: accumulated depreciation			<u>(46,294,200)</u>
			62,483,852
Deferred outflows (inflows) of resources			
Deferred outflows of resources resulting from debt refunding			732,669
Deferred outflows of resources resulting from net pension liability			11,747,607
Deferred inflows of resources resulting from net pension liability			<u>(10,728,520)</u>
			1,751,756
Certain liabilities are not due and payable in the current period and are not reported in the funds			
Unemployment			(57,000)
Interest on long-term debt			(372,000)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities			
Bonds payable			(47,610,000)
Bond premium			(5,525,904)
Bond discount			99,045
Compensated absences			(704,739)
Net pension liability			<u>(84,239,093)</u>
			<u>(137,980,691)</u>
Total Net Position - Governmental Activities		\$	<u>(59,608,737)</u>

See Accompanying Notes to the Financial Statements

School District of the City of Saginaw
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

	General Fund	Major	Nonmajor	Total Governmental Funds
		Debt Service Fund	Other Governmental Funds	
		2017 Refunding Bond Fund		
Revenues				
Local sources	\$ 7,631,507	\$ 1,183,760	\$ 2,504,035	\$ 11,319,302
Intermediate sources	613,634	-	-	613,634
State sources	50,125,449	-	187,913	50,313,362
Federal sources	12,313,465	-	5,106,283	17,419,748
Total revenues	<u>70,684,055</u>	<u>1,183,760</u>	<u>7,798,231</u>	<u>79,666,046</u>
Expenditures				
Current:				
Instruction	40,054,733	-	-	40,054,733
Supporting services	26,379,757	-	-	26,379,757
Community services	537,251	-	-	537,251
Food services	-	-	4,562,704	4,562,704
Capital outlay	-	-	946,018	946,018
Debt services				
Principal	-	340,000	1,025,000	1,365,000
Interest	-	843,260	1,644,846	2,488,106
Bond issuance cost	-	164,549	-	164,549
Bank fees	-	500	1,150	1,650
Total expenditures	<u>66,971,741</u>	<u>1,348,309</u>	<u>8,179,718</u>	<u>76,499,768</u>
Excess (deficiency) of revenues over expenditures	<u>3,712,314</u>	<u>(164,549)</u>	<u>(381,487)</u>	<u>3,166,278</u>
Other financing sources (uses)				
Face value of debt issued	-	15,735,000	-	15,735,000
Payments to escrow agent	-	(17,506,987)	-	(17,506,987)
Premium on debt issued	-	1,936,536	-	1,936,536
Total other financing sources (uses)	<u>-</u>	<u>164,549</u>	<u>-</u>	<u>164,549</u>
Net change in fund balance	3,712,314	-	(381,487)	3,330,827
Fund balance - July 1	<u>9,218,626</u>	<u>-</u>	<u>2,015,893</u>	<u>11,234,519</u>
Fund balance - June 30	<u>\$ 12,930,940</u>	<u>\$ -</u>	<u>\$ 1,634,406</u>	<u>\$ 14,565,346</u>

See Accompanying Notes to the Financial Statements

School District of the City of Saginaw
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2017

Net change in fund balances - total governmental funds	\$ 3,330,827
Total change in net position reported for governmental activities in the statement of activities differs because: Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capitalized capital outlay	412,740
Depreciation	(1,822,956)
Expenses are recorded when incurred in the statement of activities.	
Compensated absences	13,894
Interest	(28,000)
Unemployment	(17,000)
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 between actual pension contributions and the cost of benefits earned net of employee contributions	2,995,000
Net change in the deferrals of resources related to the net pension liability	2,378,471
Net change in net pension liability	(2,850,742)
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.	
Proceeds from issuance of debt	(15,735,000)
Premium on issuance of debt	(1,936,536)
Repayments of long-term debt	18,595,000
Change in deferred amount on debt refunding	250,182
Amortization of premium	368,488
Amortization of discount	(11,155)
Change in net position of governmental activities	\$ 5,943,213

See Accompanying Notes to the Financial Statements

School District of the City of Saginaw
Statement of Fiduciary Net Position
June 30, 2017

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash	\$ 564,956	\$ 519,258
Investments	1,477,139	-
Loans receivable	22,012	-
	2,064,107	\$ 519,258
Total assets	2,064,107	\$ 519,258
Liabilities		
Accounts payable	-	\$ 21,507
Due to student and other groups	-	497,751
	-	497,751
Total liabilities	-	\$ 519,258
Net position		
Assets held for scholarships and loans	\$ 2,064,107	

See Accompanying Notes to the Financial Statements

School District of the City of Saginaw
Statement of Changes in Fiduciary Net Position - Private Purpose Trust Funds
Year Ended June 30, 2017

	<u>Private Purpose Trust Funds</u>
Additions	
Local sources	<u>\$ 42,642</u>
Deductions	
Scholarships and awards	<u>29,642</u>
Change in net position	13,000
Net position - July 1	<u>2,051,107</u>
Net position - June 30	<u><u>\$ 2,064,107</u></u>



NOTES TO THE FINANCIAL STATEMENTS

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

NOTE 1 - Summary of Significant Accounting Policies

The accounting policies of the School District of the City of Saginaw (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 School District first utilizes restricted resources to finance qualifying activities.

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 District 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 and include charges for those programs and operating grants.

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

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

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

compensated absences and claims and judgments, are recorded only when payment is due.

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

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.

General fund expenditures are classified in accordance with the latest edition of the Accounting Manual for Michigan School Districts, issued by the Michigan Department of Education, as follows:

Instruction includes the activities dealing directly with the teaching of pupils or the interaction between pupils and teachers. Teaching may be provided through some other approved medium, such as television, telephone, radio, and correspondence. Included here are the activities of aides, assistants of any type, and supplies and materials which assist directly in the instructional process.

Supporting services are those services which provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction and, to a lesser degree, community services. Supporting services exist as adjuncts for the fulfillment of the objectives of instruction, rather than as entities within themselves.

Community services consist of those activities that are not directly relatable to providing education for pupils in a school system. These include services provided by the school system for the community as a whole or some segment of the community, such as community recreation programs, programs of custody and care of children, civic activities, and community welfare activities.

Other transactions consist of conduit-type (outgoing transfers) payments to other school districts or administrative units in the state or in another state not identified in the above classifications. Interfund transfers consist of transfers from one fund to another fund within the School District.

Debt Service Funds – The 2017 Refunding Bond Debt Service Fund is used to record tax and interest revenue and the payment of interest, principal, and other expenditures on long-term debt by bond and note issues.

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

The school district reports the following funds as non-major governmental funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. They are used to segregate the transaction of particular activities from regular revenue and expenditure accounts. The School District maintains full control of these Funds. The special revenue fund maintained by the School District, as mandated by the State of Michigan, is the Food Service fund.

Capital Project Funds are used to account for the acquisition of capital assets of major capital projects not being financed by propriety or nonexpendable trust funds. Building Fund Series 3 consists of those activities that are directly relatable to expenditures of the Series 3 Bonds and the related capital costs for construction.

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

The following debt service funds were used during the year:

2014 Refunding Bond Fund
2016 Refunding Bond Fund

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The fiduciary fund types used by the School District are the Private Purpose Trust Funds, and Agency Funds.

Private Purpose Trust Funds are used to account for funds entrusted to the School District and the funds may only be used for specific purposes. They are accounted for in essentially the same manner as the governmental fund types, using similar measurement focus and basis of accounting. The School District maintains the Scholarship Fund. The Scholarship Fund is used to account for funds entrusted to the School District for scholarship loans and awards when the principal and interest of the trust may be spent, and for the receipt of investment earnings transferred from the Scholarship Endowment Fund for payment of scholarship loans and awards. The Scholarship Fund contains three separate private purpose trust funds which include the General Scholarship Fund, the Saginaw High School Alumni Memorial Scholarship Fund, and the Treanor Trust.

Agency Funds are used to account for assets held by the School District as an agent, are custodial in nature (assets equal liabilities), and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. The School District maintains pooled accounts, but maintains agency funds which are used to account for the transactions of student clubs and organizations, and other groups.

Assets, Liabilities and Net Position or Equity

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.

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

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2017, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.0000
Commercial personal property	6.0000
Debt Service Fund	5.3000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 69% of the School District's tax roll lies within the City of Saginaw.

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 Saginaw and remitted to the School District by May 15.

Due From/To Other Governmental Units – Consists of amounts due to and from federal, state and local governmental units.

Investments – Investments are stated at fair value. Certificates of deposit are stated at cost which approximates fair value.

Inventories – 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. General Fund inventory consists of various instructional and custodial supplies, furniture, and gasoline.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. 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	15-50 years
Equipment and furniture	5-20 years
Buses and other vehicles	7-15 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. The School District also reports deferred amounts on refunding on the district-wide statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt.

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

Compensated Absences – Sick days are earned by most employees at the rate of one day per month. Unlimited unused sick days may be accumulated by an employee. Retiring employees who meet certain age and years of service requirements are paid for accumulated sick days to a maximum number of days and at a rate determined by their job category. There is no contractual provision for payment of unused vacation.

The liability for compensated absences reported in the District-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the termination method, in which leave amounts for employees who currently are eligible to receive termination payments are included. The amount reported is salary related and includes no fringe benefits, since the amount of said benefits would be immaterial.

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

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

Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported

by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered to be 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 Balance – Restrictions of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures. Specific restrictions of the fund balance accounts are summarized below.

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

Inventory - Created to indicate the portion of fund balance represented by inventories is not available for appropriation and expenditure.

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

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

Restricted for food service - Created to restrict the use of all resources received for the payment on the school district's food service program.

Restricted for debt service - Created to restrict the use of all resources received for the payment on the school district's long-term debt.

Restricted for capital projects - Created to restrict the use of all resources received by the Capital Projects Funds. This money is earmarked for major capital purchases.

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. 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.

Other

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.

Economic Dependency - The school district received approximately 70% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source, the school district is considered to be economically dependent of the Michigan Department of Education.

Concentrations - Substantially all of the school district's employees work under collective bargaining agreements. Substantially all of the contracts agreements expired prior to yearend. Currently, the school district is preparing to negotiate those contacts.

Eliminations and Reclassifications

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

Adoption of New Accounting Standards

Statement No. 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.

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

Upcoming Accounting and Reporting Changes

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. 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.

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

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

(3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

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

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is 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 cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

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.

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

Excess of Expenditures over Appropriations

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

<u>Function</u>	<u>Final Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
Food Service Fund	4,510,579	4,562,704	52,125

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$71,183,899 as of June 30, 2017. There are no other governmental funds with a deficit.

Compliance – Bond Proceeds

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. The following is a summary of the revenue and expenditures in the Building Fund Series I, Building Fund Series II, and Building Fund Series III from the inception of the funds through the current fiscal year:

	<u>Building Fund Series III</u>
Revenues	\$ 25,412,624
Expenditures	<u>25,108,784</u>
	<u>\$ 303,840</u>

NOTE 3 - Deposits and Investments

The School District's deposits and investments 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	\$ 19,848,842	\$ 1,084,214	\$ 20,933,056
Investment	<u>-</u>	<u>1,477,139</u>	<u>1,477,139</u>
	<u>\$ 19,848,842</u>	<u>\$ 2,561,353</u>	<u>\$ 22,410,195</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$22,296,768
Investments	106,253
Petty cash and cash on hand	<u>7,175</u>
Total	<u>\$22,410,196</u>

As of yearend, the School District had the following investments:

Investment	Fair Value
Equity Mutual Funds	\$ 65,899
Fixed Income Mutual Funds	<u>40,354</u>
	<u>\$ 106,253</u>

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

Credit risk – State statutes 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. District repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District has no investment policy that would further limit its investment choices.

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year end, \$22,350,842 of the School District's bank balance of \$22,855,672 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

Certain investments were donated to the School District to be used to generate income to award scholarships to worthy students. Individual scholarship provisions specify how the investments and related income may be used.

Certain endowments and funds raised for scholarships are directly deposited with the Saginaw Community Foundation and the school district has no rights to the principal investments.

NOTE 4 - Fair Value Measurements

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

School District of the City of Saginaw
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The School District has the following recurring fair value measurements as of June 30, 2017:

- Equity and fixed income securities of \$106,253 are valued using quoted market prices (Level 1 inputs)

NOTE 5 - Due From Other Governmental Units

Due from other governmental units consists of the following:

Federal grants	\$ 3,009,030
State aid	8,563,164
Other	<u>634,128</u>
	<u>\$ 12,206,322</u>

All balances are deemed current and will be received in the following year.

NOTE 6 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 5,607,492	\$ -	\$ -	\$ 5,607,492
Capital assets being depreciated				
Buildings and additions	97,085,304	394,665	-	97,479,969
Equipment and furniture	4,610,331	11,175	-	4,621,506
Buses and other vehicles	<u>1,062,185</u>	<u>6,900</u>	<u>-</u>	<u>1,069,085</u>
Total capital assets being depreciated	<u>102,757,820</u>	<u>412,740</u>	<u>-</u>	<u>103,170,560</u>
Less accumulated depreciation for				
Buildings and additions	39,897,297	1,722,529	-	41,619,826
Equipment and furniture	3,572,449	96,446	-	3,668,895
Buses and other vehicles	<u>1,001,498</u>	<u>3,981</u>	<u>-</u>	<u>1,005,479</u>
Total accumulated depreciation	<u>44,471,244</u>	<u>1,822,956</u>	<u>-</u>	<u>46,294,200</u>
Net capital assets being depreciated	<u>58,286,576</u>	<u>(1,410,216)</u>	<u>-</u>	<u>56,876,360</u>
Net capital assets	<u>\$ 63,894,068</u>	<u>\$ (1,410,216)</u>	<u>\$ -</u>	<u>\$ 62,483,852</u>

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

Governmental activities	
Depreciation expense	
Instruction	\$ 1,586,691
Support services	224,504
Community services	1,719
Food services	<u>10,042</u>
Total governmental activities	<u>\$ 1,822,956</u>

School District of the City of Saginaw
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Construction Contracts

As of year end, the School District did not have any significant construction contracts in progress.

NOTE 7 - Unearned Revenue

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

	<u>Unearned</u>
Grant payments received prior to meeting all eligibility requirements	
At-Risk	\$ 522,249
Trig	187,491
Other	103,832
Total	\$ 813,572

NOTE 8 - State Aid Anticipation Note

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

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

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	\$ 12,156,700	\$ 7,084,000	\$ 12,156,700	\$ 7,084,000

NOTE 9 - Long-Term Debt

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

Long-term obligation activity is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
General obligation bonds	\$ 50,470,000	\$ 15,735,000	\$ 18,595,000	\$ 47,610,000	\$ 1,160,000
Bond premium	3,957,856	1,936,536	368,488	5,525,904	-
Bond discount	(110,200)	-	(11,155)	(99,045)	-
Compensated absences	718,633	150,913	164,807	704,739	-
Total	\$ 55,036,289	\$ 17,822,449	\$ 19,117,140	\$ 53,741,598	\$ 1,160,000

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

\$14,525,000 Series 2014 refunding bond due in annual installments of \$450,000 to \$1,200,000 through May 1, 2034, interest at 3.70% to 5.00%	\$ 13,525,000
\$18,865,000 Series 2016 refunding bond due in annual installments of \$515,000 to \$1,395,000 through May 1, 2036, interest at 4.00% to 5.00%	18,350,000
\$15,735,000 Series 2017 refunding bond due in annual installments of \$310,000 to \$2,120,000 through May 1, 2038, interest at 4.00% to 5.00%	<u>15,735,000</u>
Total general obligation bonded debt	\$ 47,610,000

School District of the City of Saginaw
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June 30, 2017

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

Year Ending June 30,	Principal	Interest	Total
2018	\$ 1,160,000	\$ 2,290,611	\$ 3,450,611
2019	1,530,000	2,246,368	3,776,368
2020	1,595,000	2,179,619	3,774,619
2021	1,665,000	2,110,018	3,775,018
2022	1,750,000	2,030,119	3,780,119
2023 - 2027	10,155,000	8,747,593	18,902,593
2028 - 2032	12,860,000	6,035,813	18,895,813
2033 - 2037	14,775,000	2,630,501	17,405,501
2038	2,120,000	106,000	2,226,000
Total	<u>\$ 47,610,000</u>	<u>\$ 28,376,642</u>	<u>\$ 75,986,642</u>

The general obligation bonds are liquidated from the Debt Service Funds. As of year end, these funds had \$161,165 of available fund balance remaining to pay this debt. Future debt and interest will be payable from future tax levies.

The total interest expenditure paid during the fiscal year was \$2,488,106.

Compensated Absences

Accrued compensated absences at year end consist of \$704,739 of accrued and earned sick time benefits. The entire amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Advance Refunding

On May 2, 2017, the School District issued general obligation bonds of \$15,735,000 (par value) with an interest rate of 4.00% to 5.00% to advance refund term bonds with an interest rate of 4.00% to 5.00% and a par value of \$17,230,000. The term bonds mature on May 1, 2038. The general obligation bonds were issued at a premium and after paying issuance costs of \$164,549, the net proceeds were \$17,506,987. The net proceeds from the issuance of the general obligation bonds were deposited with an escrow agent to provide debt service payments until the term bonds mature. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the School District's financial statements.

As a result of the advance refunding, the School District reduced its total debt service requirements by \$1,678,540, which resulted in an economic gain of \$1,179,036.

Deferred Amount on Refunding

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$276,987. This amount is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2038. Activity in the current year is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance
Deferred amount on refunding	<u>\$482,487</u>	<u>\$ 276,987</u>	<u>\$ 26,805</u>	<u>\$732,669</u>

Defeased Debt

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S.

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Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

As of year end, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

2004 Issue Refunded	\$ 14,025,000
The final payment date is May 1, 2034	
2008 Issue Refunded	\$ 16,875,000
The final payment date is May 1, 2018	

NOTE 10 - Risk Management

The School District participates in a Municipal Risk Retention Pool Program through the Middle Cities Risk Management Trust. This program provides substantially all the insurance needs of the School District, including property, general liability, automobile and umbrella. The contributions made by the School District fund the program at rates predicated on expected losses, excess insurance premium contribution and administration costs, including appropriate state assessment. The possibility of additional claims exists but the amount of liability to the School District would be immaterial by the time the aggregate stop-loss coverage is triggered. There also is a possibility of a refund due the School District. Therefore, neither contingent liabilities nor assets have been recognized on the School District's financial statements. For each of the past three years, there have been no changes to the coverage and there have been no insurance settlements which exceed insurance coverage.

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. The school district's General Fund reported \$40,000 of unemployment compensation expense for the year ended June 30, 2016. In addition, \$57,000 has been accrued in the district-wide financial statements for known claims incurred from January to June, 2017, and is payable in fiscal year 2017-18.

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal District. 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 period ended June 30, 2017.

NOTE 11 - Pension Plans and Post-Employment Benefits

Plan Description

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

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

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

individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20 year period for the plan's 2016 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Pension Contribution Rates		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	18.95%
Member Investment Plan	3.0 - 7.0	18.95%
Pension Plus	3.0 - 6.4	17.73%
Defined Contribution	0.0	14.56%

Required contributions to the pension plan from the School District were \$7,581,942 for the year ending September 30, 2016.

Net Pension Liability

June 30, 2017, the School District reported a liability of \$84,239,093 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. 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, 2016, the School District's proportionate share percent was 0.3376 percent, which was an increase of 0.0044 percent since the prior measurement date.

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

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

For the year ended June 30, 2017, the School District recognized total pension expense of \$5,423,748. The School District's actual contributions for the years ended June 30, 2017, 2016, and 2015 and were approximately \$5,500,000, \$5,600,000, and \$5,300,000, respectively.

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,049,842	\$ (199,649)
Changes in assumptions	1,317,012	-
Net difference between projected and actual earnings on pension plan investments	1,400,053	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,042,727	(7,923,382)
Employer contributions subsequent to the measurement date	<u>6,937,973</u>	<u>(2,605,489)</u>
	<u>\$ 11,747,607</u>	<u>\$ (10,728,520)</u>

\$6,937,973 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, 2018. \$2,605,489 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 recognized in the year ended June 30, 2018 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 Ending September 30	Amount:
2017	\$ (1,941,913)
2018	(2,052,061)
2019	221,985
2020	<u>458,592</u>
Total	<u>\$ (3,313,397)</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, 2015
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%

School District of the City of Saginaw
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June 30, 2017

- 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: 7.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (for men, 140% of the table rates for ages 0-79, 133% of the table rates for ages 80-84, and 121.8% of the table rates for ages over 84 were used and for women, 96% of the table rates were used).

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. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward 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: (4.6273 for non-university employers). The recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2016 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. 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, 2016, 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.

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

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 Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-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%
<u>\$ 108,478,749</u>	<u>\$ 84,239,093</u>	<u>\$ 63,802,733</u>

*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 2016 MPERS CAFR (www.michigan.gov/mpers-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 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, 2016 through September 30, 2016, and October 1, 2016 through June 30, 2017, the employer contribution rate ranged from 6.40% to 6.83% and 5.69% to 5.91%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2017, 2016, and 2015 and were approximately \$1,779,812, \$1,627,079, and \$1,856,525, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2017, the School District had contributions in the amount of \$3,575,040 to the MPERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 11.7% for the year ending June 30, 2017.

School District of the City of Saginaw
Notes to the Financial Statements
June 30, 2017

NOTE 12 - 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 ended June 30, 2017.

performance the past few years, the District no longer needs to borrow against its state aid and did not participate in the fiscal year 2018 borrowing.

NOTE 13 - Tax Abatements

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by the City of Saginaw. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties

For the fiscal year ended June 30, 2017, the School District's property tax revenues were reduced by \$294,159 under these programs.

There are no significant abatements made by the School District.

NOTE 14 - Subsequent Event

The District was required to repay the remaining balance and accrued interest on the State Aid Anticipation Note on August 21, 2017. Due to a bank error, the wire transfer was not processed until after the close of business on the due date, but was made that day. The Michigan Department of Treasury considered the payment late even after being provided all the facts including correspondence from the bank admitting that it was their error, and issued a default notice on September 13, 2017. Fortunately, due to the District's financial



**REQUIRED
SUPPLEMENTARY
INFORMATION**

School District of the City of Saginaw
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under)
	Original	Final		Final Budget
Revenue from local sources				
General property taxes	\$ 6,500,000	\$ 6,500,000	\$ 6,663,908	\$ 163,908
Penalties and interest on delinquent taxes	30,000	30,000	203,333	173,333
Transportation	25,000	25,000	31,080	6,080
Earnings on investments	7,500	7,500	5,956	(1,544)
Athletic event revenue	82,500	82,500	80,336	(2,164)
Community service fees	97,500	97,500	93,008	(4,492)
Rental income	200,000	200,000	154,409	(45,591)
Grants	-	120,838	71,070	(49,768)
Miscellaneous	89,700	423,400	328,407	(94,993)
Total local sources	<u>7,032,200</u>	<u>7,486,738</u>	<u>7,631,507</u>	<u>144,769</u>
Revenue from state sources				
Grants - unrestricted				
State school aid	37,995,544	38,958,074	38,313,236	(644,838)
Grants - restricted				
At Risk	3,255,488	3,570,330	3,163,910	(406,420)
Unfunded actuarial accrued liability	3,978,463	3,978,463	3,978,463	-
Special education headlee obligation	1,409,734	1,409,734	1,409,734	-
Great start readiness program	2,566,477	2,784,548	2,206,147	(578,401)
Adult education	168,925	168,925	148,967	(19,958)
Technology reediness	251,697	251,697	133,619	(118,078)
Vocational education	111,067	111,067	111,067	-
Renaissance zones	90,612	90,612	90,612	-
Other state revenue	792,029	829,408	569,694	(259,714)
Total state sources	<u>50,620,036</u>	<u>52,152,858</u>	<u>50,125,449</u>	<u>(2,027,409)</u>

**School District of the City of Saginaw
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Over (Under)
	Original	Final		Final Budget
Revenue from federal sources				
Grants restricted				
Title I cluster	\$ 9,587,733	\$ 11,786,376	\$ 8,015,717	\$ (3,770,659)
Title II part A cluster	3,588,946	3,588,946	1,466,625	(2,122,321)
Special education - IDEA cluster	1,819,665	1,819,665	1,693,374	(126,291)
Safe schools healthy students	879,448	879,448	610,084	(269,364)
Carl Perkins	462,988	462,988	450,329	(12,659)
Other federal revenues	187,381	192,568	77,336	(115,232)
Total federal sources	<u>16,526,161</u>	<u>18,729,991</u>	<u>12,313,465</u>	<u>(6,416,526)</u>
Revenue from intermediate sources				
Special education	<u>376,249</u>	<u>381,628</u>	<u>613,634</u>	<u>232,006</u>
Total revenues	<u>74,554,646</u>	<u>78,751,215</u>	<u>70,684,055</u>	<u>(8,067,160)</u>

**School District of the City of Saginaw
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2017**

	Budgeted Amounts		Actual	(Over) Under Final Budget
	Original	Final		
Instruction				
Basic programs				
Elementary	\$ 13,672,492	\$ 13,898,620	\$ 13,336,956	\$ 561,664
Middle school	3,221,414	3,262,911	3,021,542	241,369
Senior high school	6,772,811	6,772,673	6,444,816	327,857
Other basic programs	3,566,327	3,511,433	2,801,778	709,655
Summer school	1,368,866	1,368,866	674,774	694,092
Total basic programs	<u>28,601,910</u>	<u>28,814,503</u>	<u>26,279,866</u>	<u>2,534,637</u>
Added needs				
Special education	6,000,046	6,797,801	6,176,617	621,184
Compensatory education	8,280,738	8,280,738	5,711,871	2,568,867
Vocational education	1,515,619	1,919,717	1,835,792	83,925
Total added needs	<u>15,796,403</u>	<u>16,998,256</u>	<u>13,724,280</u>	<u>3,273,976</u>
Continuing education - basic				
Basic	55,681	57,218	47,432	9,786
Secondary	4,391	4,391	3,155	1,236
Total continuing education - basic	<u>60,072</u>	<u>61,609</u>	<u>50,587</u>	<u>11,022</u>
Total instruction	<u>44,458,385</u>	<u>45,874,368</u>	<u>40,054,733</u>	<u>5,819,635</u>

School District of the City of Saginaw
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	(Over) Under
	Original	Final		Final Budget
Supporting services				
Pupil services				
Truancy	\$ 887,521	\$ 738,680	\$ 590,246	\$ 148,434
Guidance services	1,245,711	1,147,641	1,042,161	105,480
Health services	148,531	207,571	171,558	36,013
Psychological services	239,783	243,108	246,872	(3,764)
Speech pathology audiology	572,958	662,308	621,168	41,140
Social work services	998,790	819,999	700,081	119,918
Teacher consultant	137,562	137,562	93,227	44,335
Other pupil services	368,538	382,857	378,833	4,024
Total pupil services	<u>4,599,394</u>	<u>4,339,726</u>	<u>3,844,146</u>	<u>495,580</u>
Instructional staff				
Improvement of instruction	4,328,126	4,823,994	2,633,892	2,190,102
Library	165,817	179,227	157,732	21,495
Audio visual	30,047	16,826	15,450	1,376
Technology assisted instruction	420,544	435,572	217,770	217,802
Supervision direction	485,104	1,660,705	1,174,312	486,393
Academic student assessment	130,447	145,198	38,983	106,215
Other instructional staff	1,500	1,500	199	1,301
Total instructional staff	<u>5,561,585</u>	<u>7,263,022</u>	<u>4,238,338</u>	<u>3,024,684</u>
General administration				
Board of education	330,233	608,500	533,067	75,433
Executive administration	347,542	347,542	336,628	10,914
Total general administration	<u>677,775</u>	<u>956,042</u>	<u>869,695</u>	<u>86,347</u>
School administration				
Office of the principal	<u>3,836,923</u>	<u>3,565,367</u>	<u>3,453,597</u>	<u>111,770</u>

School District of the City of Saginaw
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	(Over) Under Final Budget
	Original	Final		
Supporting services (continued)				
Business services				
Fiscal services	\$ 709,311	\$ 757,018	\$ 698,350	\$ 58,668
Internal services	71,095	71,095	62,497	8,598
Other business services	852,223	742,223	721,567	20,656
Total business services	<u>1,632,629</u>	<u>1,570,336</u>	<u>1,482,414</u>	<u>87,922</u>
Building operations				
Operation and maintenance of plant	7,275,229	6,800,621	6,510,310	290,311
Security	456,903	1,059,685	942,257	117,428
Total building operations	<u>7,732,132</u>	<u>7,860,306</u>	<u>7,452,567</u>	<u>407,739</u>
Pupil transportation services	<u>2,863,596</u>	<u>2,942,043</u>	<u>2,836,922</u>	<u>105,121</u>
Central services				
Planning, research, development and evaluation	147,599	142,695	135,993	6,702
Informational services	141,332	143,396	116,203	27,193
Staff services	598,147	704,110	519,840	184,270
Data processing services	681,326	781,476	873,488	(92,012)
Technology services	128,885	128,885	127,275	1,610
Other central services	10	10	8	2
Total central services	<u>1,697,299</u>	<u>1,900,572</u>	<u>1,772,807</u>	<u>127,765</u>
Other supporting services	<u>513,210</u>	<u>588,897</u>	<u>429,271</u>	<u>159,626</u>
Total supporting services	<u>29,114,543</u>	<u>30,986,311</u>	<u>26,379,757</u>	<u>4,606,554</u>

**School District of the City of Saginaw
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2017**

	Budgeted Amounts		Actual	(Over) Under
	Original	Final		Final Budget
Community services				
Direction	\$ 718,797	\$ 143,864	\$ 111,696	\$ 32,168
Activities	-	551,953	401,191	150,762
Non-public school pupils	-	106,438	24,364	82,074
Site improvement services	-	3,412	-	3,412
Total community services	<u>718,797</u>	<u>805,667</u>	<u>537,251</u>	<u>268,416</u>
 Total expenditures	 <u>74,291,725</u>	 <u>77,666,346</u>	 <u>66,971,741</u>	 <u>10,694,605</u>
 Net change in fund balance	 262,921	 1,084,869	 3,712,314	 2,627,445
 Fund balance - July 1	 <u>9,218,626</u>	 <u>9,218,626</u>	 <u>9,218,626</u>	 <u>-</u>
 Fund balance - June 30	 <u>\$ 9,481,547</u>	 <u>\$ 10,303,495</u>	 <u>\$ 12,930,940</u>	 <u>\$ 2,627,445</u>

School District of the City of Saginaw
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,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
A. School District's proportion of net pension liability (%)	0.33764%	0.33320%	0.39104%							
B. School District's proportionate share of net pension liability	\$ 84,239,093	\$ 81,388,351	\$ 86,133,407							
C. School District's covered-employee payroll	\$ 28,574,617	\$ 28,692,229	\$ 33,112,983							
D. School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	294.80%	283.66%	260.12%							
E. Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%							

GASB Statement No. 68 was implemented for the fiscal year ended June 30, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

School District of the City of Saginaw
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,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
A. Statutorily required contributions	\$ 5,537,476	\$ 5,633,322	\$ 6,073,153							
B. Contributions in relation to statutorily required contributions	<u>5,537,476</u>	<u>5,633,322</u>	<u>6,073,153</u>							
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
D. School District's covered-employee payroll	\$ 29,221,665	\$ 28,336,074	\$ 28,034,423							
E. Contributions as a percentage of covered-employee payroll	18.9%	19.9%	21.7%							

Notes: Benefit Changes - There were no changes of benefit terms in 2017. Changes in Assumptions - There were no changes of benefit assumptions in 2017.

GASB Statement No. 68 was implemented for the fiscal year ended June 30, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.



**OTHER
SUPPLEMENTARY
INFORMATION**

School District of the City of Saginaw
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2017

	Special Revenue Fund	Capital Project Fund	Debt Service Funds		Total Nonmajor Governmental Funds
	Food Service Fund	Building Fund Series 3	2014 Refunding Bond Fund	2016 Refunding Bond Fund	
Assets					
Cash	\$ 1,669,017	\$ 303,840	\$ 161,165	\$ -	\$ 2,134,022
Accounts receivable	3,241	-	-	-	3,241
Due from other governments	260,221	-	-	-	260,221
Total assets	<u>\$ 1,932,479</u>	<u>\$ 303,840</u>	<u>\$ 161,165</u>	<u>\$ -</u>	<u>\$ 2,397,484</u>
Liabilities					
Accounts payable	<u>\$ 763,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 763,078</u>
Fund Balance					
Restricted					
Food service	1,169,401	-	-	-	1,169,401
Debt service	-	-	161,165	-	161,165
Capital projects	-	303,840	-	-	303,840
Total fund balance	<u>1,169,401</u>	<u>303,840</u>	<u>161,165</u>	<u>-</u>	<u>1,634,406</u>
Total liabilities, deferred inflows or resources and fund balance	<u>\$ 1,932,479</u>	<u>\$ 303,840</u>	<u>\$ 161,165</u>	<u>\$ -</u>	<u>\$ 2,397,484</u>

School District of the City of Saginaw
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2017

	Special Revenue Fund	Capital Project Fund	Debt Service Funds		Total Nonmajor Governmental Funds
	Food Service Fund	Building Fund Series 3	2014 Refunding Bond Fund	2016 Refunding Bond Fund	
Revenues					
Local sources	\$ 100,408	\$ -	\$ 881,800	\$ 1,521,827	\$ 2,504,035
State sources	187,913	-	-	-	187,913
Federal sources	5,106,283	-	-	-	5,106,283
Total revenues	<u>5,394,604</u>	<u>-</u>	<u>881,800</u>	<u>1,521,827</u>	<u>7,798,231</u>
Expenditures					
Education					
Food services	4,562,704	-	-	-	4,562,704
Capital projects	-	946,018	-	-	946,018
Debt retirement					
Principal	-	-	510,000	515,000	1,025,000
Interest	-	-	638,669	1,006,177	1,644,846
Bank fees	-	-	500	650	1,150
Total expenditures	<u>4,562,704</u>	<u>946,018</u>	<u>1,149,169</u>	<u>1,521,827</u>	<u>8,179,718</u>
Net change in fund balance	831,900	(946,018)	(267,369)	-	(381,487)
Fund balance - July 1	<u>337,501</u>	<u>1,249,858</u>	<u>428,534</u>	<u>-</u>	<u>2,015,893</u>
Fund balance - June 30	<u>\$ 1,169,401</u>	<u>\$ 303,840</u>	<u>\$ 161,165</u>	<u>\$ -</u>	<u>\$ 1,634,406</u>



SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes.

Food Service Fund - This fund is used to account for activities related to operation of cafeterias in the district's school buildings, providing nourishing breakfasts, lunches, and snacks to students in all grades.

School District of the City of Saginaw
Special Revenue Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2017

	Food Service Fund		
	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Local sources	\$ 82,090	\$ 100,408	\$ 18,318
State sources	132,291	187,913	55,622
Federal sources	4,578,750	5,106,283	527,533
Total revenues	<u>4,793,131</u>	<u>5,394,604</u>	<u>601,473</u>
Expenditures			
Salaries	19,938	20,270	(332)
Employee benefits	7,301	6,697	604
Contracted services	1,610,150	1,682,989	(72,839)
Food cost	2,873,190	2,852,748	20,442
Total expenditures	<u>4,510,579</u>	<u>4,562,704</u>	<u>(52,125)</u>
Net change in fund balance	282,552	831,900	549,348
Fund balance - July 1	<u>337,501</u>	<u>337,501</u>	<u>-</u>
Fund balance - June 30	<u>\$ 620,053</u>	<u>\$ 1,169,401</u>	<u>\$ 549,348</u>



CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Building Fund - Series 3 - This fund is used to account for the proceeds of the third series of bonds issued as part of the \$70,000,000 in bonds approved by the District's voters. The proceeds will be used to construct a new middle school and provide security enhancements at two high schools.

School District of the City of Saginaw
Capital Project Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2017

	Nonmajor Fund		
	Building Fund - Series 3		
	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Local sources			
Earnings on investments	\$ 1,500	\$ -	\$ (1,500)
Expenditures			
Capital outlay			
Building renovations	946,018	946,018	-
Net change in fund balance	(944,518)	(946,018)	(1,500)
Fund balance - beginning of year	1,249,858	1,249,858	-
Fund balance - end of year	<u>\$ 305,340</u>	<u>\$ 303,840</u>	<u>\$ (1,500)</u>



DEBT SERVICE FUNDS

Debt Service Funds are used to record tax and interest revenue and operating transfers in, and the payment of interest, principal and other expenditures on long-term bonded debt by bond issues.

2014 Refunding Bond Fund - This fund is used to account for the payment of principal and interest on bonds issued to renovate elementary school buildings.

2016 Refunding Bond Fund - This fund is used to account for the payment of principal and interest on bonds issued to renovate school buildings and construct one new middle school.

2017 Refunding Bond Fund - This fund is used to account for the payment of principal and interest on bonds issued for construction of Saginaw Arts and Science Academy and Zilwaukee and improvements to Arthur Hill High School and Saginaw High School.

School District of the City of Saginaw
Debt Service Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2017

	<u>Nonmajor Fund</u>			<u>Nonmajor Fund</u>		
	<u>2004 Bond Fund/2014 Refunding Bond Fund</u>			<u>2006 Bond Fund/2016 Refunding Bond Fund</u>		
	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
Revenues						
Local sources						
Property Tax	\$ 887,722	\$ 860,560	\$ (27,162)	\$ 1,528,515	\$ 1,521,827	\$ (6,688)
Penalties and Interest	20,000	21,240	1,240	-	-	-
Total local sources	<u>907,722</u>	<u>881,800</u>	<u>(25,922)</u>	<u>1,528,515</u>	<u>1,521,827</u>	<u>(6,688)</u>
 Total revenues	 <u>907,722</u>	 <u>881,800</u>	 <u>(25,922)</u>	 <u>1,528,515</u>	 <u>1,521,827</u>	 <u>(6,688)</u>
Expenditures						
Debt retirement						
Principal	510,000	510,000	-	515,000	515,000	-
Interest	638,669	638,669	-	1,012,515	1,006,177	6,338
Issuance costs	-	-	-	-	-	-
Bank fees	750	500	250	1,000	650	350
Total expenditures	<u>1,149,419</u>	<u>1,149,169</u>	<u>250</u>	<u>1,528,515</u>	<u>1,521,827</u>	<u>6,688</u>
Other financing sources (uses)						
Face value of debt issued	-	-	-	-	-	-
Payments to escrow agent	-	-	-	-	-	-
Premium on debt issued	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(241,697)	(267,369)	(25,672)	-	-	-
Fund balance - July 1	<u>428,534</u>	<u>428,534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30	<u>\$ 186,837</u>	<u>\$ 161,165</u>	<u>\$ (25,672)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

School District of the City of Saginaw
Debt Service Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2017

	<u>Major Fund</u>			<u>Total</u>		
	<u>2008 Bond Fund/2017 Refunding Bond Fund</u>					
	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
Revenues						
Local sources						
Property Tax	\$ 1,183,763	\$ 1,183,760	\$ (3)	\$ 3,600,000	\$ 3,566,147	\$ (33,853)
Penalties and Interest	-	-	-	20,000	21,240	1,240
Total local sources	<u>1,183,763</u>	<u>1,183,760</u>	<u>(3)</u>	<u>3,620,000</u>	<u>3,587,387</u>	<u>(32,613)</u>
 Total revenues	<u>1,183,763</u>	<u>1,183,760</u>	<u>(3)</u>	<u>3,620,000</u>	<u>3,587,387</u>	<u>(32,613)</u>
Expenditures						
Debt retirement						
Principal	340,000	340,000	-	1,365,000	1,365,000	-
Interest	843,263	843,260	3	2,494,447	2,488,106	(6,341)
Bond issuance cost	164,549	164,549	-	164,549	164,549	-
Bank fees	500	500	-	2,250	1,650	(600)
Total expenditures	<u>1,348,312</u>	<u>1,348,309</u>	<u>(3)</u>	<u>4,026,246</u>	<u>4,019,305</u>	<u>(6,941)</u>
Other financing sources (uses)						
Face value of debt issued	15,735,000	15,735,000	-	15,735,000	15,735,000	-
Payments to escrow agent	(17,506,987)	(17,506,987)	-	(17,506,987)	(17,506,987)	-
Premium on debt issued	1,936,536	1,936,536	-	1,936,536	1,936,536	-
Total other financing sources (uses)	<u>164,549</u>	<u>164,549</u>	<u>-</u>	<u>164,549</u>	<u>164,549</u>	<u>-</u>
 Net change in fund balance	-	-	-	(241,697)	(267,369)	(25,672)
Fund balance - July 1	-	-	-	428,534	428,534	-
Fund balance - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 186,837</u>	<u>\$ 161,165</u>	<u>\$ (25,672)</u>



FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the School District in a trustee or agent capacity. The School District presently maintains the following Fiduciary Funds:

Private Purpose Trust Funds - Accounts for funds entrusted to the School District for scholarship loans and awards to worthy students when the principal and interest of the trust may be spent.

Agency Funds - Account for the amounts held by the District as fiscal agent.

School District of the City of Saginaw
Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2017

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>
Assets				
Cash	\$ 425,619	\$ 540,892	\$ 447,253	\$ 519,258
Liabilities				
Accounts payable	\$ 17,279	\$ 447,253	\$ 443,025	\$ 21,507
Due to student and other groups	408,340	540,892	451,481	497,751
Total liabilities	\$ 425,619	\$ 988,145	\$ 894,506	\$ 519,258

School District of the City of Saginaw
Agency Funds
Schedule of Changes in Due to Student and Other Groups
Year Ended June 30, 2017

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Student Groups				
Senior High Schools				
Arthur Hill	\$ 66,431	\$ 54,677	\$ 58,998	\$ 62,110
Saginaw	26,015	33,495	27,480	32,030
Middle Schools				
Thompson	5,505	5,380	3,794	7,091
Elementary Schools				
Arthur Eddy	2,736	1,109	877	2,968
Chester Miller	9,874	13,237	10,521	12,590
Handley	49,504	45,634	46,241	48,897
Henry Doerr	204	545	1,679	(930)
Herig	791	20,844	15,976	5,659
Jessie Loomis	4,558	3,965	6,279	2,244
Jessie Rouse	1,871	3,031	3,400	1,502
Kempton	1,607	20,947	19,339	3,215
Merrill Park	9,393	11,944	12,657	8,680
Stone	2,353	11,370	11,198	2,525
Zilwaukee	8,415	8,174	8,236	8,353
Subtotal carried forward	<u>189,257</u>	<u>234,352</u>	<u>226,675</u>	<u>196,934</u>

(Continued)

School District of the City of Saginaw
Agency Funds
Schedule of Changes in Due to Student and Other Groups
Year Ended June 30, 2017

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Subtotal brought forward	\$ 189,257	\$ 234,352	\$ 226,675	\$ 196,934
Adult and Other Schools				
Alternative High School	9,895	-	8	9,887
Saginaw Career Complex	30,064	34,445	39,163	25,346
Saginaw Arts and Sciences Academy	71,356	148,260	137,377	82,239
Total due to student groups	<u>300,572</u>	<u>417,057</u>	<u>403,223</u>	<u>314,406</u>
Other Groups				
21st century	8,709	-	7	8,702
Bus garage	8,503	546	631	8,418
SCRIPTS	886	2,664	-	3,550
FEMA	18,740	-	16	18,724
Parent resource	305	-	-	305
Project SOAR	5	-	-	5
Saginaw AAU sports	77	-	-	77
Social work	446	-	-	446
Special education	1	-	-	1
Special events	719	327	-	1,046
Special needs - district-wide	49,605	110,298	36,844	123,059
Staff development center	19,772	10,000	10,760	19,012
Total due to other groups	<u>107,768</u>	<u>123,835</u>	<u>48,258</u>	<u>183,345</u>
Total due to student and other groups	<u>\$ 408,340</u>	<u>\$ 540,892</u>	<u>\$ 451,481</u>	<u>\$ 497,751</u>

School District of the City of Saginaw

Single Audit Report

June 30, 2017



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

Independent Auditors' Report

Management and the Board of Directors
School District of the City of Saginaw
Saginaw, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Saginaw as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District of the City of Saginaw's basic financial statements, and have issued our report thereon dated October 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District of the City of Saginaw'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Saginaw's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Saginaw'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 Saginaw'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 24, 2017

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

Management and the Board of Directors
School District of the City of Saginaw
Saginaw, Michigan

Report on Compliance for Each Major Federal Program

We have audited the School District of the City of Saginaw'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 Saginaw's major federal programs for the year ended June 30, 2017. The School District of the City of Saginaw'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 Saginaw'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 Saginaw'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 Saginaw's compliance.

Opinion on Each Major Federal Program

In our opinion, the School District of the City of Saginaw complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the School District of the City of Saginaw 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 Saginaw'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 Saginaw'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 Saginaw, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District of the City of Saginaw's basic financial statements. We issued our report thereon dated October 24, 2017, 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 24, 2017

School District of the City of Saginaw
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Grant Number	Approved Grant Amount	Accrued (Unearned) Revenue June 30, 2016	(Memo Only) Prior Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue June 30, 2017
U.S. Department of Agriculture								
Child Nutrition Cluster								
Passed through Michigan Department of Education								
Non-cash assistance (commodities)								
National School Lunch Program - Entitlement	10.555	N/A	\$ 357,499	\$ -	\$ -	\$ 357,499	\$ 357,499	\$ -
Cash assistance								
School Breakfast Program	10.553	161970	1,287,230	56,382	1,140,678	146,552	202,934	-
School Breakfast Program	10.553	171970	1,297,905	-	-	1,297,905	1,227,942	69,963
Total National School Breakfast				56,382	1,140,678	1,444,457	1,430,876	69,963
National School Lunch Program	10.555	161960	2,803,774	114,106	2,488,206	315,568	429,674	-
National School Lunch Program	10.555	171960	2,483,441	-	-	2,483,441	2,354,644	128,797
National School Lunch Program	10.555	161980	15,555	706	13,189	2,366	3,072	-
National School Lunch Program	10.555	171980	11,126	-	-	11,126	10,601	525
Total Free and Reduced				114,812	2,501,395	2,812,501	2,797,991	129,322
Summer Food Service Program for Children	10.559	160900	130,010	-	-	130,010	130,010	-
Summer Food Service Program for Children	10.559	161900	11,080	-	-	11,080	11,080	-
Summer Food Service Program for Children	10.559	170900	55,576	-	-	55,576	-	55,576
Summer Food Service Program for Children	10.559	171900	4,711	-	-	4,711	-	4,711
Total Summer Food Meals				-	-	201,377	141,090	60,287
Total Cash Assistance				171,194	3,642,073	4,458,335	4,369,957	259,572
Total Child Nutrition Cluster				171,194	3,642,073	4,815,834	4,727,456	259,572
Passed through Michigan Department of Education								
Child and Adult Care Food Program	10.558	161920	80,696	503	75,750	4,946	5,449	-
Child and Adult Care Food Program	10.558	171920	106,630	-	-	106,630	106,026	604
Child and Adult Care Food Program	10.558	162010	6,219	39	5,859	360	399	-
Child and Adult Care Food Program	10.558	172010	7,762	-	-	7,762	7,718	44
Total CCFP Meals				542	81,609	119,698	119,592	648

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

School District of the City of Saginaw
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Grant Number	Approved Grant Amount	Accrued (Unearned) Revenue June 30, 2016	(Memo Only) Prior Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue June 30, 2017
Passed through Michigan Department of Education								
Fresh Fruit and Vegetable Program	10.582	160950	\$ 178,316	\$ 21,761	\$ 178,316	\$ -	\$ 21,761	\$ -
Fresh Fruit and Vegetable Program	10.582	170950	170,750	-	-	170,750	170,750	-
Total Fresh Fruit and Vegetable Program				21,761	178,316	170,750	192,511	-
Total U.S. Department of Agriculture				193,497	3,901,998	5,106,282	5,039,559	260,220
U.S. Department of Education								
Title I Cluster								
Passed through Michigan Department of Education								
Title I Grants to Local Educational Agencies	84.010	161530	11,613,970	3,539,854	8,144,363	1,972,740	5,512,594	-
Title I Grants to Local Educational Agencies	84.010	171530	8,316,770	-	-	6,042,977	4,325,907	1,717,070
				3,539,854	8,144,363	8,015,717	9,838,501	1,717,070
Special Education Cluster								
Passed through Saginaw Intermediate School District								
Special Education - Grants to States	84.027	150450	1,793,837	14,459	1,783,103	-	14,459	-
Special Education - Grants to States	84.027	160450	1,666,101	477,807	1,548,991	117,110	552,891	42,026
Special Education - Grants to States	84.027	170450	1,624,556	-	-	1,505,589	1,129,743	375,846
				492,266	3,332,094	1,622,699	1,697,093	417,872
Special Education - Preschool Grants	84.173	160460	51,165	15,317	48,189	1,975	17,292	-
Special Education - Preschool Grants	84.173	170460	76,024	-	-	68,700	52,020	16,680
				15,317	48,189	70,675	69,312	16,680
Total Special Education Cluster				507,583	3,380,283	1,693,374	1,766,405	434,552
Passed through Bay Arenac Intermediate School District								
Career and Technical Education - Basic Grants to States	84.048	N/A	430,818	157,148	391,954	-	157,148	-
Career and Technical Education - Basic Grants to States	84.048	N/A	462,988	-	-	450,329	289,175	161,154
				157,148	391,954	450,329	446,323	161,154
Passed through Saginaw Intermediate School District								
Special Education - Grants for Infants and Families	84.181	161340	20,500	5,562	17,615	-	5,562	-
Special Education - Grants for Infants and Families	84.181	171340	20,500	-	-	19,383	18,167	1,216
				5,562	17,615	19,383	23,729	1,216

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**School District of the City of Saginaw
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Grant Number	Approved Grant Amount	Accrued (Unearned) Revenue June 30, 2016	(Memo Only) Prior Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue June 30, 2017
Passed through Michigan Department of Education								
English Language Acquisition State Grants	84.365	160580	\$ 64,631	\$ 10,429	\$ 23,760	\$ 12,394	\$ 22,823	\$ -
English Language Acquisition State Grants	84.365	170580	57,822	-	-	38,904	27,195	11,709
				<u>10,429</u>	<u>23,760</u>	<u>51,298</u>	<u>50,018</u>	<u>11,709</u>
Passed through Michigan Department of Education								
Improving Teacher Quality State Grants	84.367	160520	2,728,646	584,928	1,404,317	363,584	948,512	-
Improving Teacher Quality State Grants	84.367	170520	2,264,617	-	-	1,103,041	764,367	338,674
				<u>584,928</u>	<u>1,404,317</u>	<u>1,466,625</u>	<u>1,712,879</u>	<u>338,674</u>
Total U.S. Department of Education				<u>4,805,504</u>	<u>13,362,292</u>	<u>11,696,726</u>	<u>13,837,855</u>	<u>2,664,375</u>
U.S. Department of Health and Human Services								
Passed through Michigan Department of Education								
Substance Abuse and Mental Health Services	93.243	152704	553,500	48,766	254,448	215,120	263,886	-
Substance Abuse and Mental Health Services	93.243	162704	593,500	-	-	394,964	310,529	84,435
				<u>48,766</u>	<u>254,448</u>	<u>610,084</u>	<u>574,415</u>	<u>84,435</u>
Passed through Saginaw Intermediate School District								
Medical Assistance Program	93.778	N/A	6,654	-	-	6,654	6,654	-
Total U.S. Department of Health and Human Services				<u>48,766</u>	<u>254,448</u>	<u>616,738</u>	<u>581,069</u>	<u>84,435</u>
Total				<u>\$ 5,047,767</u>	<u>\$ 17,518,738</u>	<u>\$ 17,419,746</u>	<u>\$ 19,458,483</u>	<u>\$ 3,009,030</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

School District of the City of Saginaw
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the School District of the City of Saginaw under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District of the City of Saginaw, it is not intended to and does not present the financial position, changes in financial positions of the School District of the City of Saginaw.

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, as applicable, either the cost principles contained in the Uniform Guidance and OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments* where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

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

Note 3 - Reconciliation to the Financial Statements

Federal revenues per the financial statements	\$ 17,419,748
Adjustments from prior year grants	<u>(2)</u>
Federal revenues per Schedule of Expenditures of Federal Awards	<u>\$ 17,419,746</u>

Note 4 - Subrecipients

No amounts were provided to subrecipients.

Note 5 - Michigan Department of Education Disclosures

The federal amounts reported on the grant auditor report are in agreement with the schedule of expenditures of federal awards.

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 Saginaw
Schedule of Findings and Questioned Costs
June 30, 2017

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? _____ yes X 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 Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants

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 Saginaw
Schedule of Findings and Questioned Costs
June 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

SECTION IV- PRIOR AUDIT FINDINGS

There were no government auditing standards or federal award findings for the year ended June 30, 2016.



October 24, 2017

Management and the Board of Education
School District of the City of Saginaw
Saginaw, 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 Saginaw as of and for the year ended June 30, 2017, and have issued our report dated October 24, 2017. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

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

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

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and 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 June 1, 2017. 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 Board Statement (GASB) No. 77, *Tax Abatement Disclosures*, effective July 1, 2016. The Statement requires disclosures of tax abatement information. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

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

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

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

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

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020

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

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

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

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

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

Audit and FID Submission Deadline

The deadline to submit the Financial Information Database (FID) and school district financial audits will be November 1st. This will continue to be the deadline for future fiscal years as it is now State Law.

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. School 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

Implementation of Federal Grant Procurement Standards is Delayed

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. If your School District did not previously adopt and implement procurement policies and procedures in accordance with 2 CFR 200 you should go through the appropriate channels to elect and document usage of the additional grace period year. The grace period decision and documentation should go through the same process as the adoptions of procurement policies. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity's procurement policies. If an entity's policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Fiscal Year (FY) 2018 School Aid

The School Aid budget for FY 2018 was not signed until late July. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2018 will increase by a range of \$60 to \$120 using the "2X formula." The increase will be added to the FY 2017 foundation grant resulting in the lowest foundation for FY 2018 being \$7,631 and the maximum state guaranteed foundation being \$8,289.
- 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 increased by \$120,011,800 to \$499,000,000. Eligibility is expanded from free lunch eligible pupils to include pupils eligible for reduced price lunch, TANF, SNAP, or migrant,

homeless, or pupils in foster care. Hold Harmless and Out of Formula districts are now eligible, but will be capped at 30% of the per pupil allowance. Districts that are currently eligible would receive approximately \$777 per pupil and newly eligible districts would receive approximately \$233 per pupil.

- The per pupil funding under Sections 20f(2) and 20f(4) will be equal to the per pupil funding under those Sections in 2016-17.
- Section 147c is reduced by approximately \$22.0 million to reflect higher rates of return on investments.
- ISD General Operation funding under Section 81 will remain at \$67.1 million.
- Shared Time Instruction for Nonpublic and Homeschool Pupils Section 23f caps the maximum FTE for which a nonpublic school pupil may be counted in a shared-time program at 0.75 FTE per pupil.

Boilerplate changes include:

- A New Section 160 has been added which requires districts seeking a waiver to begin the school year before Labor Day to hold a public hearing with the MDE in the district before the waiver can be granted.
- A New Section 164g has been added which imposes a penalty on any district using State Aid funds to pay expenses related to legal action against the state.
- A New Section 164h has been added to state that there will be a state school aid penalty for a district or ISD that enters into a collective bargaining agreement that fails to comply with requirements including prohibitions on the automatic deduction of union dues from payroll and racial or religious preferences in hiring.

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 2014-2015 or 2015-2016 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI). The budget assumption data collection period begins June 1, 2017 and is open through July 7, 2017. The Department of Treasury will not declare potential fiscal stress based solely on a school district's or public school academy's budget assumption data.

Uniform Budgeting and Accounting Act (UBAA)

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

Sinking Fund

Effective March 29, 2017, Public Act 319 amended Section 1212 of the School Code (MCL § 380.1212) to allow additional uses for sinking fund proceeds. This amendment applies only to sinking fund millage authorized after this effective date. The new amendment expanded the definition of permissible expenditures that previously did not allow for the purchase of equipment and furnishings. Under the new authorization, such items may be purchased with sinking fund resources, if they are for the following purposes: 1. School security improvements (including any capital improvement or purchase that is designed to act as a deterrent to unauthorized entry of persons or items onto school premises or to otherwise promote security, including, but not limited to, metal detectors, locks, doors, lighting, cameras, and enhancements to entryways) 2. Acquisition and upgrading of technology (including hardware and communication devices that transmit, receive, or compute information for pupil instructional purposes;

the initial purchase of operating system software or customized application software, or both, accompanying the purchase of hardware and communication devices under subdivision; and the costs of design and installation of the hardware, communication devices, and initial operating system software or customized application software).

Unclaimed Property

Beginning in 2018, the State of Michigan will require the filing of zero balance reports for businesses and governmental agencies who hold property on behalf of others, such as uncashed payroll or vendor checks and other items comprising unclaimed property. This is a revision from the most recent change in 2012, which only encouraged, but did not require, reporting of zero unclaimed property situations. Under the negative attestation requirement, businesses and governmental agencies must ensure they are filing even in situations where entities have no unclaimed property.

Current rules require unclaimed property to be identified as of March 31st of each year and reported to the State on or before July 1. Property that has reached its applicable dormancy period (generally one year or three years) as of March 31 must be remitted with and reported on Michigan State Form 2011, *Michigan Holder Transmittal for Annual Report of Unclaimed Property* and the appropriate annual reporting form (there are separate forms for cash & safe deposit boxes and for securities). If the holder (business or government entity) has more than ten items to report, they must use electronic media for the annual report. The due date for this filing is July 1 (or the next work day if the 1st is on a weekend).

These rules remain unchanged, except that beginning in 2018, the negative attestation requirement will go into effect. Free software is available on the State of Michigan web site at <http://www.michigan.gov/treasury/>. The web site is a valuable resource for information regarding the law, filing requirements and related penalties, including the 33 page *Manual for Reporting Unclaimed Property*.

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.

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.

Other Reports

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

Report on Required Supplementary Information

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

Report on Other Supplementary Information

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

Appendix II Matters for Management's Consideration

In planning and performing our audit of the financial statements of the School District of the City of Saginaw as of and for the year ended June 30, 2017, we considered the School District of the City of Saginaw'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. This letter does not affect our report dated October 24, 2017, on the financial statements of the School District of the City of Saginaw. Our comments and recommendations regarding those matters are:

Equipment Listing

Through our review of the food service equipment inventory, we noted there was no acquisition cost, date of purchase or serial number identified with the equipment.

We recommend that the School District update its equipment listing at all schools. The listing should include the acquisition date, cost, serial number, location, condition, and the federal award identification number. At a minimum, the listing should include equipment over \$5,000.

Depositing Funds – Central Office

During our cash audit procedures, we noted that multiple receipts did not show as deposited into the bank account until one or two months after the funds were received by the School District. Untimely held deposits could result in the School District having cash flow issues as well as revenues potentially not being recorded in the correct fiscal year. In discussions with management, some of the issue appears to be with the financial institution and their delay in posting these deposits to the bank accounts.

We recommend the School District put the necessary procedures in place to ensure that receipts are deposited timely into the School District's bank account. This will ensure the School District of the City of Saginaw has the most accurate information when making decisions affecting the School District.

Athletic Ticket Sales

During our review of athletic gate receipts, we noted that the middle school has not been using tickets to keep a count of the number of attendees per game. When the number of tickets sold is not recorded, there is no way to reconcile the cash taken in and therefore any missing cash would not be noticed.

We recommend the School District require all schools to use the same procedures that the high schools are currently using. Doing so will ensure that no money is being inappropriately pocketed and all tickets are being sold for the correct price.

Bank Transfers

During our cash audit procedures, we noted that necessary transfers between the cafeteria fund, scholarship fund, activity fund, and general fund cash accounts are being recorded as monthly reconciling items only and the actual bank transfers are not taking place.

Going forward, we recommend actually making the bank transfers each month so each bank has the correct cash amount. We also recommend making all of the current outstanding transfers so there are not as many reconciling items to keep track of each month. This will help guarantee all funds are where they should be and ensure errors are less likely to happen due to having less reconciling items monthly.

Salary Allocation

As a result of payroll testing procedures, we have identified one employee who was working in more than one cost objective and there was no supporting documentation to support the hours worked in each area. As a result, we were unable to determine if the amount charged to each cost objective was appropriate.

We recommend the School District maintain supporting documentation for any direct charges to food service. In the case of the above salary allocation, a personnel activity report should be prepared at least monthly based on actual time.