

# **Warren Consolidated Schools**

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**Financial Report  
with Supplemental Information  
June 30, 2017**

# Warren Consolidated Schools

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## Independent Auditor's Report

To the Board of Education  
Warren Consolidated Schools

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Warren Consolidated Schools (the "School District") 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.

### ***Auditor's Responsibility***

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

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

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

To the Board of Education  
Warren Consolidated Schools

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of Warren Consolidated Schools as of June 30, 2017 and the respective changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Required Supplemental Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Warren Consolidated Schools' basic financial statements. The other supplemental 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 supplemental 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 supplemental 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.

To the Board of Education  
Warren Consolidated Schools

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017 on our consideration of Warren Consolidated Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Plante & Morse, PLLC*

October 18, 2017

# Warren Consolidated Schools

## Management's Discussion and Analysis

This section of Warren Consolidated Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the years ended June 30, 2017 and 2016. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Warren Consolidated Schools financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund and the 2016 Building and Site Series A Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statements - the Proprietary Fund's statement of net position, statement of revenue, expenses, and changes in net position, statement of cash flows, and the statement of fiduciary assets and liabilities - present financial information about activities for which the School District provides services to other funds and acts solely as an agent for the benefit of students and parents. Below is an outline of the report format:

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### Basic Financial Statements

Government-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Proportionate Share of the Net Pension Liability MPSERS Determined as of the Plan Year  
Ended September 30

Contributions MPSERS Determined as of the Year Ended June 30

Other Supplemental Information

# **Warren Consolidated Schools**

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## **Management's Discussion and Analysis (Continued)**

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

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

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

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

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

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

# Warren Consolidated Schools

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## Management's Discussion and Analysis (Continued)

The funds of the School District use the following accounting approaches:

- **Governmental Funds** - Most of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. These balances are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.
- **Proprietary Fund - Internal Service Fund** - The purpose of the Internal Service Fund is to finance certain services provided to other funds on a cost-reimbursement basis. The School District maintains this fund for accrued compensated absences and risk liabilities. It is funded through charges to and transfers from the General Fund and Nutrition Service Fund.

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

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

### **The School District as a Whole**

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2017 and 2016:

# Warren Consolidated Schools

## Management's Discussion and Analysis (Continued)

TABLE I

	Governmental Activities	
	June 30	
	2017	2016
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 108.7	\$ 129.1
Property and equipment	182.9	169.5
Total assets	291.6	298.6
<b>Deferred Outflows of Resources</b>	33.9	28.7
Total assets and deferred outflows of resources	325.5	327.3
<b>Liabilities</b>		
Current liabilities	35.3	42.3
Long-term liabilities	460.7	472.3
Total liabilities	496.0	514.6
<b>Deferred Inflows of Resources</b>	28.0	26.0
Total liabilities and deferred inflows of resources	524.0	540.6
<b>Net Position</b>		
Net investment in capital assets	38.2	35.1
Restricted	5.7	3.9
Unrestricted	(242.5)	(252.3)
Total net position	<u>\$ (198.6)</u>	<u>\$ (213.3)</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was a deficit of \$198.6 million at June 30, 2017. Net investment in capital assets, totaling \$38.2 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position (a deficit of \$242.5 million) was unrestricted.

The \$242.5 million deficit in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. A total of \$259.7 million of this deficit unrestricted net position is the School District's proportionate share of the net pension liability related to the Michigan Public School Employees' Retirement System. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund have an impact on the change in unrestricted net position from year to year.

# Warren Consolidated Schools

## Management's Discussion and Analysis (Continued)

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for the fiscal years ended June 30, 2017 and 2016:

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2017	2016
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 4.4	\$ 4.3
Operating grants/contributions	36.8	29.4
General revenue:		
Property taxes	54.1	53.5
State foundation allowance	91.0	90.9
Other	0.3	0.9
Total revenue	<u>186.6</u>	<u>179.0</u>
<b>Functions/Program Expenses</b>		
Instruction	93.8	91.4
Support services	54.9	54.6
Athletics	1.9	1.9
Nutrition services	6.6	6.7
Community services	0.5	0.7
Interest on long-term debt	7.3	7.2
Debt issuance costs	-	1.2
Depreciation (unallocated)	6.9	6.9
Total functions/program expenses	<u>171.9</u>	<u>170.6</u>
<b>Impairment Loss</b>	<u>-</u>	<u>(3.0)</u>
<b>Change in Net Position</b>	14.7	5.4
<b>Net Position - Beginning of year</b>	<u>(213.3)</u>	<u>(218.7)</u>
<b>Net Position - End of year</b>	<u><u>\$ (198.6)</u></u>	<u><u>\$ (213.3)</u></u>

# Warren Consolidated Schools

## Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all School District's activities this year totaled \$171.9 million. Certain activities were partially funded from those who benefited from the programs (\$4.4 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$36.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$54.1 million in taxes, \$91 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements). Overall, the revenue from funding sources exceeded the cost of activities by \$14.7 million, resulting in a corresponding increase in net position.

Property taxes and the state foundation allowance constitute the majority of School District operating revenue sources. In its mission to provide a quality education for its students, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with available funding resources.

### The School District's Funds

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

At June 30, 2017, the School District's funds reported a combined fund balance of \$69.7 million, a decrease of approximately \$13.6 million from June 30, 2016. The primary reasons for the decrease are as follows:

- **2016 Building and Site Series A Fund:** The fund balance of the 2016 Building and Site Series A Fund decreased by \$19 million. The bonds supporting this fund were sold during fiscal year 2016 and the proceeds were used during the year ended June 30, 2017 for facility improvements, including athletic fields and security, buses, equipment, and technology causing the decrease in the fund.
- **General Fund:** The fund balance of the General Fund experienced an increase of \$3.7 million, bringing the balance at June 30, 2017 to \$9.5 million. The fund balance of the General Fund is available to pay for expenditures related to allowable school operating activities.
- **Other funds:**
  - **Nutrition Service Fund:** The fund balance in the Nutrition Service Fund increased \$225,000, which is part of the combined school service funds.
  - **Building and Site Capital Projects Fund:** For the School District's Building and Site Capital Projects Fund, the balance decreased by \$106,000.
  - **Debt Service Fund:** The fund balance in the combined debt service funds increased by \$1.5 million.

# Warren Consolidated Schools

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## Management's Discussion and Analysis (Continued)

### General Fund Budgetary Highlights

The fiscal year 2017 original budget, which was completed at the end of the prior fiscal year, reflected certain assumptions for enrollment, state aid, grant funding, staffing, wage concessions, and other expenditures. Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The budget was amended twice during the year to reflect the most recent available information. The second and final amendment to the budget was adopted just before year end.

Comparing the original budget to the final amendment, budgeted revenue and other financing sources decreased by \$74,000 while budgeted expenditures decreased by \$834,000. The revision to budgeted revenue and other financing sources and expenditures was primarily due to local revenue allocations, staffing changes, wage concessions, and expected utility costs.

Comparing the final budget amendment to actual results, total revenue and other financing sources decreased by \$572,000 and expenditures decreased by approximately \$2.5 million. The decrease in revenue and other financing sources is largely attributable to grants that were not used during fiscal year 2017 and can be expended during fiscal year 2018. The decrease in expenditures is primarily due to staffing changes and reduced spending during the fourth quarter.

A schedule showing the School District's original and final budget amounts compared with actual results is provided in the required supplemental information section of this financial report.

# Warren Consolidated Schools

## Management's Discussion and Analysis (Continued)

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2017, the School District had \$182.9 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, equipment, and construction in progress related to the facility improvement supported by the 2016 Building and Site Bond. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$13.4 million, or 7.9 percent, from last year.

	June 30	
	2017	2016
Land	\$ 3,399,788	\$ 3,399,788
Buildings	177,871,267	177,871,267
Land improvements	74,883,442	74,870,561
Buses and other vehicles	10,441,418	11,455,664
Furniture and equipment	37,987,271	37,167,324
Construction in progress	19,226,555	-
Total capital assets	323,809,741	304,764,604
Less accumulated depreciation	140,906,525	135,274,093
Net capital assets	<u>\$ 182,903,216</u>	<u>\$ 169,490,511</u>

This year's additions of \$20.4 million included equipment and building improvements. The majority of these additions were within the construction in progress category which is funded by the 2016 Building and Site Bond and included upgrades to facilities, athletic fields, security, equipment, and technology.

We present more detailed information about our capital assets in the notes to the financial statements.

#### *Debt*

At the end of this year, the School District had \$176.8 million in general obligation bonds outstanding versus \$184.6 million the previous year.

The School District's general obligation debt was rated Baa1 by Moody's Investor Service per the most recent review in March 2017. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues qualified debt, i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$176.8 million is significantly below this statutorily imposed limit.

# Warren Consolidated Schools

## Management's Discussion and Analysis (Continued)

Other long-term obligations include accrued compensated absences, risk liabilities, postemployment retiree healthcare benefits, and amortizable bond issue premiums and discounts. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors will affect the School District in the future and were considered in preparing the School District's budget for the 2018 fiscal year:

The School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund. The actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts. The School District's Board of Education and administration consider many factors in the budget process. One of the most important factors affecting the budget is student enrollment. Over 80 percent of the School District's revenue is derived from the State of Michigan's student enrollment-based funding formula. The formula to allocate revenue to school districts is based on the blending of two official pupil counts and a per-pupil funding allocation (called the "foundation allowance"). The blended count for fiscal year 2018 is based on 10 percent of the February 2017 count plus 90 percent of the October 2017 count. The sum of these products is multiplied by the estimated foundation allowance for fiscal year 2018 of \$9,126.

The 2018 budget was adopted in June 2017 and projected an operating deficit of approximately 4.5 million. In the development of the budget, the School District solicited input from department administrators and other district stakeholders for continued cost reduction and revenue enhancement strategies. Wage and benefit concessions will continue during the 2018 school year. Relief of these concessions will have an impact on the projected budget.

The budget contains assumptions, including the number of students that will be enrolled in October 2017. Based on early enrollment data for the 2018 school year, we anticipate that the October 2017 count will be close to the estimates used in creating the 2018 budget.

A revised budget will be prepared as soon as practical and will include any known adjustments to the original assumptions. The Board of Education is committed to offering quality educational programs while being fiscally responsible.

### **Requests for Information**

This financial report is designed to provide a general overview of the School District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 31300 Anita Drive, Warren, MI 48093.

# Warren Consolidated Schools

## Statement of Net Position June 30, 2017

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 10,001,675
Receivables (Note 5)	26,725,808
Inventories	365,914
Prepaid costs and other assets	1,831,696
Restricted cash and investments (Note 10)	69,732,367
Capital assets - Net (Note 6)	182,903,216
Total assets	291,560,676
<b>Deferred Outflows of Resources</b>	
Deferred charges on bond refunding	951,395
Deferred outflows related to pensions (Note 12)	32,962,304
Total deferred outflows of resources	33,913,699
Total assets and deferred outflows of resources	325,474,375
<b>Liabilities</b>	
Accounts payable	9,529,302
Accrued payroll-related liabilities	20,101,197
Other accrued liabilities	1,440,310
Due to other governmental units	680,214
Line of credit (Note 8)	3,000,000
Unearned revenue (Note 5)	592,839
Noncurrent liabilities:	
Due within one year (Note 9)	13,077,285
Due in more than one year (Note 9)	187,880,614
Net pension liability (Note 12)	259,743,796
Total liabilities	496,045,557
<b>Deferred Inflows of Resources</b>	
Revenue in support of pension contributions made subsequent to measurement date (Note 1)	7,871,263
Deferred inflows related to pensions (Notes 1 and 12)	20,164,359
Total deferred inflows of resources	28,035,622
Total liabilities and deferred inflows of resources	524,081,179
<b>Net Position</b>	
Net investment in capital assets	38,238,634
Restricted:	
Debt service	5,466,650
Capital projects	222,466
Unrestricted	(242,534,554)
Total net position	<u><u>\$ (198,606,804)</u></u>

# Warren Consolidated Schools

## Statement of Activities Year Ended June 30, 2017

	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
Instruction	\$ 93,822,568	\$ 331,010	\$ 20,367,452	\$ (73,124,106)
Support services	54,959,072	1,079,630	10,428,198	(43,451,244)
Athletics	1,888,498	153,238	-	(1,735,260)
Nutrition services	6,585,025	2,305,512	4,938,511	658,998
Community services	535,765	491,615	352,618	308,468
Interest and other debt cost	7,272,915	-	773,429	(6,499,486)
Depreciation expense (unallocated)	6,860,867	-	-	(6,860,867)
Total primary government	<u>\$ 171,924,710</u>	<u>\$ 4,361,005</u>	<u>\$ 36,860,208</u>	(130,703,497)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				37,344,633
Property taxes, levied for debt service				16,801,472
State aid not restricted to specific purposes				90,978,918
Interest and investment earnings				96,070
Loss on the sale of capital assets				(63,188)
Other				272,539
Total general revenue				<u>145,430,444</u>
<b>Change in Net Position</b>				14,726,947
<b>Net Position - Beginning of year</b>				<u>(213,333,751)</u>
<b>Net Position - End of year</b>				<u><b>\$ (198,606,804)</b></u>

# Warren Consolidated Schools

## Governmental Funds Balance Sheet June 30, 2017

	General Fund	2016 Building and Site Series A Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 9,680,694	\$ -	\$ 318,752	\$ 9,999,446
Receivables (Note 5)	25,498,011	183,693	1,044,104	26,725,808
Due from other funds (Note 7)	2,322,431	-	389,708	2,712,139
Inventories	236,464	-	129,450	365,914
Prepaid costs and other assets	1,831,696	-	-	1,831,696
Restricted cash and investments (Note 10)	-	62,161,297	7,571,070	69,732,367
Total assets	<u>\$ 39,569,296</u>	<u>\$ 62,344,990</u>	<u>\$ 9,453,084</u>	<u>\$ 111,367,370</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 821,140	\$ 8,719,777	\$ 18,747	\$ 9,559,664
Accrued payroll-related liabilities	20,101,197	-	-	20,101,197
Other accrued liabilities	19,503	-	-	19,503
Due to other governmental units	680,214	-	-	680,214
Line of credit (Note 8)	3,000,000	-	-	3,000,000
Due to other funds (Note 7)	2,492,190	1,500,744	792,272	4,785,206
Unearned revenue (Note 5)	551,389	-	41,450	592,839
Total liabilities	27,665,633	10,220,521	852,469	38,738,623
<b>Deferred Inflows of Resources -</b>				
Unavailable revenue (Note 5)	2,415,581	-	543,772	2,959,353
Total liabilities and deferred inflows of resources	30,081,214	10,220,521	1,396,241	41,697,976
<b>Fund Balances</b>				
Nonspendable:				
Inventory	236,464	-	129,450	365,914
Prepaid assets	1,831,696	-	-	1,831,696
Restricted:				
Capital projects	-	52,124,469	-	52,124,469
Debt service	-	-	6,887,457	6,887,457
Nutrition service	-	-	881,301	881,301
Committed - Capital projects	-	-	158,635	158,635
Unassigned	7,419,922	-	-	7,419,922
Total fund balances	<u>9,488,082</u>	<u>52,124,469</u>	<u>8,056,843</u>	<u>69,669,394</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 39,569,296</u>	<u>\$ 62,344,990</u>	<u>\$ 9,453,084</u>	<u>\$ 111,367,370</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# Warren Consolidated Schools

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2017

<b>Fund Balance Reported in Governmental Funds</b>	\$	69,669,394
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of capital assets	\$ 323,809,741	
Accumulated depreciation	<u>(140,906,525)</u>	182,903,216
Deferred outflows related to pension payments made subsequent to the measurement date		20,974,947
Deferred outflows related to pension investment returns and changes in assumptions are not reported in the governmental funds		11,987,357
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds payable including premium	(197,077,943)	
Capital lease	(440,037)	
Postemployment benefits other than pensions	<u>(1,334,362)</u>	(198,852,342)
Accrued interest payable (excluding line of credit) is not included as a liability in governmental funds		(1,420,807)
Taxes and other receivables not available to pay current period expenditures are deferred in the governmental funds		2,959,353
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(259,743,796)
Deferred inflows related to revenue in support of pension contributions made subsequent to measurement date are not reported in the governmental funds		(7,871,263)
Deferred inflows related to pension investment returns and changes in assumptions are not reported in the governmental funds		(20,164,359)
Deferred outflows related to charges on bond refunding are not reported in the governmental funds		951,395
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position		<u>101</u>
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(198,606,804)</u></b>

# Warren Consolidated Schools

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2017

	General Fund	2016 Building and Site Series A Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 38,989,874	\$ 220,509	\$ 19,749,064	\$ 58,959,447
State sources	110,422,439	-	977,334	111,399,773
Federal sources	7,368,957	-	5,711,939	13,080,896
Intergovernmental	4,112,250	-	-	4,112,250
Total revenue	<u>160,893,520</u>	<u>220,509</u>	<u>26,438,337</u>	<u>187,552,366</u>
<b>Expenditures</b>				
Current:				
Instruction	98,242,786	-	167,982	98,410,768
Support services	56,438,020	-	379,268	56,817,288
Athletics	1,969,622	-	-	1,969,622
Nutrition service	-	-	6,738,693	6,738,693
Community services	171,804	-	387,806	559,610
Debt service:				
Principal	81,551	-	7,785,000	7,866,551
Interest	-	-	8,883,655	8,883,655
Capital outlay	1,242,550	19,245,122	26,948	20,514,620
Total expenditures	<u>158,146,333</u>	<u>19,245,122</u>	<u>24,369,352</u>	<u>201,760,807</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	2,747,187	(19,024,613)	2,068,985	(14,208,441)
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	73,305	-	-	73,305
Transfers in	419,857	-	-	419,857
Transfers out	-	-	(419,857)	(419,857)
Face value of debt issued - Capital lease	521,588	-	-	521,588
Total other financing sources (uses)	<u>1,014,750</u>	<u>-</u>	<u>(419,857)</u>	<u>594,893</u>
<b>Net Change in Fund Balances</b>	3,761,937	(19,024,613)	1,649,128	(13,613,548)
<b>Fund Balances - Beginning of year</b>	<u>5,726,145</u>	<u>71,149,082</u>	<u>6,407,715</u>	<u>83,282,942</u>
<b>Fund Balances - End of year</b>	<u>\$ 9,488,082</u>	<u>\$ 52,124,469</u>	<u>\$ 8,056,843</u>	<u>\$ 69,669,394</u>

# Warren Consolidated Schools

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2017

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (13,613,548)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	\$ (6,860,867)
Capitalized capital outlay	<u>20,410,065</u> 13,549,198
Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of carrying value of the disposed assets	(136,493)
Revenue is reported in the statement of activities when earned. It is not reported in the funds until collected or collectible within 60 days of year end	(83,747)
Capital leases provide financial resources to governmental funds, but entering into new capital leases increases long-term liabilities in the statement of activities	(521,588)
Repayment of bond principal and capital leases are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	7,866,551
Interest expense, including amortization of bond premium, discount, and deferred charges, is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (excluding line of credit)	1,610,740
Other postemployment benefit liabilities are recorded when earned or actuarially determined, respectively, in the statement of activities. They are not reported in the governmental funds until paid	91,733
Revenue in support of pension contributions made subsequent to measurement date	(753,793)
Change in pension expense related to deferred items	6,718,376
Internal Service Fund amounts are included as part of governmental activities	<u>(482)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 14,726,947</u></b>

# Warren Consolidated Schools

## Proprietary Fund Statement of Net Position June 30, 2017

	Proprietary Fund - Internal Service Fund
<b>Assets</b>	
Cash and investments (Note 3)	\$ 2,229
Due from other funds (Note 7)	<u>2,103,429</u>
Total assets	2,105,658
<b>Liabilities</b>	
Current liabilities:	
Provision for uninsured losses and liabilities (Notes 9 and 11)	601,701
Accrued compensated absences (Note 9)	<u>905,310</u>
Total current liabilities	1,507,011
Noncurrent liabilities:	
Provision for uninsured losses and liabilities (Notes 9 and 11)	66,856
Accrued compensated absences (Note 9)	<u>531,690</u>
Total noncurrent liabilities	<u>598,546</u>
Total liabilities	<u>2,105,557</u>
<b>Net Position - Unrestricted</b>	<u><u>\$ 101</u></u>

# Warren Consolidated Schools

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## Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2017

	Proprietary Fund - Internal Service Fund
<b>Operating Revenue</b> - Charges for services	\$ 1,656,678
<b>Operating Expenses</b> - Cost of benefits and claims - Net of reserve adjustments	<u>1,657,179</u>
<b>Operating Loss</b>	(501)
<b>Nonoperating Revenue</b> - Interest	<u>19</u>
<b>Change in Net Position</b>	(482)
<b>Net Position</b> - Beginning of year	<u>583</u>
<b>Net Position</b> - End of year	<u><u>\$ 101</u></u>

# Warren Consolidated Schools

## Proprietary Fund - Internal Service Fund Statement of Cash Flows Year Ended June 30, 2017

	Proprietary Fund - Internal Service Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from General Fund and Nutrition Service Fund for charges for services	\$ 1,538,315
Benefits and claims paid	<u>(1,543,627)</u>
Net cash used in operating activities	(5,312)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	<u>19</u>
<b>Net Decrease in Cash and Investments</b>	(5,293)
<b>Cash and Investments</b> - Beginning of year	<u>7,522</u>
<b>Cash and Investments</b> - End of year	<u><u>\$ 2,229</u></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (501)
Adjustments to reconcile operating loss to net cash from operating activities -	
Changes in assets and liabilities:	
Due from other funds	(118,363)
Due to other funds	(5,314)
Accrued compensated absences	(13,000)
Provision for uninsured losses and liabilities	<u>131,866</u>
Net cash from operating activities	<u><u>\$ (5,312)</u></u>

# Warren Consolidated Schools

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## Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2017

	<u>Agency Funds</u>
<b>Assets - Cash (Note 3)</b>	<b><u>\$ 1,060,286</u></b>
<b>Liabilities</b>	
Due to student activities	\$ 1,029,924
Due to other funds (Note 7)	<u>30,362</u>
Total liabilities	<b><u>\$ 1,060,286</u></b>

# Warren Consolidated Schools

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## Notes to Financial Statements June 30, 2017

### Note I - Nature of Business and Significant Accounting Policies

The accounting policies of Warren Consolidated Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

#### **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. Based on the application of the criteria, the School District does not contain any component units.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

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

# Warren Consolidated Schools

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## Notes to Financial Statements June 30, 2017

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When an expense is incurred for the purpose for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for the purpose for which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**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. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and 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.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Proprietary fund and fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal revenue of our proprietary fund relates to charges to the General Fund and Nutrition Service Fund for compensated absences and risk liabilities. Operating expenses for proprietary funds include the cost of risk liabilities and compensated absences. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

**General Fund** - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**2016 Building and Site Series A Capital Projects Fund** - The 2016 Building and Site Series A Capital Project Fund is used to account for and report the restricted bond proceeds from the 2016 bond issue and other financial resources that are restricted to expenditures in connection with renovating, remodeling, equipping, furnishing, and improving School District facilities.

Additionally, the School District reports the following fund types:

The School District's school service funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specific purposes. The School District's school service funds include the Nutrition Service and Community Service Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

The School District's debt service funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on long-term debt.

The Building and Site Capital Project Fund is used to record revenue and the disbursement of invoices specifically designated for buildings, equipment, and for remodeling and repairs. These funds operate until the purpose for which they were created is accomplished.

The School District's proprietary fund is the Internal Service Fund. The purpose of the Internal Service Fund is to finance services provided to other funds on a cost-reimbursement basis. The Internal Service Fund maintained by the School District is for accrued compensated absences and risk liabilities. It is funded by user charges from the General and Nutrition Service Funds.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

The School District's only fiduciary fund is the Activities (Agency) Fund. This fund is used to account for assets held by the School District in a trustee capacity or as an agent, is custodial in nature (assets equal liabilities), and does not involve the measurement of results of operations. The Activities (Agency) Fund currently maintained by the School District records the transactions of student groups for school and school-related purposes. The funds are segregated and held in a trust for the students.

#### **Assets, Liabilities, and Net Position or Equity**

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value except for the investments in U.S. government notes and U.S. agency notes with maturity dates of less than one year, which are valued at amortized cost.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Properties located in the Cities of Troy and Sterling Heights, Michigan are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 of the following year and are due on September 1. Properties located in the City of Warren, Michigan are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 of the following year for approximately 50 percent of the taxes that are due on August 1 and December 1 for the remainder of the property taxes that are due on January 31. The final collection date for all properties is February 28, at which time they are added to the county tax rolls.

**Inventories and Prepaid Costs** - Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

**Restricted Assets** - The unspent bond proceeds and related interest of the capital projects funds require amounts to be set aside for construction. Revenue from property tax collections in the debt service funds is required to be set aside for future repayments of bonded indebtedness. These amounts have been classified as restricted assets.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include land, buildings, site improvements, buses and other vehicles, and furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets (i.e., roads, sewers, bridges, etc.).

Buildings, site improvements, buses and other vehicles, and furniture and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20 to 50 years
Site improvements	10 to 20 years
Buses and other vehicles	8 to 15 years
Furniture and other equipment	5 to 20 years

**Compensated Absences (Vacation and Sick Leave)** - The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual balances for employee sick leave days and accrued vacation. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-term Obligations** - In the government-wide financial statements and proprietary fund 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 on a straight-line basis. Deferred charges (interest) on refunding bonds are expended when the refunded bonds are called and paid by the escrow agent. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The School District has a long-term obligation as a result of the other postemployment benefits provided to eligible retirees. See Note 13 for further details.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has two types of items that qualify for reporting in this category. The first is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second is the deferred charge for the unfunded pension benefit obligation reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District has three types of items. The first item arises only under a modified accrual basis of accounting, and is therefore only reported in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other sources that are not collected during the period of availability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second and third items include amounts for funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date of \$7,871,263 and amounts related to the pension plan of \$20,164,359 (see Note 12).

**Fund Balance** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.

# Warren Consolidated Schools

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## Notes to Financial Statements June 30, 2017

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

- Assigned: Intent to spend resources on specific purposes expressed by the Board of Education or superintendent, who is authorized by the Board of Education to make assignments
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

The Board of Education has adopted a fund balance policy. The fund balance policy prescribes the minimum fund balance as 12 percent of expenditures in the General Fund. This is deemed to be the prudent amount to maintain the School District's ability to meet obligations as they come due throughout the year. If the fund balance declines below 12 percent, it shall be recovered at a rate of 0.5 percent minimally each year.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Comparative Data/Reclassifications** - Comparative data is not included in the School District's financial statements.

**Pensions** - For the purpose 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. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds, except that operating transfers and debt proceeds and payments have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level.

The statement of revenue, expenditures, and changes in fund balance presents capital outlay separately, as required by generally accepted accounting principles.

State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. Significant adjustments to federal and state source revenue and related expenditures were needed to reflect changes in current funding unknown at the time of the original budget.

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

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the School District incurred expenditures in the General Fund which were in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>
Basic program	\$ 78,801,000	\$ 78,885,995
General administration	1,170,000	1,209,587
Pupil transportation services	4,285,000	4,286,831

### Note 3 - Deposits and Investments

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

### Note 3 - Deposits and Investments (Continued)

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

The investment policy adopted by the board in accordance with the state statutes has authorized investment in bonds and securities of the United States government and bank accounts, CDs, and all other investments as noted by the state statutory authority listed above.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of approximately \$16,468,266 included \$16,217,757 of bank deposits (checking and money market accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investments with custodial credit risk.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At June 30, 2017, the School District had investments totaling \$36,734,687 in Federal agency securities with maturity dates ranging from September 2017 to November 2019. These investments have a credit quality rating of AA+ according to the rating organization S&P. The School District's remaining investments are not subject to credit risk.

**Concentration of Credit Risk** - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. At June 30, 2017 the School District has three investments (federal agency securities) that individually exceed 5 percent of total investments. The School District's investment in FHLMC notes, FNMA notes, and FHLB notes represents 7.5 percent, 7.1 percent, and 7.2 percent of total investments, respectively.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

### 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. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The School District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 4 - Fair Value Measurements (Continued)

The School District has recurring fair value measurements as of June 30, 2017 of \$12,502,206 in U.S. Treasury securities and \$30,525,773 in federal agency securities. The fair value of these securities at June 30, 2017 was determined primarily based on Level 2 inputs. The School District estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

### Note 5 - Receivables and Unavailable/Unearned Revenue

Receivables as of year end for the School District's major fund and the nonmajor funds in the aggregate are as follows:

	General Fund	2016 Building and Site Series A Capital Projects Fund	Nonmajor Funds	Total
Receivables:				
Taxes receivable	\$ 2,304,000	\$ -	\$ 544,789	\$ 2,848,789
Accounts receivable	689,737	-	148,310	838,047
Accrued interest receivable	-	183,693	-	183,693
Due from other governmental units	22,504,274	-	351,005	22,855,279
Total receivables	<u>\$ 25,498,011</u>	<u>\$ 183,693</u>	<u>\$ 1,044,104</u>	<u>\$ 26,725,808</u>

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned and unavailable revenue are as follows:

	Governmental Funds	
	Deferred Inflow - Unavailable	Liability - Unearned
Delinquent property taxes	\$ 2,845,895	\$ -
Other accounts receivable not considered available to liquidate liabilities of the current period	113,458	-
Other payments received prior to meeting all eligibility requirements	-	268,621
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	324,218
Total	<u>\$ 2,959,353</u>	<u>\$ 592,839</u>

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 6 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2016	Additions/ Transfers	Disposals	Balance June 30, 2017
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 3,399,788	\$ -	\$ -	\$ 3,399,788
Construction in progress	-	19,226,555	-	19,226,555
Subtotal	3,399,788	19,226,555	-	22,626,343
Capital assets being depreciated:				
Land improvements	74,870,561	12,881	-	74,883,442
Buildings and improvements	177,871,267	-	-	177,871,267
Furniture and equipment	37,167,324	819,947	-	37,987,271
Buses and other vehicles	11,455,664	350,682	1,364,928	10,441,418
Subtotal	301,364,816	1,183,510	1,364,928	301,183,398
Accumulated depreciation:				
Land improvements	36,104,537	2,519,114	-	38,623,651
Buildings and improvements	62,541,292	2,192,232	-	64,733,524
Furniture and equipment	28,063,381	1,587,711	-	29,651,092
Buses and other vehicles	8,564,883	561,810	1,228,435	7,898,258
Subtotal	135,274,093	6,860,867	1,228,435	140,906,525
Net capital assets being depreciated	166,090,723	(5,677,357)	136,493	160,276,873
Net capital assets	\$ 169,490,511	\$ 13,549,198	\$ 136,493	\$ 182,903,216

Depreciation expense was not allocated to governmental activities as the School District considers its assets to impact multiple activities and allocation is not practical.

**Construction Commitments** - The School District's cumulative expenditures and remaining commitments with contractors as of June 30, 2017 for the 2016 Building and Site Series A Capital Projects Fund totaled \$19,804,109 and \$24,360,060, respectively.

### Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From				Total
	General Fund	2016 Building and Site Series A Capital Projects Fund	Nonmajor Governmental Funds	Activities (Agency) Fund	
General Fund	\$ -	\$ 1,500,744	\$ 791,415	\$ 30,272	\$ 2,322,431
Nonmajor governmental funds	389,618	-	-	90	389,708
Internal Service Fund	2,102,572	-	857	-	2,103,429
Total	\$ 2,492,190	\$ 1,500,744	\$ 792,272	\$ 30,362	\$ 4,815,568

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 7 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The Nutrition Service Fund and Community Service Fund transferred funds totaling \$200,000 and \$112,820, respectively, to the General Fund for current year for excess costs related to operations of the funds for the purposes for which they were created. The Building and Site Fund transferred \$107,000 to the General Fund to pay for copier lease costs.

### Note 8 - Line of Credit

In March 2017, the School District entered into a line of credit agreement with a bank. The line of credit had an \$8,000,000 credit limit and bore interest at 70 percent of the bank's daily LIBOR rate plus an interest rate spread of 97 basis points (an effective rate of 1.82 percent at June 30, 2017). At June 30, 2017, the School District had \$3,000,000 of the line of credit outstanding. The line of credit was repaid on August 30, 2017.

### Note 9 - Long-term Debt

The School District issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Qualified bonds are fully guaranteed by the State of Michigan. Other long-term obligations include postemployment retiree healthcare benefits, compensated absences, capital leases, and certain risk liabilities.

Governmental activities long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds	\$ 184,565,000	\$ -	\$ 7,785,000	\$ 176,780,000	\$ 8,915,000
Plus deferred amounts:					
Issuance discounts	(689,828)	-	(74,381)	(615,447)	(74,381)
Issuance premiums	22,642,487	-	1,729,097	20,913,390	1,729,097
Total bonds payable	206,517,659	-	9,439,716	197,077,943	10,569,716
Capital lease	-	521,588	81,551	440,037	100,558
Postemployment retiree healthcare benefits	1,426,095	601,474	693,207	1,334,362	900,000
Compensated absences	1,450,000	1,001,076	1,014,076	1,437,000	905,310
Risk liabilities	536,691	655,602	523,736	668,557	601,701
Total governmental activities	<u>\$ 209,930,445</u>	<u>\$ 2,779,740</u>	<u>\$ 11,752,286</u>	<u>\$ 200,957,899</u>	<u>\$ 13,077,285</u>

Interest expenditures at the governmental fund level relating to bonded debt totaled approximately \$8,884,000 for the year ended June 30, 2017.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 9 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental activities bond obligations are as follows:

Years Ending June 30	Governmental Activities				
	Principal	Interest	Maximum Interest Subsidy	Net Interest	Total - Net
2018	\$ 8,915,000	\$ 8,625,875	\$ (828,000)	\$ 7,797,875	\$ 16,712,875
2019	9,535,000	8,270,475	(828,000)	7,442,475	16,977,475
2020	8,325,000	7,852,337	(828,000)	7,024,337	15,349,337
2021	8,345,000	7,472,563	(828,000)	6,644,563	14,989,563
2022	7,985,000	7,085,375	(828,000)	6,257,375	14,242,375
2023-2027	58,350,000	29,564,675	(4,140,000)	25,424,675	83,774,675
2028-2032	39,230,000	14,825,562	-	14,825,562	54,055,562
2033-2037	36,095,000	4,344,250	-	4,344,250	40,439,250
Total	<u>\$ 176,780,000</u>	<u>\$ 88,041,112</u>	<u>\$ (8,280,000)</u>	<u>\$ 79,761,112</u>	<u>\$ 256,541,112</u>

General obligation bonds consist of the following at June 30, 2017:

\$9,995,000 serial bonds due in annual installments of \$1,270,000 to \$3,055,000 between May 1, 2022 and May 1, 2027; interest at 4.00 percent	\$ 9,495,000
\$15,000,000 qualified serial bonds due in a single installment of \$15,000,000 on May 1, 2027; interest at 6.375 percent. In order to provide repayment at final maturity, a set-aside arrangement is being used. The School District invested \$4,228,803 into a set-aside account as of June 30, 2017. The interest payments made each year by the School District, through maturity, will be subsidized by the federal government (as shown above in the debt service requirements table)	15,000,000
\$11,050,000 serial bonds due in annual installments of \$1,550,000 to \$3,950,000 through May 1, 2022; interest at 3.0 to 5.00 percent	9,100,000
\$14,805,000 qualified term and serial bonds due in annual installments of \$200,000 to \$1,000,000 through May 1, 2037; interest at 3.0 to 5.00 percent	14,380,000
\$11,085,000 serial bonds due in annual installments of \$1,235,000 to \$1,315,000 through May 1, 2022; interest at 2.0 to 3.0 percent	6,325,000
\$20,810,000 qualified serial bonds due in annual installments of \$2,375,000 to \$2,550,000 through May 1, 2021; interest at 5.0 percent	9,875,000
\$29,285,000 qualified serial bonds due in annual installments of \$1,895,000 to \$6,080,000 beginning May 1, 2025 through May 1, 2035; interest at 5.0 percent	29,285,000

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 9 - Long-term Debt (Continued)

\$25,755,000 serial bonds due in annual installments of \$260,000 to \$5,695,000 through May 1, 2025; interest at 4.0 to 5.0 percent	\$ 23,235,000
\$61,335,000 qualified serial bonds due in annual installments of \$160,000 to \$6,000,000 through May 1, 2036; interest at 4.0 to 5.0 percent	<u>60,085,000</u>
Total bonded debt	<u>\$ 176,780,000</u>

**Capital Leases** - The School District has entered into a lease agreement as lessee for financing the purchase of copiers. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2018	\$ 112,663
2019	112,663
2020	112,663
2021	112,663
2022	<u>18,700</u>
Total	469,352
Less amount representing interest	<u>29,315</u>
Present value of net minimum lease payments	<u>\$ 440,037</u>

### Note 10 - Restricted Cash and Investments

The balances for the restricted cash and investment accounts as of June 30, 2017 are as follows:

Unspent bond proceeds and related interest	\$ 62,161,297
Property tax collections for repayment of bonded indebtedness	3,342,267
Funds invested (set aside) for future repayment of bonded indebtedness	<u>4,228,803</u>
Total restricted cash and investments	<u>\$ 69,732,367</u>

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 11 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to certain employees. During the fiscal year ended June 30, 2017, the School District purchased commercial insurance for health and dental claims for all employees. The School District participates in the SET-SEG (risk pool) for claims relating to property, casualty, torts, and errors and omissions; the School District is self-insured for workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

The School District estimates the liability for workers' compensation that has been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the government-wide statements. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>Workers'</u> <u>Compensation</u>
Estimated liability - June 30, 2015	\$ 627,892
Estimated claims incurred - Including changes in estimates	423,918
Claim payments - Net of reinsurance refunds	<u>(515,119)</u>
Estimated liability - June 30, 2016	536,691
Estimated claims incurred - Including changes in estimates	655,602
Claim payments - Net of reinsurance refunds	<u>(523,736)</u>
Estimated liability - June 30, 2017	<u>\$ 668,557</u>

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 12 - Michigan Public School Employees' Retirement System

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

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

**Contributions** - Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

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

The range of rates is as follows:

**School District**

October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - June 30, 2017	15.27% - 19.03%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

### **Note 12 - Michigan Public School Employees' Retirement System (Continued)**

The School District's required and actual contributions to the plan for the year ended June 30, 2017 totaled \$25,221,903, which includes the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual contributions include an allocation of \$7,871,263 of revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2017.

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

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 12 - Michigan Public School Employees' Retirement System (Continued)

**Net Pension Liability, Deferrals, and Pension Expense** - At June 30, 2017, the School District reported a liability of \$259,743,796 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 as of September 30, 2015, which used updated procedures to roll forward the estimated liability to September 30, 2016. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016, the School District's proportion was 1.041091 percent.

For the year ended June 30, 2017, the School District recognized pension expense of \$18,281,093, inclusive of payments to fund the MPSERS UAAL Stabilization Rate. 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	\$ 3,237,093	\$ (615,599)
Changes of assumptions	4,060,891	-
Net difference between projected and actual earnings on pension plan assets	4,316,940	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	372,433	(19,548,760)
The School District's contributions subsequent to the measurement date	20,974,947	-
Total	<u>\$ 32,962,304</u>	<u>\$ (20,164,359)</u>

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 12 - Michigan Public School Employees' Retirement System (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending <u>June 30</u>	<u>Amount</u>
2018	\$ (4,430,270)
2019	(4,769,569)
2020	1,117,385
2021	<u>(94,548)</u>
Total	<u>\$ (8,177,002)</u>

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

**Actuarial Assumptions** - 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:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 to 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost-of-living pension adjustments	3 percent annual noncompounded for MIP members

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.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 12 - Michigan Public School Employees' Retirement System (Continued)

**Discount Rate** - The discount rate used to measure the total pension liability was 7.00 to 8.00 percent depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. 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.

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.5	0.9
Real estate and infrastructure pools	10.0	4.3
Real return, opportunistic, and absolute pool	15.5	6.0
Short-term investment pools	2.0	-
Total	100.0 %	

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent. As a result, the actuarial computed employer contributions and the net pension liability will increase for the measurement period ending September 30, 2017.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 12 - Michigan Public School Employees' Retirement System (Continued)

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the School District calculated using the discount rate of 7.00 to 8.00 percent, depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (6.0 to 7.0 percent) or 1.00 percentage point higher (8.0 to 9.0 percent) than the current rate:

<u>1.00 Percent Decrease (6.0 to 7.0 Percent)</u>	<u>Current Discount Rate (7.0 to 8.0 Percent)</u>	<u>1.00 Percent Increase (8.0 to 9.0 Percent)</u>
<u>\$ 334,484,629</u>	<u>\$ 259,743,796</u>	<u>\$ 196,730,087</u>

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

**Payable to the Pension Plan** - At June 30, 2017, the School District reported a payable of \$4,061,852 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

**Postemployment Benefits Other Than Pensions (OPEB)** - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 6.4 to 6.83 percent of covered payroll for the period from July 1, 2016 to September 30, 2016 and from 5.69 to 5.91 percent of covered payroll for the period from October 1, 2016 through June 30, 2017 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403(b) account.

# Warren Consolidated Schools

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## Notes to Financial Statements June 30, 2017

### **Note 12 - Michigan Public School Employees' Retirement System (Continued)**

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were \$5,536,000, \$5,005,000, and \$3,836,000, respectively. In addition, a portion ranging from 35 to 100 percent of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

### **Note 13 - Postemployment Benefits Other Than Pension**

**Plan Description** - The School District provides retiree healthcare benefits to eligible retirees. All retirees who elect to continue health coverage through MPSERS are reimbursed by the School District for the unpaid portion of their Blue Cross/Blue Shield or Health Alliance Plan healthcare coverage premiums for the life of the retiree. Additionally, the School District also provides group life insurance for all qualifying retirees, at various levels of coverage, as determined by the contract under which the retiree was employed. This is a single-employer defined benefit plan administered by the School District. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the School District through the General Fund.

**Funding Policy** - Active plan members are currently not obligated to make contributions to the plan. The School District has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The costs of administering the plan are ultimately borne by the School District's General Fund.

# Warren Consolidated Schools

## Notes to Financial Statements June 30, 2017

### Note 13 - Postemployment Benefits Other Than Pension (Continued)

**Funding Progress** - For the year ended June 30, 2017, the School District estimated the cost of providing retiree healthcare benefits through an actuarial valuation performed as of June 30, 2016. The valuation computed an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 656,642
Interest on the net OPEB obligation	57,044
Less adjustment to the annual required contribution	<u>(112,212)</u>
Annual OPEB cost	601,474
Amounts contributed - Payment of current premiums	<u>(693,207)</u>
Decrease in net OPEB obligation	(91,733)
OPEB obligation - Beginning of year	<u>1,426,095</u>
OPEB obligation - End of year	<u><u>\$ 1,334,362</u></u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and preceding year were as follows:

	Fiscal Year Ended June 30	
	2017	2016
Annual OPEB costs	\$ 601,474	\$ 617,730
Percentage contributed	115.3%	136.9%
Net OPEB obligation	\$ 1,334,362	\$ 1,426,095

The current funding progress of the plan as of the most recent valuation date is as follows:

Market value of assets	\$ -
Actuarial accrued liability (AAL)	9,814,175
Unfunded AAL (UAAL)	9,814,175
Funded ratio	-

### **Note 13 - Postemployment Benefits Other Than Pension (Continued)**

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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.

In the June 30, 2016 actuarial valuation, the entry age normal (level percent) cost method was used. The actuarial assumptions included a 4.0 percent discount rate and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent (pre-65) and 5 percent in all years (post-65). The UAAL is being amortized using the level dollar amortization method on a closed basis. The remaining amortization period at June 30, 2017 was 21 years.

### **Note 14 - Contingent Liabilities**

The School District is a defendant in various lawsuits arising out of the normal course of operations. Probable outcomes are currently unknown and the current financial exposure to the School District is not readily determinable. The School District will vigorously defend its positions in these lawsuits.

### **Note 15 - Tax Abatements**

The School District receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) and Payment in Lieu of Tax (PILOT) agreements granted by cities within the boundaries of the School District. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities, and PILOTs compensate local governments for some or all of the real estate tax revenue that is lost due to the waiver of that revenue.

For the fiscal year ended June 30, 2017, the School District's property tax revenue was reduced by \$1,548,000 under these programs.

# Warren Consolidated Schools

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## Notes to Financial Statements June 30, 2017

### Note 15 - Tax Abatements (Continued)

The School District is reimbursed for lost revenue caused by tax abatements on the operating millage of nonhomestead properties from the State of Michigan under the School Aid formula. The School District received approximately \$1,206,000 in reimbursements from the State of Michigan. The School District is not reimbursed for lost revenue from debt service millages. There are no abatements made by the School District.

### Note 16 - Subsequent Events

Subsequent to June 30, 2017, the School District issued \$8,420,000 of qualified serial bonds for purposes of refunding a portion of the School District's outstanding 2007 Refunding Bonds.

### Note 17 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2018.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2020.

# Warren Consolidated Schools

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## Notes to Financial Statements June 30, 2017

### **Note 17 - Upcoming Accounting Pronouncements (Continued)**

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2021.

## **Required Supplemental Information**

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# Warren Consolidated Schools

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	(Under) Over <u>Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 40,236,000	\$ 39,794,000	\$ 38,989,874	\$ (804,126)
State sources	109,909,000	109,748,000	110,422,439	674,439
Federal sources	7,535,000	8,264,000	7,368,957	(895,043)
Interdistrict and other sources	4,411,000	4,194,000	4,112,250	(81,750)
Total revenue	<u>162,091,000</u>	<u>162,000,000</u>	<u>160,893,520</u>	<u>(1,106,480)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic program	78,438,000	78,801,000	78,885,995	84,995
Added needs	19,782,000	20,472,000	19,895,275	(576,725)
Adult/Continuing education	155,000	169,000	99,214	(69,786)
Support services:				
Pupil	14,287,000	14,659,000	14,561,421	(97,579)
Instructional staff	8,015,000	7,695,000	6,928,274	(766,726)
General administration	1,057,000	1,170,000	1,209,587	39,587
School administration	10,203,000	9,931,000	9,820,330	(110,670)
Business	2,463,000	2,265,000	2,191,143	(73,857)
Operations and maintenance	15,502,000	14,573,000	14,172,991	(400,009)
Pupil transportation services	4,708,000	4,285,000	4,286,831	1,831
Central	4,217,000	4,150,000	3,849,403	(300,597)
Other support services	2,093,000	2,032,000	1,989,710	(42,290)
Community services/other	523,000	294,000	174,608	(119,392)
Debt service	-	113,000	81,551	(31,449)
Total expenditures	<u>161,443,000</u>	<u>160,609,000</u>	<u>158,146,333</u>	<u>(2,462,667)</u>
<b>Excess of Revenue Over Expenditures</b>	648,000	1,391,000	2,747,187	1,356,187
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	15,000	85,000	73,305	(11,695)
Transfers in	-	-	419,857	419,857
Face value of debt issued - Capital lease	449,000	396,000	521,588	125,588
Total other financing sources	<u>464,000</u>	<u>481,000</u>	<u>1,014,750</u>	<u>533,750</u>
<b>Net Change in Fund Balance</b>	1,112,000	1,872,000	3,761,937	1,889,937
<b>Fund Balance - Beginning of year</b>	<u>5,726,145</u>	<u>5,726,145</u>	<u>5,726,145</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 6,838,145</u>	<u>\$ 7,598,145</u>	<u>\$ 9,488,082</u>	<u>\$ 1,889,937</u>

## Warren Consolidated Schools

### Required Supplemental Information Schedule of Warren Consolidated Schools' Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System Determined as of the Plan Year Ended September 30

	2016	2015	2014
School District's proportion of the net pension liability	1.04109 %	1.07419 %	1.17126 %
School District's proportionate share of the net pension liability	\$ 259,743,796	\$ 262,371,334	\$ 257,981,079
School District's covered employee payroll	86,363,046	89,147,715	100,635,589
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	300.76 %	294.31 %	256.35 %
Plan fiduciary net position as a percentage of the total pension liability	63.01 %	62.92 %	66.15 %

## Warren Consolidated Schools

### Required Supplemental Information Schedule of Warren Consolidated Schools' Contributions Michigan Public School Employees' Retirement System Determined as of the Year Ended June 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 25,002,894	\$ 24,385,476	\$ 20,933,475
Contributions in relation to the statutorily required contribution	25,002,894	24,385,476	20,933,475
Contribution deficiency (excess)	-	-	-
School District's covered employee payroll	90,613,103	86,861,142	92,499,737
Contributions as a percentage of covered employee payroll	27.59 %	28.07 %	22.63 %

## **Warren Consolidated Schools**

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### **Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2017**

**Pension Benefit Changes** - There were no changes of benefit terms in 2016.

**Changes in Pension Assumptions** - There were no changes of benefit assumptions in 2016.

**Change in Size or Composition of Covered Population** - There were no significant changes in size or composition of the covered population in 2016.

## **Other Supplemental Information**

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# Warren Consolidated Schools

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	School Service Funds		Debt Service Fund	Capital Projects Funds	Total
	Nutrition Service Fund	Community Service Fund	Nonmajor Debt Service Fund	Building and Site Fund	Nonmajor Governmental Funds
<b>Assets</b>					
Cash and investments	\$ 125,617	\$ -	\$ -	\$ 193,135	\$ 318,752
Receivables	426,815	-	544,789	72,500	1,044,104
Due from other funds	389,708	-	-	-	389,708
Inventories	129,450	-	-	-	129,450
Restricted cash and investments	-	-	7,571,070	-	7,571,070
Total	<b>\$ 1,071,590</b>	<b>\$ -</b>	<b>\$ 8,115,859</b>	<b>\$ 265,635</b>	<b>\$ 9,453,084</b>
 <b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 18,532	\$ -	\$ 215	\$ -	\$ 18,747
Due to other funds	857	-	684,415	107,000	792,272
Unearned revenue	41,450	-	-	-	41,450
Total liabilities	60,839	-	684,630	107,000	852,469
<b>Deferred Inflows of Resources -</b>					
Unavailable revenue	-	-	543,772	-	543,772
Total liabilities and deferred inflows of resources	60,839	-	1,228,402	107,000	1,396,241
<b>Fund Balances</b>					
Nonspendable - Inventory	129,450	-	-	-	129,450
Restricted:					
Debt service	-	-	6,887,457	-	6,887,457
Nutrition services	881,301	-	-	-	881,301
Committed - Capital projects	-	-	-	158,635	158,635
Total fund balances	1,010,751	-	6,887,457	158,635	8,056,843
Total liabilities, deferred inflow of resources, and fund balances	<b>\$ 1,071,590</b>	<b>\$ -</b>	<b>\$ 8,115,859</b>	<b>\$ 265,635</b>	<b>\$ 9,453,084</b>

# Warren Consolidated Schools

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2017

	School Service Funds		Debt Service Fund	Capital Projects Funds	Total Nonmajor Governmental Funds
	Nutrition Service Fund	Community Service Fund	Nonmajor Debt Service Fund	Building and Site Fund	
<b>Revenue</b>					
Local sources	\$ 2,327,540	\$ 752,336	\$ 16,668,401	\$ 787	\$ 19,749,064
State sources	203,223	-	774,111	-	977,334
Federal sources	4,938,510	-	773,429	-	5,711,939
<b>Total revenue</b>	<b>7,469,273</b>	<b>752,336</b>	<b>18,215,941</b>	<b>787</b>	<b>26,438,337</b>
<b>Expenditures</b>					
Current:					
Instruction - Basic program	-	167,982	-	-	167,982
Support services	278,155	83,691	17,422	-	379,268
Nutrition services	6,738,693	-	-	-	6,738,693
Community services	-	387,806	-	-	387,806
Debt service:					
Principal	-	-	7,785,000	-	7,785,000
Interest	-	-	8,883,655	-	8,883,655
Capital outlay	26,948	-	-	-	26,948
<b>Total expenditures</b>	<b>7,043,796</b>	<b>639,479</b>	<b>16,686,077</b>	<b>-</b>	<b>24,369,352</b>
<b>Excess of Revenue Over Expenditures</b>	<b>425,477</b>	<b>112,857</b>	<b>1,529,864</b>	<b>787</b>	<b>2,068,985</b>
<b>Other Financing Uses - Transfers out</b>	<b>(200,000)</b>	<b>(112,857)</b>	<b>-</b>	<b>(107,000)</b>	<b>(419,857)</b>
<b>Net Change in Fund Balances</b>	<b>225,477</b>	<b>-</b>	<b>1,529,864</b>	<b>(106,213)</b>	<b>1,649,128</b>
<b>Fund Balances - Beginning of year</b>	<b>785,274</b>	<b>-</b>	<b>5,357,593</b>	<b>264,848</b>	<b>6,407,715</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,010,751</b>	<b>\$ -</b>	<b>\$ 6,887,457</b>	<b>\$ 158,635</b>	<b>\$ 8,056,843</b>

# Warren Consolidated Schools

June 30	2007 Refunding	2010 Unlimited	2011 Refunding	2012 Unlimited
	Bonds	Tax Series B	Bonds	Tax Series A
	Principal	Principal	Principal	Principal
2018	\$ -	\$ -	\$ -	\$ 200,000
2019	-	-	-	205,000
2020	-	-	3,600,000	250,000
2021	-	-	3,950,000	300,000
2022	3,055,000	-	1,550,000	525,000
2023	1,305,000	-	-	575,000
2024	1,295,000	-	-	625,000
2025	1,280,000	-	-	675,000
2026	1,290,000	-	-	725,000
2027	1,270,000	15,000,000	-	775,000
2028	-	-	-	875,000
2029	-	-	-	875,000
2030	-	-	-	900,000
2031	-	-	-	925,000
2032	-	-	-	950,000
2033	-	-	-	1,000,000
2034	-	-	-	1,000,000
2035	-	-	-	1,000,000
2036	-	-	-	1,000,000
2037	-	-	-	1,000,000
Total principal	<b>\$ 9,495,000</b>	<b>\$ 15,000,000</b>	<b>\$ 9,100,000</b>	<b>\$ 14,380,000</b>
Principal payments due	May 1	May 1	May 1	May 1
Interest payments due	May 1 and November 1			
Interest rate	4.0%	6.375%	3.0% to 5.0%	3.0% to 5.0%
Original issue	<b>\$ 9,995,000</b>	<b>\$ 15,000,000</b>	<b>\$ 11,050,000</b>	<b>\$ 14,805,000</b>

**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**June 30, 2017**

2012 Refunding Bonds Principal	2013 Refunding Bonds Principal	2016 Refunding Bonds Series A Principal	2016 Refunding Bonds Series B Principal	2016 Building and Site Bonds Series A Principal	Total
\$ 1,235,000	\$ 2,550,000	\$ -	\$ 3,255,000	\$ 1,675,000	\$ 8,915,000
1,255,000	2,500,000	-	3,575,000	2,000,000	9,535,000
1,255,000	2,450,000	-	260,000	510,000	8,325,000
1,265,000	2,375,000	-	295,000	160,000	8,345,000
1,315,000	-	-	630,000	910,000	7,985,000
-	-	-	5,510,000	935,000	8,325,000
-	-	-	5,695,000	935,000	8,550,000
-	-	1,895,000	4,015,000	1,160,000	9,025,000
-	-	6,080,000	-	1,335,000	9,430,000
-	-	1,940,000	-	4,035,000	23,020,000
-	-	2,050,000	-	4,235,000	7,160,000
-	-	2,155,000	-	4,435,000	7,465,000
-	-	2,265,000	-	4,660,000	7,825,000
-	-	2,375,000	-	4,910,000	8,210,000
-	-	2,485,000	-	5,135,000	8,570,000
-	-	2,595,000	-	5,410,000	9,005,000
-	-	2,705,000	-	5,685,000	9,390,000
-	-	2,740,000	-	5,960,000	9,700,000
-	-	-	-	6,000,000	7,000,000
-	-	-	-	-	1,000,000
<b>\$ 6,325,000</b>	<b>\$ 9,875,000</b>	<b>\$ 29,285,000</b>	<b>\$ 23,235,000</b>	<b>\$ 60,085,000</b>	<b>\$ 176,780,000</b>
May 1	May 1	May 1	May 1	May 1	
May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	
2.0% to 3.0%	5.0%	5.0%	4.0% to 5.0%	4.0% to 5.0%	
<b>\$ 11,085,000</b>	<b>\$ 20,810,000</b>	<b>\$ 29,285,000</b>	<b>\$ 25,755,000</b>	<b>\$ 61,335,000</b>	