

**Dearborn Heights School District No. 7  
Dearborn Heights, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2016**

Dearborn Heights School District No. 7

Dearborn Heights, Michigan

June 30, 2016

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Dearborn Heights School District No. 7

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Dearborn Heights School District No. 7  
Dearborn Heights, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dearborn Heights School District No. 7 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dearborn Heights School District No. 7, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Fund Deficits**

As discussed in Note J, the General Fund was in the deficit position of \$705,614 at June 30, 2016. State Law requires the District to continue to implement cost-cutting initiatives that will enable it to bring expenditures in line with expected current revenue and eliminate the General Fund deficit.

## **Change in Accounting Principles**

As discussed in Note O to the financial statements, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during the year. As a result, the District has applied fair value to certain investments and disclosures related to all fair value measurements. Our opinions are not modified with respect to this matter.

Also as discussed in Note O to the financial statements, the District implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, during the year. As a result, the District's external investment pool has measured all of its investments at amortized cost for financial reporting purposes. This statement also established additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate 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 combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016, on our consideration of the District's 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 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 District's internal control over financial reporting and compliance.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 19, 2016

This section of Dearborn Heights School District No. 7's annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Dearborn Heights School District No. 7 financially as a whole. The *District-wide Financial Statements* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and longer-term view of the 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 district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually, and the Special Revenue Funds and remaining Debt Service Fund collectively, as other nonmajor governmental funds. The remaining statement, the Statement of Assets and Liabilities - Fiduciary Fund, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

**District-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 basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position - the difference between assets and deferred outflows of resources and liabilities and 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 revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The *District-wide Financial Statements* are full accrual basis statements. They report all the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the *District-wide Financial Statements*.

**Fund Financial Statements**

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Fund, Capital Project Fund, and the Special Revenue (School Service) Fund which is comprised of Cafeteria.

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

**Summary of Net Position:**

The following summarizes the net position as of June 30, 2016 and 2015:

Condensed Statements of Net Position  
as of June 30, 2016 and 2015

	Governmental Activities 2016	Governmental Activities 2015
<b>Assets</b>		
Current and other assets	\$ 10,598,490	\$ 8,182,702
Capital assets	<u>12,317,244</u>	<u>12,648,160</u>
<b>Total Assets</b>	<b>22,915,734</b>	<b>20,830,862</b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources related to pensions	3,845,938	3,218,749
<b>Liabilities</b>		
Current liabilities	9,349,032	9,227,796
Noncurrent liabilities	<u>38,241,899</u>	<u>32,750,432</u>
<b>Total Liabilities</b>	<b>47,590,931</b>	<b>41,978,228</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources related to pensions	1,366,239	3,531,858
<b>Net Position</b>		
Net investment in capital assets	11,032,824	12,135,748
Restricted	500,988	420,710
Unrestricted	<u>(33,729,310)</u>	<u>(34,016,933)</u>
<b>Total Net Position</b>	<b><u><u>\$(22,195,498)</u></u></b>	<b><u><u>\$(21,460,475)</u></u></b>

By far the most significant portion of the District's net position is the negative unrestricted portion related to pensions. The unrestricted portion of net position declined significantly during the fiscal year as a result of the recording of the pension liability and correlating deferred outflows and inflows of resources that are required to be recorded through a change in accounting principles. The District also reports its investment in capital assets (e.g., land, buildings, equipment, and etcetera). The District uses these capital assets to provide services to students and residents of the community; consequently, these assets are *not* available for future spending. Also the amount of net position restricted for specific purposes was specifically restricted for vocational and special education purposes.

### **Analysis of Financial Position:**

As detailed above, the District shows total net position (deficit) of (\$22,195,498) for the fiscal year ended June 30, 2016. This statement has been affected by the following:

- An overall increase in liabilities due to the implementation of GASB 68.

### **Results of Operations:**

District-wide operating results for the fiscal years ended June 30, 2016 and 2015:

#### Condensed Statements of Activities Years Ended June 30, 2016 and 2015

	Governmental Activities 2016	Governmental Activities 2015
<b>Revenues:</b>		
Program Revenues		
Charges for service	\$ 474,214	\$ 455,813
Operating and capital grants	3,358,140	4,149,117
General Revenues		
Property taxes	2,057,440	2,096,159
State school aid-unrestricted	19,794,240	18,913,953
Other	177,149	214,428
<b>Total Revenues</b>	<b>25,861,183</b>	<b>25,829,470</b>
<b>Functions/Program Expenses:</b>		
Instruction	15,649,402	15,286,228
Supporting services	8,299,384	7,698,763
Community services	272,754	278,876
Food services	1,394,855	1,368,255
Other	126	-
Interest on long-term debt	57,637	-
Unallocated depreciation	922,048	853,236
<b>Total Expenses</b>	<b>26,596,206</b>	<b>25,485,358</b>
<b>Change in Net Position</b>	<b>\$ (735,023)</b>	<b>\$ 344,112</b>

**Analysis of Results of Operations:**

During the fiscal year ended June 30, 2016, the District's net position decreased by \$735,023.

**A. Governmental Fund Operating Results**

The District's revenues and other financing sources from governmental fund operations exceeded expenditures and other financing uses by \$2,727,146 for the fiscal year ended June 30, 2016. Further discussion of the District's operating results is available in the section entitled "Results of 2015-2016 Operations" located on the following pages.

**B. Depreciation Expense in Excess of Capital Outlay**

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During fiscal year 2015-2016, the District's current year depreciation was more than the investment in new or replacement assets, causing a decrease in net District assets. The District's overall capital assets decreased by \$330,916 calculated as the difference between new capital investments of \$591,132, depreciation allocated against the useful lives of District assets of \$888,909, and deletions of \$33,139.

**C. Long-Term Debt Activities**

The District's compensated absences and accrued vacation liabilities decreased by \$(49,796). 2016 Building and Site Bonds were issued in the amount of \$2,935,000.

**Results of 2015-2016 Operations**

During the fiscal year ended June 30, 2016, the District's fund balances increased by \$2,727,146. A few additional significant factors affecting net position during the year are discussed below:

**A. General Fund Operations**

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Dearborn Heights School District No. 7 such as: salaries and benefits for teachers, classroom aides, administrators, secretaries, custodians, maintenance staff, librarians, counselors, and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's revenues from General Fund expenditures exceeded operations by \$495,675 for the fiscal year ended June 30, 2016. The General Fund as of June 30, 2016, had a fund deficit of \$(705,614) or (3.0)% of expenditures for the 2015-2016 fiscal year. The District continues to seek ways to become more efficient, as well as increase revenues to build fund equity, and deal with fluctuations in school funding at the State level, while still continuing to provide optimal educational services for children.

**B. Technology Infrastructure Capital Project Fund Operations**

The Technology Infrastructure Capital Project Fund consists of bond proceeds and local revenues related to the 2016 \$2,935,000 bond. At June 30, 2016, the Fund had \$2,100,478 in fund balance available for bond project purposes.

**C. School Service Funds**

The Dearborn Heights School District No. 7 also has one Special Revenue (school service) fund: Cafeteria Fund.

The Cafeteria Fund is a fund that reports the food service program activities. In 2015-2016, the Cafeteria Fund had revenues of \$1,447,872 and expenditures of \$1,372,397. The Cafeteria Fund is self-supporting and had a fund balance of \$18,046 at the end of the fiscal year.

**D. Capital Project Sinking Fund**

The Capital Project Sinking Fund is designated for the disbursement of monies from the approved Sinking Fund millage to fund capital improvements and related activities. The fund is kept open for as long as there are funds unspent from the Sinking Fund millage.

**Net Investment in Capital Assets**

The District's net investment in capital assets increased during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2015</u>	<u>Net Change</u>	<u>Balance June 30, 2016</u>
Capital Assets	\$ 33,149,511	\$ (71,648)	\$ 33,077,863
Less: accumulated depreciation	<u>(20,501,351)</u>	<u>(259,268)</u>	<u>(20,760,619)</u>
Net investment in capital outlay	<u>\$ 12,648,160</u>	<u>\$ (330,916)</u>	<u>\$ 12,317,244</u>

**IMPORTANT ECONOMIC FACTORS**

**1. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment - Blended at 90 percent of prior year's fall count and 10 percent of current year's winter count (also known as the "supplemental" count).
- c. The District's non-homestead property valuation.

**Per Student Foundation Allowance**

Annually, the State of Michigan establishes the per student foundation allowance. The Dearborn Heights School District No. 7 foundation allowance was \$7,391 per student for the 2015-2016 school year.

**Student Enrollment**

The District's State Aid Membership for 2015-2016 was 2,659. The District's enrollment decreased from the prior school year's Fall student count. The following summarizes the State Aid Membership counts for the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2015-2016	2,659	33
2014-2015	2,626	-45
2013-2014	2,671	-179
2012-2013	2,850	-97
2011-2012	2,947	-42

Subsequent to June 30, 2016, preliminary student enrollments for 2016-2017 indicate that enrollments have decreased by approximately 10 students from 2015-2016.

**2. Property Taxes levied for General Operations (General Fund Non-homestead Taxes)**

The District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year’s CPI increase or five (5) percent, whichever is less. At the time of sale, a property’s taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District’s non-homestead property tax revenue for 2015-2016 fiscal year was \$1,174,852.

**3. Sinking Fund Property Taxes**

The voters of Dearborn Heights School District No. 7 approved a Sinking Fund millage to fund capital improvements and related activities. The District’s Sinking Fund levy, which is used to pay the capital related costs, is based on the taxable valuation of all properties: non-homestead and homestead. For the 2015-2016, the District Sinking Fund millage levy was 4.6682 mills that generated revenue of \$882,588.

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

Listed below is an analysis of the original budget and final budget to the final actual.

**General Fund Expenditures and Other Uses Budget vs. Actual**

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2015-2016	\$ 22,271,878	\$ 23,685,754	\$ 24,020,197	7.3%	-1.4%
2014-2015	22,052,469	22,510,764	23,885,931	7.7%	-5.8%

**General Fund Revenues and Other Sources, Budget vs. Actual**

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2015-2016	\$ 23,622,313	\$ 24,625,347	\$ 24,509,158	3.6%	0.5%
2014-2015	23,423,418	23,869,575	23,605,445	0.8%	1.1%

**Original vs. Final Budget:**

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Dearborn Heights School District No. 7 amends its budget periodically during the school year. The June 2016 budget amendment was the final budget for the fiscal year.

**Revenue Change from Original to Final Budget:**

		<u>Percent</u>
Total Revenues Original Budget	\$ 23,622,313	100.0
Total Revenues Final Budget	<u>24,625,347</u>	<u>104.2</u>
Increase in Budget Revenues	<u>\$ (1,003,034)</u>	<u>-4.2</u>

The District's final actual general fund revenues differed from the final budget by \$(109,475), a negative variance of (0.4) percent from the final budget.

The final revenue budget reflects the following changes from the Original Budget:

- Local revenue was increased by \$8,000.
- State revenue increased by \$961,731.
- Federal revenue increased by \$13,303.

**General Fund Expenditures:**

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 22,271,878	100.0
Total Expenditures Final Budget	<u>23,685,754</u>	<u>106.3</u>
Increase in Budget Expenditures	<u>\$ 1,413,876</u>	<u>6.3</u>

The District's actual expenditures were more than the final budget by (\$334,443) or 1.4 percent.

Some of the significant changes in expenditure budgets for the year include:

- Instruction costs were increased by \$342,081.
- Supporting services costs were increased by \$1,046,310.
- Community services costs were increased by \$45,924.
- Payments to other districts were decreased by \$20,439.

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

Our elected officials and administration considered many factors when setting the School District's 2017 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017 fiscal year is 10 percent and 90 percent of the February 2016 and October 2016 student counts, respectively. The 2017 fiscal year budget was adopted in June 2016, based on an estimate of students that will be enrolled in September 2017. Approximately 88 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. For the school year 2016-2017, the District's foundation allowance will increase from \$7,391 to \$7,511. Based on early enrollment data at the start of the 2016-2017 school year, we anticipate that the fall student count will be slightly lower, but similar to the estimates used in creating the 2016-2017 fiscal year budget.

Due to economic factors, the resident community of the District has become more transient. The District added a virtual academy option at the high school level during the 2011-2012 school year, and continued to advertise in an attempt to stabilize enrollment. The District also negotiated salary reductions and health care contributions ranging from 20-35 percent from employee groups in anticipation of reduced state aid funding. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

In fiscal year 2017, the School District has budgeted for increased State Aid funding, due to increased enrollment. The District has continued to look for ways to cut costs, without an adverse effect on instruction or programs, and also recognizes the need for increased staffing to accommodate the increased enrollment. The District expects to eliminate the district deficit in fiscal year 2016-2017.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, it can be obtained by contacting the following person:

Mr. John Fazer  
Superintendent  
Dearborn Heights School District No. 7  
20629 Annapolis  
Dearborn Heights, MI 48125  
Phone: (313) 278-1900

## **BASIC FINANCIAL STATEMENTS**

Dearborn Heights School District No. 7

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 6,135,647
Due from other governmental units	4,396,748
Prepays	<u>66,095</u>
Total current assets	10,598,490
Noncurrent assets	
Capital assets not being depreciated	40,000
Capital assets, net of accumulated depreciation	<u>12,277,244</u>
Total noncurrent assets	<u>12,317,244</u>
TOTAL ASSETS	22,915,734
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	3,845,938
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	1,436,304
Accrued payroll	1,726,164
Other accrued liabilities	1,014,123
Unearned revenue	176,915
Accrued interest payable	12,302
Short-term notes payable	4,349,132
Current portion of compensated absences	130,265
Current portion of long-term debt	<u>503,827</u>
Total current liabilities	9,349,032
Noncurrent liabilities	
Noncurrent portion of compensated absences	323,818
Noncurrent portion of long-term debt	2,881,071
Net pension liability	<u>35,037,010</u>
Total noncurrent liabilities	<u>38,241,899</u>
TOTAL LIABILITIES	47,590,931
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>1,366,239</u>
<b>NET POSITION</b>	
Net investment in capital assets	11,032,824
Restricted for food service	18,046
Restricted for capital projects	482,942
Unrestricted	<u>(33,729,310)</u>
TOTAL NET POSITION	<u><u>\$(22,195,498)</u></u>

See accompanying notes to financial statements.

Dearborn Heights School District No. 7

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 15,649,402	\$ 135,648	\$ 2,052,424	\$(13,461,330)
Supporting services	8,299,384	51,131	145,279	(8,102,974)
Community services	272,754	-	-	(272,754)
Food service	1,394,855	287,435	1,160,437	53,017
Other	126	-	-	(126)
Interest on long-term debt	57,637	-	-	(57,637)
Unallocated depreciation	922,048	-	-	(922,048)
<b>TOTAL</b>	<b>\$ 26,596,206</b>	<b>\$ 474,214</b>	<b>\$ 3,358,140</b>	<b>(22,763,852)</b>
General revenues				
Property taxes, levied for general purposes				1,174,852
Property taxes, levied for capital projects				882,588
State school aid - unrestricted				19,794,240
Interest and investment earnings				967
Other				176,182
<b>TOTAL GENERAL REVENUES</b>				<b>22,028,829</b>
<b>CHANGE IN NET POSITION</b>				<b>(735,023)</b>
Net position, beginning of year				<u>(21,460,475)</u>
Net position, end of year				<u><u>\$(22,195,498)</u></u>

See accompanying notes to financial statements.

Dearborn Heights School District No. 7

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Technology Infrastructure (Capital Project) Fund	Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,572,879	\$ 2,919,654	\$ 643,114	\$ 6,135,647
Due from other governmental units	4,384,565	-	12,183	4,396,748
Due from other funds	-	245,095	95,536	340,631
Prepays	66,095	-	-	66,095
<b>TOTAL ASSETS</b>	<b>\$ 7,023,539</b>	<b>\$ 3,164,749</b>	<b>\$ 750,833</b>	<b>\$ 10,939,121</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 156,553	\$ 1,064,271	\$ 215,480	\$ 1,436,304
Accrued payroll	1,726,164	-	-	1,726,164
Other accrued liabilities	1,014,123	-	-	1,014,123
Due to other funds	306,266	-	34,365	340,631
Unearned revenue	176,915	-	-	176,915
Short-term notes payable	4,349,132	-	-	4,349,132
<b>TOTAL LIABILITIES</b>	<b>7,729,153</b>	<b>1,064,271</b>	<b>249,845</b>	<b>9,043,269</b>
<b>FUND BALANCES (DEFICIT)</b>				
<b>Nonspendable</b>				
Prepays	66,095	-	-	66,095
<b>Restricted</b>				
Food service	-	-	18,046	18,046
Capital projects	-	2,100,478	482,942	2,583,420
Unassigned	(771,709)	-	-	(771,709)
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b>(705,614)</b>	<b>2,100,478</b>	<b>500,988</b>	<b>1,895,852</b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<b>\$ 7,023,539</b>	<b>\$ 3,164,749</b>	<b>\$ 750,833</b>	<b>\$ 10,939,121</b>

See accompanying notes to financial statements.

Dearborn Heights School District No. 7

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET POSITION

June 30, 2016

**Total fund balances - governmental funds** \$ 1,895,852

Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 33,077,863	
Accumulated depreciation is	<u>(20,760,619)</u>	
Capital assets, net		12,317,244

Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date and state aid related to pensions will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	3,845,938	
Deferred inflows of resources related to pensions	<u>(1,366,239)</u>	
		2,479,699

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(2,935,000)	
Capitalized bond premium	(29,804)	
Capital leases payable	(420,094)	
Compensated absences	(454,083)	
Accrued interest payable	(12,302)	
Net pension liability	<u>(35,037,010)</u>	
		<u>(38,888,293)</u>

**Net position of governmental activities** \$ (22,195,498)

Dearborn Heights School District No. 7

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended June 30, 2016

	General Fund	Technology Infrastructure (Capital Project) Fund	Nonmajor Governmental Funds	Total
<b>REVENUES</b>				
Local sources	\$ 1,526,057	\$ 556	\$ 1,164,640	\$ 2,691,253
State sources	21,596,933	-	61,394	21,658,327
Federal sources	1,202,517	-	1,116,593	2,319,110
<b>TOTAL REVENUES</b>	<b>24,325,507</b>	<b>556</b>	<b>2,342,627</b>	<b>26,668,690</b>
<b>EXPENDITURES</b>				
Current				
Instruction	15,301,227	-	-	15,301,227
Supporting services	8,165,868	-	-	8,165,868
Community services	268,361	-	-	268,361
Food service	-	-	1,372,397	1,372,397
Other	-	126	-	126
Debt service, interest and fiscal charges	-	45,335	-	45,335
Capital outlay	54,506	1,130,490	523,023	1,708,019
<b>TOTAL EXPENDITURES</b>	<b>23,789,962</b>	<b>1,175,951</b>	<b>1,895,420</b>	<b>26,861,333</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>535,545</b>	<b>(1,175,395)</b>	<b>447,207</b>	<b>(192,643)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	6,714	-	-	6,714
Transfers to other funds	-	-	(6,714)	(6,714)
Payments from other districts	145,279	-	-	145,279
Payments to other districts	(230,235)	-	-	(230,235)
Capital lease proceeds	38,372	-	-	38,372
Bond proceeds	-	2,935,000	-	2,935,000
Bond premium	-	31,373	-	31,373
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(39,870)</b>	<b>2,966,373</b>	<b>(6,714)</b>	<b>2,919,789</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>495,675</b>	<b>1,790,978</b>	<b>440,493</b>	<b>2,727,146</b>
Fund balances (deficit), beginning of year	(1,201,289)	309,500	60,495	(831,294)
Fund balances (deficit), end of year	\$ (705,614)	\$ 2,100,478	\$ 500,988	\$ 1,895,852

See accompanying notes to financial statements.

Dearborn Heights School District No. 7

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

**Net change in fund balances - total governmental funds** **\$ 2,727,146**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 591,132	
Depreciation expense	<u>(922,048)</u>	
Excess of depreciation expense over capital outlay		(330,916)

Repayment and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayments reduce long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current period, these amounts consist of:

Capital lease proceeds	(38,372)	
Capital lease repayments	130,690	
Proceeds from bond issue	(2,935,000)	
Capitalized bond premium	<u>(29,804)</u>	
		(2,872,486)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in net pension liability	(3,089,069)	
Increase in deferred outflows of resources related to pensions	627,189	
(Decrease) in deferred inflows of resources related to pensions	2,165,619	
Decrease in compensated absences	49,796	
Increase in accrued interest payable	<u>(12,302)</u>	
		<u>(258,767)</u>

**Change in net position of governmental activities** **\$ (735,023)**

Dearborn Heights School District No. 7

STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND

June 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 104,038</u>
LIABILITIES	
Due to student groups and activities	<u>\$ 104,038</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Dearborn Heights School District No. 7 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below:

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of Dearborn Heights School District No. 7. The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the district-wide financial statements) present information for the District as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide financial statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, unrestricted State aid payments, and other general revenues, and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for each major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. Fiduciary funds are reported by type.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations, except those required to be accounted for in another fund.
- b. Technology Infrastructure (Capital Project) Fund - The Technology Infrastructure (Capital Project) Fund is used to record bond proceeds and other local revenue for projects related to the 2016 Building and Site Bonds.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Measurement Focus

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty (60) days of the end of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports unearned and unavailable revenue on its governmental funds balance sheet, when applicable. Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty (60) days of year-end. Unearned revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

If/when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources if they are needed.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The District does not maintain a formalized encumbrance accounting system.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Budgets and Budgetary Accounting - continued

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the School Board.
- f. Formal budgetary integration is employed as a management control device during the year for the General Fund and all Special Revenue Funds.
- g. The budget, as presented, has been amended in a legally permissible manner.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts, pooled investment accounts, and short-term investments with an original maturity of 90 days or less. Cash equivalents are recorded at market value.

7. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2016, to be paid in July and August 2016. The total amount of \$4,396,748 due from other governmental units consists of \$3,895,917 related to State Aid and \$500,831 for other governmental grants.

9. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both district-wide and fund financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

10. Capital Assets

Capital assets include land, land improvements, buildings and additions, equipment, furniture, and other assets, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one (1) year. Capital assets also include individual cost items that are less than \$5,000 if the items were part of a large purchase to equip buildings. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings and additions	20 - 50 years
Equipment, furniture, and other assets	5 - 20 years
Vehicles	5 - 15 years

The District has no assets that would be classified as infrastructure assets.

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Compensated absences consist of earned but unused accumulated vacation and sick leave benefits and other severance benefits. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the governmental funds balance sheet, when applicable, will report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of a net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one (1) item that qualifies for reporting in this category. Deferred outflows of resources related to pensions result from changes in assumptions, changes in proportionate share and differences between the District's contributions and proportionate share of contributions, and contributions subsequent to the measurement date.

In addition to liabilities, the statement of net position and the governmental funds balance sheet, when applicable, will report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District only has one (1) item that qualifies for reporting in this category for deferred inflows of resources related to pensions that are reported in the district-wide financial statement of net position. Deferred inflows of resources related to pensions result from state aid related to pensions, differences between expected and actual experience, and the net difference between projected and actual earnings on pension plan investments.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

13. Unearned Revenue

The unexpended balance of various federal and/or state categorical and local grants is carried forward as unearned revenue until the period in which eligible expenditures are incurred. Other monies collected in advance, such as summer school, community education programs, summer school lunch, recreational programs, and industrial facilities taxes are also unearned. These same amounts have been shown as "unearned revenue" to indicate that the revenue has not been recognized because it has not been earned.

14. Short-term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2016, and anticipated State Aid is expected to be sufficient to cover this commitment.

15. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term. Long-term debt is recognized as a liability of a governmental fund when due for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

16. Net Pension Liability

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

17. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year for approximately fifty (50) percent of the taxes that are due September 30, and December 1 for the remainder of the taxes that are due February 28 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls. School district property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$17.8542 per \$1,000 of taxable valuation on most non-primary residency exempt property and \$5.8542 per \$1,000 of taxable value on commercial personal property for general governmental services. The District also levies a total of \$4.6682 per \$1,000 of taxable valuation for the sinking fund on all property. Total taxable value of all properties within the District amounted to \$192,030,339.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

18. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995, the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts.

For the year ended June 30, 2016, the foundation allowance was based on the average of pupil membership counts taken in October 2015 and February 2015. The average calculation was weighted 90% for the October 2015 count and 10% for the February 2015 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

19. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as unearned revenue.

20. Interfund Transactions

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

21. Restrictions of Net Position

Restrictions of net position shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes.

22. Federal Programs

Federal programs are accounted for in the specific governmental fund to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under a separate cover as supplementary information to the financial statements.

23. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

24. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH AND CASH EQUIVALENTS**

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation (FDIC).
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the District.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2016, the carrying amount of the District's deposits was \$5,589,066 and the bank balance was \$5,656,544 of which \$752,477 was covered by Federal depository insurance. The balance of \$4,904,067 was uninsured and uncollateralized.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Fair Value Measurements - continued

There are three (3) levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

Cash Equivalents

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The District participates in the Comerica J Fund, the portfolio securities are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. As of June 30, 2016, the District has \$650,369 invested with Comerica.

Comerica portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Money market securities are valued using amortized cost, as outlined in GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held in this fund are categorized as Level 2.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2016, the District's didn't have any investments that were subject to rating and the investments had a weighted average maturity (WAM) of 32 days.

Interest Rate Risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring 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 District's cash requirements.

Concentration of Credit Risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Dearborn Heights School District No. 7

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Custodial Credit Risk

The District will minimize custodial risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board-approved policy. The District does not hold any investments subject to custodial credit risk of investments at year end.

As of June 30, 2016, the District's deposits and investments were reported as follows:

	<u>Governmental Activities</u>	<u>Agency Fund</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 6,135,647</u>	<u>\$ 104,038</u>	<u>\$ 6,239,685</u>

The District had \$250 of imprest cash on hand.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Construction in progress	151,325	-	(151,325)	-0-
Total capital assets not being depreciated	191,325	-0-	(151,325)	40,000
Capital assets being depreciated				
Land improvements	757,719	32,809	-	790,528
Buildings and additions	21,568,675	631,474	-	22,200,149
Equipment, furniture, and other assets	10,526,792	78,174	(662,780)	9,942,186
Vehicles	105,000	-	-	105,000
Total capital assets being depreciated	32,958,186	742,457	(662,780)	33,037,863
Less accumulated depreciation for:				
Land improvements	(359,640)	(35,456)	-	(395,096)
Buildings and additions	(10,971,440)	(740,148)	-	(11,711,588)
Equipment, furniture, and other assets	(9,067,157)	(111,419)	629,641	(8,548,935)
Vehicles	(103,114)	(1,886)	-	(105,000)
Total accumulated depreciation	(20,501,351)	(888,909)	629,641	(20,760,619)
Net capital assets being depreciated	12,456,835	(146,452)	(33,139)	12,277,244
Capital assets, net	<u>\$ 12,648,160</u>	<u>\$ (146,452)</u>	<u>\$ (184,464)</u>	<u>\$ 12,317,244</u>

Dearborn Heights School District No. 7

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE C: CAPITAL ASSETS - CONTINUED**

Total depreciation expense of \$888,909 was not allocated to government functions. It appears on the statement of activities as “unallocated.” The current depreciation expense of the governmental activities of \$888,909 has been adjusted by \$33,139 for the loss on disposal of capital assets during the period, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period’s depreciation expense.

**NOTE D: SHORT-TERM NOTES PAYABLE**

On August 20, 2014, the District issued short-term State School Aid Anticipation Notes in the amount of \$5,400,000 for the purpose of funding operating expenditures during periods of low cash flows. These short-term notes, which had a net outstanding balance of \$5,450,996 at June 30, 2015, were paid in full during the year ended June 30, 2016.

On August 20, 2015, the District issued short-term State School Aid Anticipation Notes in the amount of \$4,300,000 for the purpose of funding operating expenditures during periods of low cash flows. These short-term notes, which have a net outstanding balance of \$4,349,132 at June 30, 2016, are reported in the financial statements under the caption short-term notes payable, which include interest payable of \$49,132, and were paid in full subsequent to year end.

**NOTE E: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
2016 Building and site bond	\$ -	\$ 2,935,000	\$ -	\$ 2,935,000	\$ 370,000
Plus: Unamortized bond premium	-	31,373	(1,569)	29,804	3,137
Capital lease - postage meter	10,275	-	(2,021)	8,254	2,021
Capital lease - copier	502,137	-	(115,878)	386,259	115,878
Capital lease - phones	-	38,372	(12,791)	25,581	12,791
Compensated absences	503,879	101,250	(151,046)	454,083	130,265
<b>Total</b>	<b>\$ 1,016,291</b>	<b>\$ 3,105,995</b>	<b>\$ (283,305)</b>	<b>\$ 3,838,981</b>	<b>\$ 634,092</b>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

**2016 Building and Site Bond**

\$2,935,000 2016 Building and Site Bonds dated March 16, 2016, due in annual installments ranging from \$175,000 to \$480,000 through May 1, 2026 with interest ranging from 1.00 to 3.00 percent, payable semiannually. \$ 2,935,000

**Capital Lease - Postage Meter**

Capital lease in the original amount of \$10,612, dated April 22, 2015, is payable in monthly installments of \$168 through July 31, 2020. \$ 8,254

Dearborn Heights School District No. 7

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE E: LONG-TERM DEBT - CONTINUED**

Capital Lease - Copier

Capital lease in the original amount of \$579,389, dated October 1, 2014, is payable in monthly installments of \$9,656 through October 31, 2019. \$ 386,259

Capital Lease - Phones

Capital lease in the original amount of \$38,372, dated July 9, 2015, is payable in monthly installments of \$1,066 through July 30, 2018. \$ 25,581

The annual requirements to pay the debt principal and interest outstanding for the long-term debt are as follows:

Year Ending June 30,	2016 Building and Site Bonds	
	Principal	Interest
2017	\$ 370,000	\$ 66,431
2018	445,000	55,350
2019	465,000	46,450
2020	480,000	37,150
2021	200,000	27,550
2022-2026	975,000	75,150
	<u>\$ 2,935,000</u>	<u>\$ 308,081</u>

Future minimum lease payments on the capital leases are as follows:

Year Ending June 30,	Copiers	Postage Meter	Phones	Total
2017	\$ 115,878	\$ 2,021	\$ 12,791	\$ 130,690
2018	115,878	2,021	12,790	130,689
2019	115,878	2,021	-	117,899
2020	38,625	2,021	-	40,646
2021	-	170	-	170
	<u>\$ 386,259</u>	<u>\$ 8,254</u>	<u>\$ 25,581</u>	<u>\$ 420,094</u>

Compensated Absences

In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including payroll taxes, amount to \$454,083 as of June 30, 2016. This amount has been reported as current and noncurrent liabilities in the statement of net position.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE F: INTERFUND RECEIVABLES AND PAYABLES**

Amounts appearing as interfund payables and receivables arise from two (2) types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

The amount of interfund receivables and payables at June 30, 2016, are as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General Fund		
Technology Infrastructure Fund	\$ -	\$ 245,095
Nonmajor governmental funds	-	61,171
Technology Infrastructure Fund		
General Fund	245,095	-
Nonmajor governmental funds		
General Fund	61,171	-
Nonmajor governmental funds	<u>34,365</u>	<u>34,365</u>
	<u>\$ 340,631</u>	<u>\$ 340,631</u>

**NOTE G: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to General Fund from:	
Nonmajor governmental funds	<u>\$ 6,714</u>

The transfer was made to recover indirect costs.

**NOTE H: EMPLOYEE RETIREMENT SYSTEM**

PLAN DESCRIPTION

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

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

The system's financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

**BENEFITS PROVIDED**

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

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

**CONTRIBUTIONS AND FUNDING STATUS**

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for ORS' 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for ORS' 2015 fiscal year:

Pension Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0 %	22.52 - 23.07 %
Member Investment Plan	3.0 - 7.0 %	22.52 - 23.07 %
Pension Plus	3.0 - 6.4 %	21.99 %
Defined Contribution	0.0 %	17.72 - 18.76 %

Required contributions to the pension plan from the District were \$2,271,801 for the year ended September 30, 2015.

**NET PENSION LIABILITY - NON-UNIVERSITY**

Measurement of the MPSERS Net Pension Liability

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

Measurement of the MPSERS Net Pension Liability - continued

MPSERS (Plan) Net Pension Liability - Non-University

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total Pension Liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan Fiduciary Net Position	<u>41,887,015,147</u>	<u>43,134,384,072</u>
Net Pension Liability	<u>\$ 24,425,026,755</u>	<u>\$ 22,026,503,110</u>

At June 30, 2016, the District reported a liability of \$35,037,010 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was 0.14344717 percent, which was a decrease of 0.00159283 percent from its proportion measured as of September 30, 2014.

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Actuarial Assumptions	
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For Retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	5.9 %
% Alternative Investment Pools	18.0 %	9.2 %
International Equity	16.0 %	7.2 %
Fixed Income Pools	10.5 %	0.9 %
Real Estate and Infrastructure Pools	10.0 %	4.3 %
Absolute Return Pools	15.5 %	6.0 %
Short Term Investment Pools	2.0 %	0.0 %
Total	<u>100 %</u>	

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

Discount Rate

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

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

The following presents the District's proportionate share of the net pension liability calculated using a discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
\$ 45,171,687	\$ 35,037,010	\$ 26,493,062

Dearborn Heights School District No. 7

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

PENSION EXPENSE AND DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended June 30, 2016, the District recognized total pension expense of \$2,899,566. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 116,053
Changes of assumptions	862,685	-
Net difference between projected and actual earnings on pension plan investments	178,836	297,400
Changes in proportion and differences between Dearborn Heights School District No. 7's contributions and proportionate share of contributions	67,647	-
Dearborn Heights School District No. 7's contributions subsequent to the measurement date	2,736,770	-
State aid related to pensions	-	<u>952,786</u>
Total	<u>\$ 3,845,938</u>	<u>\$ 1,366,239</u>

\$2,736,770 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. \$952,786 reported as deferred inflows of resources under the caption "State aid related to pensions" will be recognized as an increase to state aid revenue in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 36,506
2017	36,506
2018	(10,285)
2019	632,988

DEFINED CONTRIBUTION PLAN

Benefit provisions of MPSERS also requires the District to contribute to a defined contribution tax-deferred investment account for all eligible employees. The District is required to match 50% of an employee's contributions up to 1% of an employee's salary. The retirement benefits are determined by the final average compensation and years of service with disability and survivor benefits available to members. The District contribution for the year ended June 30, 2016, was \$13,872.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE I: OTHER POST-EMPLOYMENT BENEFITS**

PLAN DESCRIPTION

The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverage through MPERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10.0 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPERS 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.

Contribution rates for the year ended June 30, 2016, are as follows:

	<u>Health Contribution Rate</u>	
	<u>Basic/MIP</u>	<u>Pension Plus</u>
July 1, 2015 - September 30, 2015	2.20-2.71%	2.20-2.71%
October 1, 2015 - June 30, 2016	6.40-6.83%	6.40-6.83%

The District's required and actual contributions to the various plans for the last three fiscal years are as follows:

Fiscal Year Ended June 30,	<u>Defined Benefit Plan</u>	<u>Defined Contribution Plan</u>	
	Employer Health Contributions	Employer Contributions	Employee Contributions
2016	\$ 680,647	\$ 13,872	\$ 22,204
2015	439,011	10,032	15,409
2014	801,949	8,631	15,704

**NOTE J: FUND DEFICIT**

The District has accumulated a fund deficit in the General fund of \$705,614. The Michigan State School Aid act states that a district receiving money under this act shall not adopt or operate under a deficit budget, and shall not incur an operating deficit in a fund during a school fiscal year. A district having an existing deficit or which incurs a deficit shall not be allotted or paid further sums under this act until the district submits to the Michigan Department of Education for approval a budget for the current fiscal year and a plan to eliminate the deficit not later than the end of the second fiscal year after the deficit was incurred. During the year ended June 30, 2016, the District amended its Deficit Elimination Plan from the year ended June 30, 2015 and submitted it to the State. The District was notified later that the Plan was approved.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE K: RISK MANAGEMENT**

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, equipment breakdown, builder's risk, employee dishonesty, crime, and error and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insurer Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

**NOTE L: SINKING FUND AND BONDED DEBT PROJECT**

The Capital Project Fund of the District is funded by a voted millage for a sinking fund as well as other local dollars (i.e., interest, etc.). For the expenditures recorded within the Capital Project Fund, the District has complied with the applicable provisions of Section 1212(1) of the Revised School Code in current and prior years.

The Technology Infrastructure Fund of the District includes the capital project activities funded mostly by the 2016 Building and Site Bonds. The remaining funding for the activities recorded within this Fund is funded by other local dollars (i.e., interest, etc.). For the project recorded within the Technology Infrastructure Fund, the District has complied with the applicable provisions of Section 1351 (a) of the Revised School Code in the current year.

**NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) classifications of fund balance under this standard:

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation.

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

*Unassigned* - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED**

Fund Balance Classification Policies and Procedures

For committed fund balance, the District's highest level of decision-making authority is the Board of Education. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is through a formal action and approval by the Board of Education and committed fund balances do not lapse at year end.

For assigned fund balance, the Board of Education has authorized the District's Superintendent to assign amounts to a specific purpose.

For the classification of fund balances, the District considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the District considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**NOTE N: SUBSEQUENT EVENTS**

In August 2016, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan in the amount of \$4,800,000 was for the purpose of funding operating expenditures until the fiscal year 2017 State Aid payments begin. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

**NOTE O: CHANGE IN ACCOUNTING PRINCIPLES**

GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, was implemented during the year. The statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this statement.

**NOTE P: UPCOMING ACCOUNTING PRONOUNCEMENTS**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2017-2018 fiscal year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE P: UPCOMING ACCOUNTING PRONOUNCEMENTS - CONTINUED**

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2016-2017 fiscal year.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017-2018 fiscal year.

**REQUIRED SUPPLEMENTARY INFORMATION**

Dearborn Heights School District No. 7

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Local sources	\$ 1,576,245	\$ 1,584,245	\$ 1,526,057	\$ (58,188)
State sources	20,726,722	21,688,453	21,596,933	(91,520)
Federal sources	1,319,346	1,332,649	1,202,517	(130,132)
<b>TOTAL REVENUES</b>	<b>23,622,313</b>	<b>24,605,347</b>	<b>24,325,507</b>	<b>(279,840)</b>
<b>EXPENDITURES</b>				
Current				
Instruction and added needs	14,857,297	15,199,378	15,301,227	(101,849)
Supporting services				
Pupil	1,021,747	1,267,980	1,333,504	(65,524)
Instructional staff	156,563	537,619	486,071	51,548
General administration	783,822	797,514	838,390	(40,876)
School administration	1,568,711	1,587,872	1,595,108	(7,236)
Business	470,246	416,569	438,547	(21,978)
Central	186,000	436,068	392,587	43,481
Pupil transportation	420,000	469,306	420,834	48,472
Athletics	-	330,000	340,110	(10,110)
Operations and maintenance	2,335,992	2,146,463	2,320,717	(174,254)
Total supporting services	6,943,081	7,989,391	8,165,868	(176,477)
Community services	246,500	292,424	268,361	24,063
Capital outlay	-	-	54,506	(54,506)
<b>TOTAL EXPENDITURES</b>	<b>22,046,878</b>	<b>23,481,193</b>	<b>23,789,962</b>	<b>(308,769)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,575,435</b>	<b>1,124,154</b>	<b>535,545</b>	<b>(588,609)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	75,000	-	6,714	6,714
Transfers out to other funds	(330,000)	-	-	-0-
Payments from other districts	-	20,000	145,279	125,279
Payments to other districts	(225,000)	(204,561)	(230,235)	(25,674)
Capital lease proceeds	-	-	38,372	38,372
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(480,000)</b>	<b>(184,561)</b>	<b>(39,870)</b>	<b>144,691</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>1,095,435</b>	<b>939,593</b>	<b>495,675</b>	<b>(443,918)</b>
Fund balance (deficit), beginning of year	(1,201,289)	(1,201,289)	(1,201,289)	-0-
Fund balance (deficit), end of year	<u>\$ (105,854)</u>	<u>\$ (261,696)</u>	<u>\$ (705,614)</u>	<u>\$ (443,918)</u>

Dearborn Heights School District No. 7

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Michigan Public School Employee Retirement Plan

Last Two Measurement Periods (ultimately ten years will be displayed)  
 (Amounts were determined as of 9/30 of each fiscal year)

	<u>2014</u>	<u>2015</u>
Dearborn Heights School District No. 7's proportion of net pension liability (%)	0.14504%	0.14345%
Dearborn Heights School District No. 7's proportionate share of net pension liability	\$ 31,947,941	\$ 35,037,010
Dearborn Heights School District No. 7's covered-employee payroll	\$ 12,271,055	\$ 10,955,631
Dearborn Heights School District No. 7's proportionate share of net pension liability as a percentage of its covered-employee payroll	260.35%	319.81%
Plan fiduciary net position as a percentage of total pension liability	66.20%	63.17%

Dearborn Heights School District No. 7

SCHEDULE OF CONTRIBUTIONS

Michigan Public School Employee Retirement Plan

Last Two Fiscal Years (ultimately ten fiscal years will be displayed)  
 (Amounts were determined as of 6/30 of each fiscal year)

	<u>2015</u>	<u>2016</u>
Statutorily required contributions	\$ 2,606,672	\$ 2,736,743
Contributions in relation to statutorily required contributions	<u>2,606,672</u>	<u>2,736,743</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Dearborn Heights School District No. 7's covered employee payroll	\$ 11,932,862	\$ 11,528,671
Contributions as a percentage of covered employee payroll	21.84%	23.74%

Dearborn Heights School District No. 7

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2016

**NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2016, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
Instruction and added needs	\$ 15,199,378	\$ 15,301,227	\$ 101,849
Supporting services			
Pupil	1,267,980	1,333,504	65,524
General administration	797,514	838,390	40,876
School administration	1,587,872	1,595,108	7,236
Business	416,569	438,547	21,978
Athletics	330,000	340,110	10,110
Operations and maintenance	2,146,463	2,320,717	174,254
Capital outlay	-	54,506	54,506
Other financing uses			
Payments to other districts	204,561	230,235	25,674

**NOTE B: MICHIGAN PUBLIC SCHOOL EMPLOYEE RETIREMENT PLAN**

Changes of benefit terms: There were no changes of benefit terms in 2015.

Changes of assumptions: Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by MPERS for use in annual pension valuations beginning with the September 30, 2014, valuation. These changes result in an amount shown as deferred outflows of resources as disclosed in Note H to the financial statements.

## **OTHER SUPPLEMENTARY INFORMATION**

Dearborn Heights School District No. 7

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2016

	Special Revenue Fund	Capital Project Fund	Total
	Cafeteria		
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 643,114	\$ 643,114
Due from other governmental units	12,183	-	12,183
Due from other funds	95,536	-	95,536
<b>TOTAL ASSETS</b>	<b>\$ 107,719</b>	<b>\$ 643,114</b>	<b>\$ 750,833</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 89,673	\$ 125,807	\$ 215,480
Due to other funds	-	34,365	34,365
<b>TOTAL LIABILITIES</b>	<b>89,673</b>	<b>160,172</b>	<b>249,845</b>
<b>FUND BALANCES</b>			
<b>Restricted</b>			
Food service	18,046	-	18,046
Capital projects	-	482,942	482,942
<b>TOTAL FUND BALANCES</b>	<b>18,046</b>	<b>482,942</b>	<b>500,988</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 107,719</b>	<b>\$ 643,114</b>	<b>\$ 750,833</b>

Dearborn Heights School District No. 7

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2016

	Special Revenue Fund	Capital Project Fund	Total
	Cafeteria		
REVENUES			
Local sources	\$ 269,885	\$ 894,755	\$ 1,164,640
State sources	61,394	-	61,394
Federal sources	1,116,593	-	1,116,593
 TOTAL REVENUES	 1,447,872	 894,755	 2,342,627
EXPENDITURES			
Current			
Food service	1,372,397	-	1,372,397
Capital outlay	-	523,023	523,023
 TOTAL EXPENDITURES	 1,372,397	 523,023	 1,895,420
 EXCESS OF REVENUES OVER EXPENDITURES	 75,475	 371,732	 447,207
OTHER FINANCING (USES)			
Transfers to other funds	(6,714)	-	(6,714)
 NET CHANGE IN FUND BALANCES	 68,761	 371,732	 440,493
Fund balance (deficit), beginning of year	(50,715)	111,210	60,495
Fund balance, end of year	\$ 18,046	\$ 482,942	\$ 500,988