

Ypsilanti  
Community  
Schools  
Ypsilanti, Michigan



For the Year  
Ended June 30,  
2017

Financial  
Statements and  
Single Audit Act  
Compliance

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# YPSILANTI COMMUNITY SCHOOLS

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**INDEPENDENT AUDITORS' REPORT**

October 20, 2017

Board of Education  
Ypsilanti Community Schools  
Ypsilanti, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Ypsilanti Community Schools* (the "District"), as of and for the year ended June 30, 2017, 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.

*Independent Auditors' Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ypsilanti Community Schools as of June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension plan, as listed 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 fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Lohman LLC". The signature is written in a cursive, flowing style.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# YPSILANTI COMMUNITY SCHOOLS

## Management's Discussion and Analysis

As management of Ypsilanti Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

### Financial Highlights

· Total net position	\$ (122,368,903)
· Change in total net position	1,279,727
· Fund balances, governmental funds	8,152,018
· Change in fund balances, governmental funds	1,881,969
· Unassigned fund balance (deficit), general fund	(118,798)
· Change in fund balance, general fund	911,773
· Investments for school improvements	143,046

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, athletics, food service and community services. The District has no business-type activities as of and for the year ending June 30, 2017.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

# YPSILANTI COMMUNITY SCHOOLS

## Management's Discussion and Analysis

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service Ypsilanti fund which are considered to be major funds. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements following the required supplementary information.

The District adopts an annual appropriated budget for its general and special revenue fund. A budgetary comparison statement has been provided for the general fund herein to demonstrate compliance with that budget.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension plan immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

### Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows exceeded assets and deferred outflows by \$122,368,903 at the close of the most recent fiscal year.

# YPSILANTI COMMUNITY SCHOOLS

## Management's Discussion and Analysis

A portion of the District's net position reflects its investment in capital assets (e.g. land, buildings and improvements, furniture and equipment, and buses and other vehicles); less any related debt used to acquire those assets that is still outstanding, which is \$(16,645,774) at June 30, 2017. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position	
	Governmental Activities	
	2017	2016
<b>Assets</b>		
Current and other assets	\$ 17,209,709	\$ 17,067,764
Capital assets, net	71,023,856	79,374,818
<b>Total assets</b>	<b>88,233,565</b>	<b>96,442,582</b>
Deferred outflows of resources	13,522,458	11,532,586
<b>Liabilities</b>		
Current and other liabilities	77,897,380	81,050,097
Long-term debt outstanding	143,816,583	150,321,150
<b>Total liabilities</b>	<b>221,713,963</b>	<b>231,371,247</b>
Deferred inflows of resources	2,410,963	252,551
<b>Net position</b>		
Net investment in capital assets	(16,645,774)	(15,536,191)
Restricted	1,115,498	589,241
Unrestricted (deficit)	(106,838,627)	(108,701,680)
<b>Total net position</b>	<b>\$ (122,368,903)</b>	<b>\$ (123,648,630)</b>

Total net position as of June 30, 2017 consists of \$1,115,498 restricted for food service and debt service. The District also reported a deficit of \$106,838,627 as unrestricted net position. The negative balance is mainly related to the District's proportionate share of the MPSERS net pension liability and the District's general obligation bonded debt.

# YPSILANTI COMMUNITY SCHOOLS

## Management's Discussion and Analysis

The results of this year's operation for the District as a whole are reported in the statement of activities, which shows the changes in net position for the fiscal year 2017 compared to the changes in net position for fiscal year 2016.

	Net Position	
	Governmental Activities	
	2017	2016
Revenues		
Program revenues:		
Charges for services	\$ 2,587,367	\$ 745,001
Operating grants and contributions	23,958,055	23,654,806
General revenues:		
Property taxes	20,125,074	19,926,452
State school aid	22,327,351	23,270,982
Other	144,784	80,757
<b>Total revenues</b>	<b>69,142,631</b>	<b>67,677,998</b>
Expenses		
Instruction	29,040,425	31,900,019
Supporting services	24,193,225	22,879,901
Athletics	525,550	602,458
Food service	3,365,817	2,895,331
Community services	375,418	447,258
Unallocated depreciation	5,263,324	5,336,538
Interest on long-term debt	5,099,145	6,995,273
<b>Total expenses</b>	<b>67,862,904</b>	<b>71,056,778</b>
Change in net position	1,279,727	(3,378,780)
Net position:		
Beginning of year	(123,648,630)	(119,358,515)
Restatement for capital assets	-	(911,335)
End of year	<u>\$ (122,368,903)</u>	<u>\$ (123,648,630)</u>

**Governmental Activities.** Governmental activities increased the District's net position by \$1,279,727. Key elements of this increase are as follows:

- Total expense decreased from the prior year by \$3,193,874. This was primarily due to conservative budgeting practices by the District, and a decrease in interest expense on long-term debt due to the general obligation refunding bonds issued by the District during the current year.
- Total revenue increased from the prior year by \$1,464,633 primarily due to the Washtenaw Intermediate School District ("WISD") special education millage, and charges for services revenue generated by the District leasing unused buildings to third parties.

# YPSILANTI COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds.** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$8,152,018. Of this total amount, \$1,136,896 constitutes nonspendable fund balance to indicate that is not available for new spending because the underlying assets are included in inventory and prepaids, while \$2,133,920 is restricted for debt service and food service. Committed fund balance is \$5,000,000, which is earmarked for revenue bond debt service payments. The remaining component is unassigned fund deficit of \$(118,798).

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned fund deficit of the general fund was \$(118,798) while total fund balance was \$6,018,098. Total fund balance is 11.1% of total general fund expenditures.

The fund balance of the District's general fund increased by \$911,773 during the current fiscal year. The increase was primarily due to conservative budgeting practices by the District for instruction expenditures, a decrease in interest expenditures due to the District's bond refundings, and an increase in the District's interdistrict revenue from the WISD special education millage.

At the end of the current fiscal year, the restricted fund balance of the District's Ypsilanti debt service fund was \$1,567,438, an increase of \$1,347,337 over the prior year. This increase was primarily due to a decrease in interest expenditures due to the District's bond refundings, and proceeds from the sale of capital assets during the year.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted before the 2016-17 year end. A statement showing the District's original and final budget amounts compared with amounts actually recorded as revenue and expenditures is provided in the accompanying basic financial statements.

During the year, the budget was amended in a legally permissible manner. Amendments to the original budget were made during the fiscal year as more information became known. The budgets for state and federal revenues were increased by approximately \$1.8 million as District enrollment became known. Also, the budgets for nearly all instructional and supporting services expenditures were increased by \$1.2 million to provide for the actual enrollment counts. For the year ended June 30, 2017, total actual expenditures were less than the total final budget amount by approximately \$2.4 million, which represents a 4.2% variance. Also general fund actual revenues were less than final amended budget revenue by \$1.3 million, which represents a 2.3% variance. These differences were due primarily to the unexpended federal grant funding and carryovers to fiscal 2017.

# YPSILANTI COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Capital Asset and Debt Administration

**Capital Assets.** The District's investment in capital assets for its governmental activities as of June 30, 2017, amounted to \$71,023,856 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and building improvements, and furniture and equipment, and buses and other vehicles.

There were no major capital asset addition events during the current fiscal year.

	Capital Assets (Net of Depreciation)	
	2017	2016
Land	\$ 811,830	\$ 911,335
Land improvements	4,599,477	5,117,202
Buildings and building improvements	64,543,164	72,196,886
Furniture and equipment	977,356	1,037,257
Buses and other vehicles	92,029	112,138
<b>Total capital assets, net</b>	<b>\$ 71,023,856</b>	<b>\$ 79,374,818</b>

The District incurred a loss on sale of capital assets of \$2,132,298 for buildings sold by the District which was allocated to instructional expense at the government-wide level.

For the current year, the District incurred depreciation expense in excess of capital assets purchased or constructed of approximately \$5.1 million.

Additional information on the District's capital assets is found in notes to the financial statements.

**Long-Term Debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$136,115,000. Those bonds consisted of the following:

	Bonded Debt Outstanding	
	2017	2016
General obligation bonds	\$ 136,115,000	\$ 109,735,000

During the year ended June 30, 2017, the District refunded general obligation and School Bond Loan Fund debt of \$75,605,210. To this end, the District issued \$71,995,000 of new general obligation refunding bonds. In addition, the District borrowed \$349,469 from the Michigan School Bond Loan Fund to supplement tax revenue in order to service certain bond payments. Additional information on the District's long-term debt is found in notes to the financial statements.

# YPSILANTI COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Factors Bearing on the District's Future

The following factors were also considered in preparing the District's budget for the 2017-18 fiscal year:

- Our elected officials and administration consider many factors when setting the school district's 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 of the 2016-17 fiscal year was 90% of the October 2016 count and 10% of the February 2016 count. The 2017-18 budget was built on a reduction of 100 students for the blended count and a modest increase of \$104 per student for foundation allowance.
- Approximately 53% of the General Fund revenue is from state aid. 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. Based on early enrollment data at the start of the 2017-18 fiscal year, we anticipate that the fall student count will exceed the estimated blended count used in the development of the 2016-17 budget.
- Since the District's revenue is heavily dependent on state funding and on the health of the State's School Aid fund, the actual revenue received depends on the State's ability to fund its appropriation to school districts.

### Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Business and Finance, 1885 Packard Road, Ypsilanti, MI 48197.



## BASIC FINANCIAL STATEMENTS

# YPSILANTI COMMUNITY SCHOOLS

## Statement of Net Position

June 30, 2017

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 7,684,335
Receivables	8,388,478
Inventories	10,125
Prepaid items	1,126,771
Capital assets not being depreciated	811,830
Capital assets being depreciated, net	<u>70,212,026</u>
<b>Total assets</b>	<u>88,233,565</u>
<b>Deferred outflows of resources</b>	
Deferred pension amounts	11,107,245
Deferred charge on refundings	<u>2,415,213</u>
<b>Total deferred outflows of resources</b>	<u>13,522,458</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	6,251,887
State aid notes payable	3,116,368
Unearned revenue	707,858
Long-term liabilities:	
Due within one year	9,323,960
Due in more than one year	134,492,623
Net pension liability	<u>67,821,267</u>
<b>Total liabilities</b>	<u>221,713,963</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	<u>2,410,963</u>
<b>Net position</b>	
Net investment in capital assets	(16,645,774)
Restricted for food service	320,897
Restricted for debt service	794,601
Unrestricted (deficit)	<u>(106,838,627)</u>
<b>Total net position</b>	<u><u>\$ (122,368,903)</u></u>

The accompanying notes are an integral part of these financial statements.

# YPSILANTI COMMUNITY SCHOOLS

## Statement of Activities

For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities</b>				
Instruction	\$ 29,040,425	\$ 2,284,735	\$ 16,530,917	\$ (10,224,773)
Supporting services	24,193,225	-	4,294,603	(19,898,622)
Athletics	525,550	115,493	-	(410,057)
Food service	3,365,817	187,139	3,132,535	(46,143)
Community services	375,418	-	-	(375,418)
Unallocated depreciation	5,263,324	-	-	(5,263,324)
Interest on long-term debt	5,099,145	-	-	(5,099,145)
<b>Total governmental activities</b>	<b>\$ 67,862,904</b>	<b>\$ 2,587,367</b>	<b>\$ 23,958,055</b>	<b>(41,317,482)</b>
<b>General revenues</b>				
Property taxes				20,125,074
Unrestricted state aid				22,327,351
Unrestricted investment earnings				144,784
<b>Total general revenues</b>				<b>42,597,209</b>
<b>Change in net position</b>				<b>1,279,727</b>
<b>Net position, beginning of year</b>				<b>(123,648,630)</b>
<b>Net position, end of year</b>				<b>\$ (122,368,903)</b>

The accompanying notes are an integral part of these financial statements.

# YPSILANTI COMMUNITY SCHOOLS

## Balance Sheet

Governmental Funds

June 30, 2017

	General Fund	Debt Service Ypsilanti Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 4,392,189	\$ 1,861,616	\$ 1,430,530	\$ 7,684,335
Accounts receivable	335,014	-	-	335,014
Due from other funds	1,259,144	709,237	684,083	2,652,464
Due from other governments	7,844,207	11,816	197,441	8,053,464
Inventory	10,125	-	-	10,125
Prepaid items	1,126,771	-	-	1,126,771
<b>Total assets</b>	<b>\$ 14,967,450</b>	<b>\$ 2,582,669</b>	<b>\$ 2,312,054</b>	<b>\$ 19,862,173</b>
<b>Liabilities</b>				
Accounts payable	\$ 713,567	\$ 18	\$ 126,747	\$ 840,332
Salaries payable	4,348,702	-	44,431	4,393,133
State aid anticipation note	3,116,368	-	-	3,116,368
Due to other funds	76,507	1,015,213	1,560,744	2,652,464
Unearned revenue	694,208	-	13,650	707,858
<b>Total liabilities</b>	<b>8,949,352</b>	<b>1,015,231</b>	<b>1,745,572</b>	<b>11,710,155</b>
<b>Fund balances</b>				
Nonspendable	1,136,896	-	-	1,136,896
Restricted for:				
Debt service	-	1,567,438	245,585	1,813,023
Food service	-	-	320,897	320,897
Committed for revenue bond debt service	5,000,000	-	-	5,000,000
Unassigned (deficit)	(118,798)	-	-	(118,798)
<b>Total fund balances</b>	<b>6,018,098</b>	<b>1,567,438</b>	<b>566,482</b>	<b>8,152,018</b>
<b>Total liabilities and fund balances</b>	<b>\$ 14,967,450</b>	<b>\$ 2,582,669</b>	<b>\$ 2,312,054</b>	<b>\$ 19,862,173</b>

The accompanying notes are an integral part of these financial statements.

# YPSILANTI COMMUNITY SCHOOLS

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2017

Fund balances - total governmental funds \$ 8,152,018

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

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

Capital assets not being depreciated	811,830
Capital assets being depreciated	171,642,598
Accumulated depreciation	(101,430,572)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	(136,115,000)
School bond loan fund debt	(71,497)
Unamortized bond premium	(7,684,787)
Unamortized bond discount	114,944
Unamortized deferred charge on refundings	2,415,213
Accrued interest on bonds payable	(1,018,422)
Compensated absences	(60,243)

Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.

Net pension liability	(67,821,267)
Deferred outflows related to the net pension liability	11,107,245
Deferred inflows related to the net pension liability	(2,410,963)

Net position of governmental activities \$ (122,368,903)

The accompanying notes are an integral part of these financial statements.

# YPSILANTI COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2017

	General Fund	Debt Service Ypsilanti Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local sources:				
Property taxes	\$ 9,195,430	\$ 6,851,539	\$ 4,078,105	\$ 20,125,074
Other local revenue	3,221,275	-	11,074	3,232,349
Food sales	-	-	187,139	187,139
Interest revenue	-	36,113	37,109	73,222
State sources	29,289,279	-	115,679	29,404,958
Federal sources	5,848,549	-	3,005,782	8,854,331
Interdistrict sources	7,265,558	-	-	7,265,558
<b>Total revenues</b>	<b>54,820,091</b>	<b>6,887,652</b>	<b>7,434,888</b>	<b>69,142,631</b>
<b>Expenditures</b>				
Current:				
Instructional services	26,830,100	-	-	26,830,100
Supporting services	24,279,719	-	-	24,279,719
Athletics	524,951	-	-	524,951
Food service	-	-	3,361,528	3,361,528
Community services	374,109	-	-	374,109
Debt service:				
Principal	1,351,609	4,090,000	2,555,000	7,996,609
Interest	912,112	2,285,795	1,967,375	5,165,282
Tax abated	-	16,742	613	17,355
<b>Total expenditures</b>	<b>54,272,600</b>	<b>6,392,537</b>	<b>7,884,516</b>	<b>68,549,653</b>
<b>Revenues over (under) expenditures</b>	<b>547,491</b>	<b>495,115</b>	<b>(449,628)</b>	<b>592,978</b>
<b>Other financing sources (uses)</b>				
Issuance of long-term debt	-	39,032,151	33,034,328	72,066,479
Bond premium	-	5,383,671	-	5,383,671
Payment to refunding bond escrow agent	-	(44,524,203)	(32,735,351)	(77,259,554)
Proceeds from sale of capital assets	137,792	960,603	-	1,098,395
Transfers in	226,490	-	-	226,490
Transfers out	-	-	(226,490)	(226,490)
<b>Total other financing sources (uses)</b>	<b>364,282</b>	<b>852,222</b>	<b>72,487</b>	<b>1,288,991</b>
<b>Net change in fund balances</b>	<b>911,773</b>	<b>1,347,337</b>	<b>(377,141)</b>	<b>1,881,969</b>
<b>Fund balances, beginning of year</b>	<b>5,106,325</b>	<b>220,101</b>	<b>943,623</b>	<b>6,270,049</b>
<b>Fund balances, end of year</b>	<b>\$ 6,018,098</b>	<b>\$ 1,567,438</b>	<b>\$ 566,482</b>	<b>\$ 8,152,018</b>

The accompanying notes are an integral part of these financial statements.

# YPSILANTI COMMUNITY SCHOOLS

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds \$ 1,881,969

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

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense.

Purchase of capital assets	143,046
Depreciation expense	(5,263,324)
Proceeds from sale of capital assets	(1,098,395)
Loss on sale of capital assets	(2,132,289)

Bond proceeds provide current financial resources to governmental funds in the period  
issued, but issuing bonds increases long-term liabilities in the statement of net  
position. Repayment of bond principal is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the statement of net position.

Issuance of long-term debt	(72,066,479)
Accrued interest on school bond loan fund added to principal	(277,990)
Principal payments on bonds and capital leases	7,996,609
Payments to refunding bond escrow agent	77,259,554
Premium on issuance of long-term debt	(5,383,671)

Some expenses reported in the statement of activities do not require the use of current  
financial resources and therefore are not reported as expenditures in the funds.

Amortization of bond premium	636,017
Amortization of bond discount	(8,210)
Amortization of deferred charge on refundings	(238,710)
Change in the net pension liability and related deferred amounts	(126,510)
Change in accrued interest payable on bonds	(44,971)
Change in compensated absences	3,081

Change in net position of governmental activities \$ 1,279,727

The accompanying notes are an integral part of these financial statements.

# YPSILANTI COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Local sources	\$ 10,085,224	\$ 12,074,627	\$ 12,416,705	\$ 342,078
State sources	28,183,847	29,933,069	29,289,279	(643,790)
Federal sources	7,114,834	7,102,890	5,848,549	(1,254,341)
Interdistrict sources	8,915,000	6,987,848	7,265,558	277,710
<b>Total revenues</b>	<b>54,298,905</b>	<b>56,098,434</b>	<b>54,820,091</b>	<b>(1,278,343)</b>
<b>Expenditures</b>				
<b>Current:</b>				
<b>Instructional services:</b>				
Basic program	21,283,234	21,438,113	20,909,464	(528,649)
Added needs	7,468,639	6,649,993	5,920,636	(729,357)
<b>Total instructional services</b>	<b>28,751,873</b>	<b>28,088,106</b>	<b>26,830,100</b>	<b>(1,258,006)</b>
<b>Supporting services:</b>				
Pupil	6,831,603	7,462,950	7,016,251	(446,699)
Instructional staff	2,682,855	2,903,582	2,461,337	(442,245)
General administration	689,468	791,818	732,552	(59,266)
School administration	2,470,907	2,478,688	2,470,965	(7,723)
Business services	670,253	534,185	545,118	10,933
Transportation and maintenance	8,868,022	9,875,974	9,873,911	(2,063)
Central services	1,171,154	1,224,384	1,179,585	(44,799)
<b>Total supporting services</b>	<b>23,384,262</b>	<b>25,271,581</b>	<b>24,279,719</b>	<b>(991,862)</b>
<b>Athletics</b>	<b>513,962</b>	<b>600,675</b>	<b>524,951</b>	<b>(75,724)</b>
<b>Community services</b>	<b>400,002</b>	<b>405,543</b>	<b>374,109</b>	<b>(31,434)</b>
<b>Debt service:</b>				
Principal	1,351,609	1,351,609	1,351,609	-
Interest	815,391	961,391	912,112	(49,279)
<b>Total debt service</b>	<b>2,167,000</b>	<b>2,313,000</b>	<b>2,263,721</b>	<b>(49,279)</b>
<b>Total expenditures</b>	<b>55,217,099</b>	<b>56,678,905</b>	<b>54,272,600</b>	<b>(2,406,305)</b>
<b>Revenues over (under) expenditures</b>	<b>(918,194)</b>	<b>(580,471)</b>	<b>547,491</b>	<b>1,127,962</b>

continued...



# YPSILANTI COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources				
Proceeds from sale of capital assets	\$ 1,000	\$ 137,700	\$ 137,792	\$ 92
Transfers in	130,000	200,000	226,490	26,490
Total other financing sources	131,000	337,700	364,282	26,582
Net change in fund balance	(787,194)	(242,771)	911,773	1,154,544
Fund balance, beginning of year	5,106,325	5,106,325	5,106,325	-
Fund balance, end of year	\$ 4,319,131	\$ 4,863,554	\$ 6,018,098	\$ 1,154,544

concluded.

The accompanying notes are an integral part of these financial statements.

# YPSILANTI COMMUNITY SCHOOLS

## Statement of Fiduciary Assets and Liabilities

June 30, 2017

	Agency Fund
<b>Assets</b>	
Cash and investments	<u>\$ 187,557</u>
<b>Liabilities</b>	
Due to student groups	<u>\$ 187,557</u>

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Ypsilanti Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year.

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for the agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

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

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The *Ypsilanti debt service fund* accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest, the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs of debt related to the Ypsilanti School District prior to consolidation in 2013.

Additionally, the District reports the following fund types:

The *special revenue fund* is used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The *debt service fund* accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest, the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs of debt.

The *agency fund* accounts for the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

### *Deposits and Investments*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments consist of participation in an external investment pool. In accordance with GASB 79, the District's shares are recorded at amortized cost, which approximates fair value.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans).

### *Inventory and Prepaid Items*

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

### *Capital Assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

	Years
Buildings and improvements	20-50
Land improvements	20-50
Furniture and other equipment	5-20
Vehicles	5-10

### *Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items which qualify for reporting in this category. The first is the deferred charge on refundings reported in the government-wide statement of net position. A deferred charge on refundings results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Compensated Absences*

Employees are compensated for unused vacation time upon termination; accordingly, a liability is recorded at fiscal year end for such unused time. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

### *Long-Term Obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures, when incurred.

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows of resources related to pension costs.

### *Fund Equity*

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District, when applicable, reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund. The District reported no assigned fund balances.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Pensions*

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 Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

## 2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue fund. All annual appropriations lapse at fiscal year end.

The general and special revenue fund are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue fund are adopted on a functional basis.

## 3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year, the District incurred expenditures in the general fund, which were in excess of amounts budgeted, as follows:

	Final Budget	Actual	Over Budget
General fund			
Supporting services -			
Business services	\$ 534,185	\$ 545,118	\$ 10,933



# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### 4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities follows:

Statement of Net Position	
Cash and investments	\$ 7,684,335
Statement of Fiduciary Assets and Liabilities	
Cash and investments	<u>187,557</u>
<b>Total</b>	<b><u>\$ 7,871,892</u></b>
Deposits and investments	
Bank deposits -	
Checking and savings accounts	\$ 187,557
Investments in external investment pool	<u>7,684,335</u>
<b>Total</b>	<b><u>\$ 7,871,892</u></b>

#### Statutory Authority

State statutes authorize the District to invest in:

- a. 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. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured 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.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### Investments

The District chooses to disclose its investments by specific identification. As of year-end, the District had the following investments.

Investment	Maturity	Amortized Cost	Rating
Michigan Liquid Asset Fund	n/a	<u>\$ 7,684,335</u>	S&P - AAAM

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, none of the District's bank balance of \$191,787 was exposed to custodial credit risk because it was entirely insured.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The investments listed above are not subject to custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

## 5. RECEIVABLES

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

	General	Debt Service Ypsilanti Fund	Nonmajor Funds	Total
Receivables				
Accounts receivable	\$ 335,014	\$ -	\$ -	\$ 335,014
Due from other governments	7,844,207	11,816	197,441	8,053,464
<b>Total</b>	<u>\$ 8,179,221</u>	<u>\$ 11,816</u>	<u>\$ 197,441</u>	<u>\$ 8,388,478</u>

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### 6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 911,335	\$ -	\$ 99,505	\$ 811,830
Capital assets being depreciated:				
Land improvements	6,180,529	7,035	270,150	5,917,414
Buildings and improvements	167,191,671	-	6,515,348	160,676,323
Furniture and equipment	1,530,439	104,776	-	1,635,215
Vehicles	3,382,411	31,235	-	3,413,646
	<u>178,285,050</u>	<u>143,046</u>	<u>6,785,498</u>	<u>171,642,598</u>
Less accumulated depreciation for:				
Land improvements	1,063,327	309,204	54,594	1,317,937
Buildings and improvements	94,994,785	4,738,099	3,599,725	96,133,159
Furniture and equipment	493,182	164,677	-	657,859
Vehicles	3,270,273	51,344	-	3,321,617
	<u>99,821,567</u>	<u>5,263,324</u>	<u>3,654,319</u>	<u>101,430,572</u>
Capital assets being depreciated, net	<u>78,463,483</u>	<u>(5,120,278)</u>	<u>3,131,179</u>	<u>70,212,026</u>
Governmental activities capital assets, net	<u>\$ 79,374,818</u>	<u>\$ (5,120,278)</u>	<u>\$ 3,230,684</u>	<u>\$ 71,023,856</u>

Depreciation expense of \$5,263,324 was reported as unallocated depreciation and not charged to specific functions.

### 7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2017, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	\$ 1,259,144	\$ 76,507
Ypsilanti debt service fund	709,237	1,015,213
Nonmajor governmental funds	<u>684,083</u>	<u>1,560,744</u>
	<u>\$ 2,652,464</u>	<u>\$ 2,652,464</u>

The District often reports interfund balances between many of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

For the year ending June 30, 2017, interfund transfers consisted of the following:

	Transfers Out	Transfers In
General fund	\$ -	\$ 226,490
Nonmajor governmental funds	226,490	-
	<u>\$ 226,490</u>	<u>\$ 226,490</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. For the year ended June 30, 2017, a transfer from the food service fund to the general fund was for indirect cost recovery.

## 8. LONG-TERM DEBT

Long-term debt and other obligations of the District at June 30, 2017, are summarized as follows:

	Beginning Balance	Additions	Deductions	Refunded	Ending Balance	Due Within One Year
Governmental activities						
General obligation						
bonds	\$ 109,735,000	\$ 71,995,000	\$ (7,965,000)	\$ (37,650,000)	\$ 136,115,000	\$ 8,550,000
School bond						
loan fund	37,677,238	349,469	-	(37,955,210)	71,497	-
Unamortized bond						
premium	2,937,133	5,383,671	(636,017)	-	7,684,787	721,927
Unamortized bond						
discount	(123,154)	-	8,210	-	(114,944)	(8,210)
Capital leases	31,609	-	(31,609)	-	-	-
Compensated						
absences	63,324	198,917	(201,998)	-	60,243	60,243
	<u>\$150,321,150</u>	<u>\$ 77,927,057</u>	<u>\$ (8,826,414)</u>	<u>\$ (75,605,210)</u>	<u>\$143,816,583</u>	<u>\$ 9,323,960</u>

Compensated absences are generally expected to be liquidated by the general fund when due.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

Bonds payable consist of the following issues:

### General obligation bonds

\$23,360,000 2009 YPS serial and term bonds due in annual installments of \$1,930,000 to \$2,270,000 through May 1, 2020; interest at 4.0% to 5.0%.	\$ 6,745,000
\$12,800,000 2015 YPS refunding bonds due in annual installments of \$2,080,000 to \$2,220,000 through May 1, 2026; interest at 2.25% to 5.0%.	12,800,000
\$7,885,000, 2006 WRCS Building and Site Bonds payable in annual installments of \$280,000 to \$370,000 through 2018; interest at 3.5% to 5.0%.	690,000
\$22,785,000, 2011 WRCS Refunding Bonds payable in annual installments of \$2,025,000 to \$2,110,000 through the year 2031; interest at 3.5% to 5.0%.	22,785,000
\$18,615,000, 2013 Revenue Bonds payable in annual installments of \$695,000 to \$2,010,000 through the year 2026; interest at 3.0% to 5.0%.	15,350,000
\$9,315,000, 2015 WRCS Refunding Bonds payable in annual installments of \$1,720,000 to \$1,930,000 through the year 2020; interest at 4.0%.	5,750,000
\$33,745,000, 2016 Series A YCS Refunding Bonds payable in annual installments of \$1,800,000 to \$2,645,000 through the year 2032; interest at 4.0% to 5.0%.	33,745,000
\$5,285,000, 2016 Series B YCS Refunding Bonds payable in annual installments of \$510,000 to \$1,235,000 through the year 2023; interest at 1.5% to 2.62%.	5,285,000
\$32,965,000, 2016 Series C YCS Refunding Bonds payable in annual installments of \$6,350,000 to \$6,765,000 through the year 2023; interest at 1.81% to 2.62%.	<u>32,965,000</u>
<b>Total general obligation bonds</b>	<b><u>\$ 136,115,000</u></b>

The issues with "YPS" and "WRCS" descriptions above refer to Ypsilanti Public Schools and Willow Run Community Schools which issued the respective debt prior to consolidation as Ypsilanti Community Schools (YCS).

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 8,550,000	\$ 5,046,726	\$ 13,596,726
2019	14,445,000	4,695,401	19,140,401
2020	14,545,000	4,270,689	18,815,689
2021	15,005,000	3,821,222	18,826,222
2022	15,465,000	3,341,506	18,806,506
2023-2027	47,175,000	9,821,007	56,996,007
2028-2032	20,930,000	2,821,688	23,751,688
<b>Totals</b>	<b>\$ 136,115,000</b>	<b>\$ 33,818,239</b>	<b>\$ 169,933,239</b>

### School Bond Loan Fund

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond Loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes in principal and interest were as follows:

	Principal	Interest	Total
Beginning balance	\$ 22,637,887	\$ 15,039,351	\$ 37,677,238
Additions	71,479	277,990	349,469
Refunding	(22,638,441)	(15,316,769)	(37,955,210)
<b>Ending balance</b>	<b>\$ 70,925</b>	<b>\$ 572</b>	<b>\$ 71,497</b>

### Advance Refunding

The District issued \$33,745,000 in Series A refunding bonds and \$5,285,000 of Series B refunding bonds during the year to advance refund \$37,650,000 of 2007 Ypsilanti Public Schools bonds and \$5,285,000 of School Bond Loan Fund debt. The refunding resulted in a gross savings of \$6,073,946 and an economic gain of \$5,035,670. As the escrow payment on the refunded bonds was paid prior to June 30, 2017, there is no defeased debt outstanding related to this refunding.

The District also issued \$32,965,000 in Series C refunding bonds during the year to advance refund \$32,965,000 of School Bond Loan Fund. The refunding resulted in a gross savings of \$3,285,291 and an economic gain of \$1,375,947. As the escrow payment on the refunded bonds was paid prior to June 30, 2017, there is no defeased debt outstanding related to this refunding.

In prior years, the Ypsilanti Public Schools defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net position. At June 30, 2017, the balance of the bonds considered to be defeased is \$6,645,000.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

In prior years, the Willow Run Community Schools defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net position. At June 30, 2017, the balance of the bonds considered to be defeased is \$23,285,000.

### Capital Leases

The District has entered into a lease agreement for financing the purchase of copiers. These lease agreement qualifies as a capital lease for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The District's last payment for the current copier lease was made in 2017. As such, there are no future minimum lease obligations for this lease as of June 30, 2017.

## 9. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2017, net investment in capital assets was comprised of the following:

Investment in capital assets:	
Capital assets not being depreciated	\$ 811,830
Capital assets being depreciated, net	70,212,026
Less related debt:	
Bonds payable	(136,115,000)
Deferred charge on refunding	2,415,213
Bond premium	(7,684,787)
Bond discount	114,944
Revenue bond (non-capital debt)	15,350,000
School bond loan fund refunding bonds (non-capital debt)	<u>38,250,000</u>
Net investment in capital assets	<u><u>\$ (16,645,774)</u></u>

## 10. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for employee health and accident insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past fiscal year.

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

## 11. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on July 1 by taxing jurisdictions whose boundaries include property within the District. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of Washtenaw County.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### 12. TAX ABATEMENTS

The District received reduced property tax revenues during 2017 as a result of industrial facilities tax exemptions (IFT's) entered into by cities, villages, townships, and authorities within the District boundaries.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Developments Districts Act (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high-tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property within the District boundaries. The abatements amounted to approximately \$477,500 in reduced District tax revenues for 2017.

### 13. SHORT TERM DEBT

During the year, the District financed certain of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and are accordingly recorded as a liability in the general fund. The District borrowed \$239,853 through State Aid Note, Series 2016C-1, at an interest rate of 1.00%. The District also borrowed \$360,147 through State Aid Note, Series 2016C-2, at an interest rate of 0.76%, and \$3,000,000 through State Aid Note, Series 2016C-3, at an interest rate of 1.2% These notes were issued on August 22, 2016 and mature on July 20, 2017. Changes in short-term state aid notes for the year ended June 30, 2017 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
State aid notes	\$ 3,119,139	\$ 3,600,000	\$ (3,602,771)	\$ 3,116,368

### 14. RETIREMENT PLAN

#### *Plan Description*

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "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).



# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### *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% to 1.50%. 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 plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

### *Contributions and Funded Status*

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2017:

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	18.95% - 19.03%
Member Investment Plan (MIP)	3.0% - 7.0%	18.95% - 19.03%
Pension Plus	3.0% - 6.4%	17.73% - 18.40%
Defined Contribution	0.0%	14.56% - 15.27%

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2017 was \$6,305,977.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

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

At June 30, 2017, the District reported a liability of \$67,821,267 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. 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, 2016, the District's proportion was 0.27184%, which was a decrease of 0.01180% from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$6,660,613. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 845,232	\$ 160,738	\$ 684,494
Changes in assumptions	1,060,332	-	1,060,332
Net difference between projected and actual earnings on pension plan investments	1,127,189	-	1,127,189
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,223,326	2,250,225	(26,899)
	<u>5,256,079</u>	<u>2,410,963</u>	<u>2,845,116</u>
District contributions subsequent to the measurement date	5,851,166	-	5,851,166
	<u>5,851,166</u>	<u>-</u>	<u>5,851,166</u>
<b>Total</b>	<u><u>\$ 11,107,245</u></u>	<u><u>\$ 2,410,963</u></u>	<u><u>\$ 8,696,282</u></u>

## YPSILANTI COMMUNITY SCHOOLS

### Notes to Financial Statements

\$5,851,166 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2018	\$ 730,487
2019	642,060
2020	1,597,864
2021	<u>(125,295)</u>
Total	<u>\$ 2,845,116</u>

#### *Actuarial Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
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 adjustments	3% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Long-Term Expected Return on Plan Assets*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.90%	1.64%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.90%	0.09%
Real estate and infrastructure pools	10.00%	4.30%	0.43%
Absolute return pools	15.50%	6.00%	0.93%
Short-term investment pools	<u>2.00%</u>	0.00%	<u>0.00%</u>
	<u>100.00%</u>		5.90%
Inflation			<u>2.10%</u>
Investment rate of return			<u>8.00%</u>

### *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.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

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

The following presents the District's proportionate share of the net pension liability calculated using the 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 higher:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 87,336,721	\$ 67,821,267	\$ 51,367,863

### *Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

### *Payable to the Pension Plan*

At June 30, 2017, the District reported a payable of \$873,804 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2017.

### *Other Postemployment Benefits*

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a prefunded basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 5.69% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 were declared unconstitutional by the Supreme Court. Such amounts will be refunded by MPSERS to each District, including interest, and will then be refunded to individual employees.

The District's contributions to MPSERS for other postemployment benefits amounted to \$2,121,568 for the year ended June 30, 2017.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Financial Statements

### 15. COMMITMENTS AND CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving various matters. The outcome of these lawsuits is not presently determinable, and the District and its legal counsel is contesting these claims vigorously. No provision for potential claims has been recorded in the underlying financial statements in case of an adverse settlement.

### 16. SUBSEQUENT EVENTS

#### *State Aid Notes*

The District borrowed \$600,000 through State Aid Note, Series 2017 A, at an interest rate of 1.27%. This note was issued on August 21, 2017 and matures on July 20, 2018. The District also borrowed \$3,000,000 through State Aid Note, Series 2017 B, at an interest rate of 1.49%. This note was issued on August 21, 2017 and Matures on August 20, 2018.

#### *MPSERS Change in Discount Rate - Pension Plan*

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.



## REQUIRED SUPPLEMENTARY INFORMATION

# YPSILANTI COMMUNITY SCHOOLS

## Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

### Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30,		
	2017	2016	2015
District's proportion of the net pension liability	\$ 67,821,267	\$ 69,278,931	\$ 58,879,966
District's proportionate share of the net pension liability	0.27184%	0.28364%	0.26731%
District's covered payroll	\$ 22,743,743	\$ 25,191,176	\$ 28,132,146
District's proportionate share of the net pension liability as a percentage of its covered payroll	298.20%	275.01%	209.30%
Plan fiduciary net position as a percentage of the total pension liability	63.27%	63.17%	66.20%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.



# YPSILANTI COMMUNITY SCHOOLS

## Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of District Contributions

	Year Ended June 30,		
	2017	2016	2015
Contractually required contribution	\$ 6,305,977	\$ 6,298,756	\$ 5,333,181
Contributions in relation to the contractually required contribution	<u>(6,305,977)</u>	<u>(6,298,756)</u>	<u>(5,333,181)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 22,724,710	\$ 22,777,776	\$ 23,937,241
Contributions as a percentage of covered payroll	27.75%	27.65%	22.28%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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**COMBINING FUND  
FINANCIAL STATEMENTS**

# YPSILANTI COMMUNITY SCHOOLS

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Special Revenue	Debt Service	
	Food Service	Willow Run Fund	Total Nonmajor Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 1,151,379	\$ 279,151	\$ 1,430,530
Due from other funds	68,210	615,873	684,083
Due from other governments	197,441	-	197,441
	<u>1,417,030</u>	<u>895,024</u>	<u>2,312,054</u>
<b>Total assets</b>	<b>\$ 1,417,030</b>	<b>\$ 895,024</b>	<b>\$ 2,312,054</b>
<b>Liabilities</b>			
Accounts payable	\$ 126,641	\$ 106	\$ 126,747
Salaries payable	44,431	-	44,431
Due to other funds	925,061	635,683	1,560,744
Unearned revenue	-	13,650	13,650
	<u>1,096,133</u>	<u>649,439</u>	<u>1,745,572</u>
<b>Total liabilities</b>	<b>1,096,133</b>	<b>649,439</b>	<b>1,745,572</b>
<b>Fund balances</b>			
Restricted for:			
Debt service	-	245,585	245,585
Food service	320,897	-	320,897
	<u>320,897</u>	<u>245,585</u>	<u>566,482</u>
<b>Total fund balances</b>	<b>320,897</b>	<b>245,585</b>	<b>566,482</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,417,030</b>	<b>\$ 895,024</b>	<b>\$ 2,312,054</b>

# YPSILANTI COMMUNITY SCHOOLS

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended June 30, 2017

	Special Revenue	Debt Service	
	Food Service	Willow Run Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>			
Local sources:			
Property taxes	\$ -	\$ 4,078,105	\$ 4,078,105
Other local revenue	11,074	-	11,074
Food sales	187,139	-	187,139
Interest revenue	-	37,109	37,109
State sources	115,679	-	115,679
Federal sources	3,005,782	-	3,005,782
<b>Total revenues</b>	<b>3,319,674</b>	<b>4,115,214</b>	<b>7,434,888</b>
<b>Expenditures</b>			
Current -			
Food service	3,361,528	-	3,361,528
Debt service:			
Principal	-	2,555,000	2,555,000
Interest	-	1,967,375	1,967,375
Tax abated	-	613	613
<b>Total expenditures</b>	<b>3,361,528</b>	<b>4,522,988</b>	<b>7,884,516</b>
Revenues under expenditures	(41,854)	(407,774)	(449,628)
<b>Other financing sources (uses)</b>			
Issuance of long-term debt	-	33,034,328	33,034,328
Payment to refunding bond escrow agent	-	(32,735,351)	(32,735,351)
Transfers out	(226,490)	-	(226,490)
<b>Total other financing sources (uses)</b>	<b>(226,490)</b>	<b>298,977</b>	<b>72,487</b>
Net change in fund balances	(268,344)	(108,797)	(377,141)
Fund balances, beginning of year	589,241	354,382	943,623
Fund balances, end of year	\$ 320,897	\$ 245,585	\$ 566,482

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## SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE

October 20, 2017

Board of Education  
Ypsilanti Community Schools  
Ypsilanti, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Ypsilanti Community Schools* (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 20, 2017, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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# YPSILANTI COMMUNITY SCHOOLS

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2017

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-Through Grantor's Number	Approved Award/Grant Amount
<b>U.S. Department of Agriculture</b>				
Child Nutrition Cluster:				
National School Breakfast Program:				
2015-2016 School Breakfast	10.553	MDE	161970	\$ 771,209
2016-2017 School Breakfast	10.553	MDE	171970	681,878
Entitlement commodities	10.555	MDE	n/a	182,495
National School Lunch Program:				
2015-2016 School Lunch - Section 4	10.555	MDE	161960	1,656,824
2016-2017 School Lunch - Section 4	10.555	MDE	171960	1,538,566
National School Snack Program:				
2015-2016 School Snack	10.555	MDE	161980	25,642
2016-2017 School Snack	10.555	MDE	171980	19,329
Summer Food Service Program:				
2016 Summer Food Service	10.559	MDE	160900	90,911
2017 Summer Food Service	10.559	MDE	170900	6,512
2017 Summer Food Service	10.559	MDE	171900	548
Total Child Nutrition Cluster				
Child and Adult Care Food Program:				
2015-16 CACFP Meals	10.558	MDE	161920	159,503
2015-16 Cash In Lieu	10.558	MDE	162010	9,143
2016-17 CACFP Meals	10.558	MDE	171920	164,101
2016-17 Cash In Lieu	10.558	MDE	172010	9,436
Fresh Fruit and Vegetable Program	10.582	MDE	160950	23,875
Total U.S. Department of Agriculture				
<b>U.S. Department of Education</b>				
Adult Education:				
2015-2016	84.002	WISD	161130	9,485
2015-2016 Federal Adult Ed ABE Instruction	84.002	MDE	161227	26,000
Title I , Part A:				
Regular 2012-2013	84.010	MDE	131530-1213	1,904,815
Regular 2015-2016	84.010	MDE	161530-1516	2,852,391
Regular 2016-2017	84.010	MDE	171530-1617	2,473,085

Accrued (Unearned) Revenue July 1, 2016	(Memo Only) Prior Year Expenditures	Prior Year Adjustments	Current Year Expenditures	Federal Funds / In-Kind Received	Accrued (Unearned) Revenue June 30, 2017
\$ 55,121	\$ 677,774	\$ -	\$ 93,435	\$ 148,556	\$ -
-	-	-	681,878	625,582	56,296
<u>55,121</u>	<u>677,774</u>	<u>-</u>	<u>775,313</u>	<u>774,138</u>	<u>56,296</u>
-	-	-	182,495	182,495	-
106,757	1,419,996	-	236,828	343,585	-
-	-	-	1,538,566	1,422,579	115,987
352	24,053	-	1,589	1,941	-
-	-	-	19,329	18,929	400
<u>107,109</u>	<u>1,444,049</u>	<u>-</u>	<u>1,978,807</u>	<u>1,969,529</u>	<u>116,387</u>
19,848	19,848	-	71,063	90,911	-
-	-	-	6,512	-	6,512
-	-	-	548	-	548
<u>19,848</u>	<u>19,848</u>	<u>-</u>	<u>78,123</u>	<u>90,911</u>	<u>7,060</u>
<u>182,078</u>	<u>2,141,671</u>	<u>-</u>	<u>2,832,243</u>	<u>2,834,578</u>	<u>179,743</u>
5,881	147,140	-	12,363	18,244	-
213	8,384	-	759	972	-
-	-	-	151,740	155,358	(3,618)
-	-	-	8,677	8,532	145
<u>6,094</u>	<u>155,524</u>	<u>-</u>	<u>173,539</u>	<u>183,106</u>	<u>(3,473)</u>
<u>6,605</u>	<u>23,875</u>	<u>-</u>	<u>-</u>	<u>6,605</u>	<u>-</u>
<u>194,777</u>	<u>2,321,070</u>	<u>-</u>	<u>3,005,782</u>	<u>3,024,289</u>	<u>176,270</u>
9,485	9,485	-	-	9,485	-
20,364	20,364	-	-	20,364	-
<u>29,849</u>	<u>29,849</u>	<u>-</u>	<u>-</u>	<u>29,849</u>	<u>-</u>
(1,971)	1,284,542	1,971	-	-	-
896,004	2,448,873	-	190,383	1,086,387	-
-	-	-	2,031,533	1,538,737	492,796
<u>894,033</u>	<u>3,733,415</u>	<u>1,971</u>	<u>2,221,916</u>	<u>2,625,124</u>	<u>492,796</u>

continued...

# YPSILANTI COMMUNITY SCHOOLS

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2017

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-Through Grantor's Number	Approved Award/Grant Amount
<b>U.S. Department of Education (continued)</b>				
<b>Perkins Grant:</b>				
2015-2016	84.048A	WISD	163520-161223	\$ 78,047
2016-2017	84.048A	WISD	173520-171223	79,013
<b>Special Education Cluster:</b>				
<b>I.D.E.A. Flow-Through</b>				
2015-2016	84.027A	WISD	160450-1516	1,272,559
2016-2017	84.027A	WISD	170450-1617	1,248,832
<b>Preschool Incentive:</b>				
2016-2017	84.173	WISD	170460-1617	37,543
<b>Total Special Education Cluster</b>				
<b>Title III:</b>				
2016-2017 Immigrant	84.365A	WISD	170570-1617	53,701
2015-2016 Limited English	84.365A	WISD	160580-1516	34,125
2016-2017 Limited English	84.365A	WISD	170580-1617	65,255
<b>Title II - Part A - Regular:</b>				
2012-2013	84.367	MDE	130520-1213	406,684
2015-2016	84.367	MDE	160520-1516	1,211,067
2016-2017	84.367	MDE	170520-1617	1,010,233
<b>Total U.S. Department of Education</b>				
<b>U.S. Department of Health and Human Services</b>				
<b>Head Start:</b>				
2015-2016	93.600	WISD	n/a	1,587,060
2016-2017	93.600	WISD	n/a	1,655,069
<b>Total Federal Financial Assistance</b>				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue July 1, 2016	(Memo Only) Prior Year Expenditures	Prior Year Adjustments	Current Year Expenditures	Federal Funds / In-Kind Received	Accrued (Unearned) Revenue June 30, 2017
\$ 27,701	\$ 78,047	\$ -	\$ -	\$ 27,701	\$ -
-	-	-	73,309	31,894	41,415
<u>27,701</u>	<u>78,047</u>	<u>-</u>	<u>73,309</u>	<u>59,595</u>	<u>41,415</u>
289,235	1,154,247	-	118,312	407,547	-
-	-	-	887,552	503,209	384,343
<u>289,235</u>	<u>1,154,247</u>	<u>-</u>	<u>1,005,864</u>	<u>910,756</u>	<u>384,343</u>
-	-	-	37,543	37,543	-
<u>289,235</u>	<u>1,154,247</u>	<u>-</u>	<u>1,043,407</u>	<u>948,299</u>	<u>384,343</u>
-	-	-	4,319	-	4,319
11,660	11,660	(11,660)	-	-	-
-	-	-	20,925	-	20,925
<u>11,660</u>	<u>11,660</u>	<u>(11,660)</u>	<u>25,244</u>	<u>-</u>	<u>25,244</u>
(21,796)	206,462	21,796	-	-	-
252,966	644,131	-	132,680	385,646	-
-	-	-	696,924	589,768	107,156
<u>231,170</u>	<u>850,593</u>	<u>21,796</u>	<u>829,604</u>	<u>975,414</u>	<u>107,156</u>
<u>1,483,648</u>	<u>5,857,811</u>	<u>12,107</u>	<u>4,193,480</u>	<u>4,638,281</u>	<u>1,050,954</u>
1,064,730	1,587,060	-	-	1,064,730	-
-	-	-	1,655,069	543,571	1,111,498
<u>1,064,730</u>	<u>1,587,060</u>	<u>-</u>	<u>1,655,069</u>	<u>1,608,301</u>	<u>1,111,498</u>
<u>\$ 2,743,155</u>	<u>\$ 9,765,941</u>	<u>\$ 12,107</u>	<u>\$ 8,854,331</u>	<u>\$ 9,270,871</u>	<u>\$ 2,338,722</u>

concluded.

# YPSILANTI COMMUNITY SCHOOLS

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF PRESENTATION

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both the actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and the end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts on the Grant Auditor Reports reconcile with this Schedule.

For the purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

### 3. PASS-THROUGH AGENCIES

The District receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
WISD	Washtenaw County Intermediate School District





INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 20, 2017

Board of Education  
Ypsilanti Community Schools  
Ypsilanti, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Ypsilanti Community Schools* (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 20, 2017.

#### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Ypsilanti Community Schools’ Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

October 20, 2017

Board of Education  
Ypsilanti Community Schools  
Ypsilanti, Michigan**Report on Compliance for Each Major Federal Program**

We have audited the compliance of *Ypsilanti Community Schools* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Independent Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the requirement of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### *Opinion on Each of its Major Federal Programs*

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

### *Other Matters*

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-002. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

**Ypsilanti Community Schools' Response to Finding**

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*Purpose of this Report*

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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# YPSILANTI COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiency(ies) identified?  X  yes \_\_\_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiency(ies) identified?  X  yes \_\_\_\_\_ none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  X  yes \_\_\_\_\_ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
84.010	Title I, Part A	Unmodified
84.367	Title II, Part A	Unmodified
93.600	Head Start	Unmodified

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes  X  no

# YPSILANTI COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2017-001 - Internal Controls over Payroll

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. The District should have internal controls in place over the payroll function to ensure that employee contracts are signed by both the District and the employee, and to ensure the employees are paid the appropriate amounts each period.

Condition. During our testing of accrued payroll and employee contracts, we noted that several contracts were signed by the District, but were not signed by the employee, as well as two contracts which were not signed by either the District or the employee. We also noted an instance in which an employee did not have a current contract on file and was being paid based on the prior year contract amount. Additionally, we noted two employees for whom incorrect pay dates had been entered into the payroll module, resulting in initially lower payments being made to those employees than what the employee should have received over the contract term, thus requiring subsequent lump sum payments to those employees to make up for those underpayments. Finally, we noted several instances where the amount accrued could not be reconciled to the underlying documentation by trivial amounts.

Cause. This condition is generally the result of employees who did not wish to sign their contracts due to various reasons, and the generally high level of turnover experienced by the District during the year, which resulted in a large number of new contracts and payroll documentation for the business office to process for the current year. We noted that while the District does continue to pay employees who did not sign their current contract, the District does not have a policy in place to address how these contracts will be handled. Additionally, the District's existing internal controls over processing payroll did not function adequately in order to ensure that the appropriate amounts were accrued and paid to employees.

Effect. As a result of this condition, the District's internal controls over processing payroll did not ensure that documentation was retained to support amounts accrued, or that amounts paid could be supported by signed contracts.

Recommendation. We recommend that the District implement clear written policies to address employees who have not signed their contracts going forward to mitigate the risk of future uncertainty related to these contracts. Additionally, we recommend that the District review its policies and procedures over payroll to ensure that employees are paid appropriate amounts, and that the underlying documentation is retained to support all amounts accrued.

View of Responsible Officials. The Business Office will work with the Human Resource Office to make sure they understand the importance of having a signed contract for each employee and the importance of providing the Business Office with the correct and accurate start date prior to the employee's first payroll. If the Business Office receives a contract with a missing signature, they will bring it to the attention of the Human Resource Office for corrective action. The accrual amounts were off due to a software issue with accruing employees who had long term absences resulting in pay periods without pay and necessitating contract adjustments. To correct this issue, the Business Office will print balance of contract reports by employee and compare the amounts to the total amount accrued.



# YPSILANTI COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-002 - Procurement, Suspension and Debarment (Repeat - Prior Year Finding 2016-003)

**Finding Type.** Immaterial Noncompliance; Significant Deficiency in Internal Control over Compliance.

**Program.** Title I, Part A; U.S. Department of Education; CFDA Number 84.010; Passed through the Michigan Department of Education; Award numbers 161530-1516 and 171530-1617.

**Criteria.** In accordance with the Uniform Guidance, non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000. In addition, non-Federal entities are allowed to complete procurement by the use of noncompetitive proposals under certain circumstances as described in the Uniform Guidance.

**Condition.** For one of three vendors over the threshold selected for audit testing, the District failed to perform their own check to ensure that the vendor was not suspended or debarred during the year. In addition, in one instance the District did not retain documentation to support the determination that the use of noncompetitive proposals was appropriate under one of the circumstances described in the Uniform Guidance.

**Cause.** The District experienced turnover of grants management staff during the year, and as a result did not identify all vendors who were charged to the grant in excess of the \$25,000 federal threshold to perform its internal check for suspension and debarment. In addition, the District did not realize the importance of retaining proper documentation to support the determination that the use of procurement by noncompetitive proposals was appropriate in the circumstances.

**Effect.** The District was unable to provide support that internal controls were functioning properly to demonstrate compliance with this requirement and that the determination to utilize noncompetitive proposals was appropriate in the circumstances.

**Questioned Costs.** No costs are required to be questioned as a result of this finding, inasmuch as the vendor was not actually suspended or debarred and the use of noncompetitive proposals was ultimately appropriate in the circumstances.

**Recommendation.** We recommend that the District review its process for identifying covered transactions (procurement contracts for goods and services awarded under a grant or cooperative agreement that are expected to equal or exceed \$25,000), and retain the documentation showing that it checked for suspension and debarment on all vendors in which the District made payments of \$25,000 or more. We further recommend that the District retain proper documentation to support circumstances in which it utilizes noncompetitive proposals.

**View of Responsible Officials.** District staff will retain documentation showing that before paying any vendor for grant funded purchases of \$25,000 or more, an employee will check the Sam.gov website to ensure that the vendor is not suspended or debarred. In addition, the District will retain documentation to support the procurement methodology utilized.



# YPSILANTI COMMUNITY SCHOOLS

## ■ Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2017

### 2016-001 - Prior Period Audit Adjustments

The auditors noted that the District recorded an asset as both land and buildings in prior years. This error originated at the time the former districts were consolidated, when certain capital asset details were duplicated in the conversion to the new District's capital asset software. As a result of this condition, the District's accounting records were previously misstated by amounts material to the financial statements. This resulted in the need to record a prior period adjustment. This finding has been resolved in the current year.

### 2016-002 - Preparation of the Schedule of Expenditures of Federal Awards

Many adjustments were required to reconcile the District's SEFA to underlying grant and accounting records. This finding has been resolved in the current year.

### 2016-003 - Procurement, Suspension, and Debarment

The District did not retain documentation to indicate it performed a check to ensure that all vendors paid or expected to be paid \$25,000 or more were not suspended or debarred from receiving federal funds. This finding has been repeated in the current year as 2017-002.

