

School District of the City of Pontiac

Pontiac, Michigan

**Annual Financial Statements
and
Independent Auditors' Report**

June 30, 2014

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School District of the City of Pontiac
Members of the Board of Education and Administration
June 30, 2014

Members of the Board of Education

Karen Cain, President

Brenda Carter, Vice President

Carroll Turpin, Secretary

Sherman Williams II, Treasurer

Susan Loveland, Parliamentarian

Mattie McKinney-Hatchett, Trustee

S. Barbara Raby, Trustee

Administration

Kelley Williams, Superintendent

Cyndi Toupin, Interim Business Director



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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Pontiac, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinions on General Fund and Governmental Activities

Management has evaluated items previously recorded on the Balance Sheet of the General Fund and Statement of Net Position and determined that certain items represented duplicate liabilities, previously unrecorded liabilities, or misstatements in accounts accrued. Accounting principles generally accepted in the United States of America require that transactions be reported in the period in which they occur. As a result of the quantity of adjustments, we were unable to obtain sufficient audit evidence to substantiate the period in which the adjustments should have been recorded. The net impact of these items accumulated to \$896,792, which is recorded in the local revenue line item in the General Fund and Other revenue on the Statement of Activities.

Qualified Opinions

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Pontiac, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the School District of the City of Pontiac continues as a going concern. As discussed in Note 2 to the financial statements, the School District has a general fund deficit of \$39,077,648. This raises substantial doubt about the ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information, identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Pontiac's basic financial statements. The other supplementary information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and, was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 on our consideration of the Pontiac School 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 School District of the City of Pontiac's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Saginaw, MI
November 14, 2014

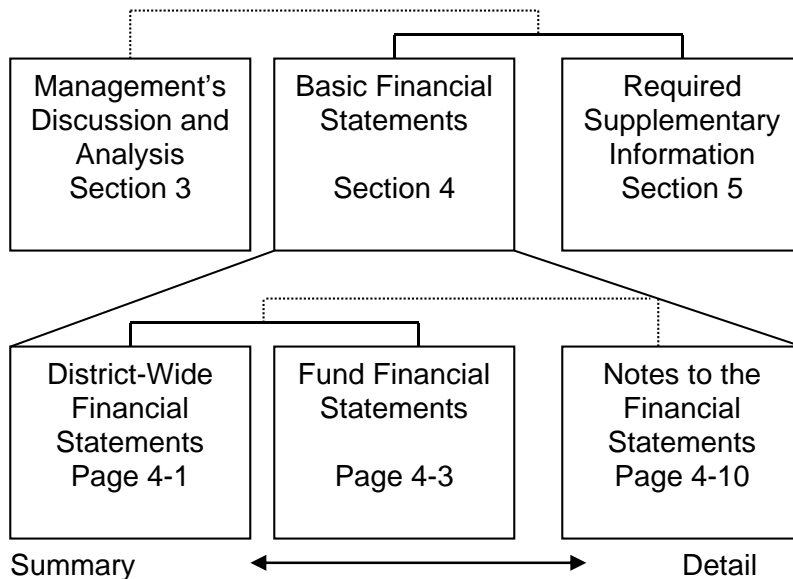
MANAGEMENT'S DISCUSSION AND ANALYSIS

**School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2014**

This financial report is presented in the format required by the Governmental Accounting Standards Board (GASB). The overall organization of this report is shown in Figure A-1.

This section of the School District of the City of Pontiac’s (the “School District”) annual financial report presents our discussion and analysis of the School District’s financial performance during the year ended June 30, 2014. Please read it in conjunction with the School District’s financial statements, which immediately follow this section.

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



Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District of the City of Pontiac financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District’s finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District’s operations in more detail than the government-wide financial statements by providing information about the School District’s most significant funds - the General Fund, School Improvements 1991-C2 Debt Service Fund and, 1985 Refunding Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2014

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

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District. The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

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

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

- Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

**School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2014**

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

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

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2014 and 2013:

Table 1

	Governmental Activities	
	June 30	
	2014	2013
	(in millions)	
Assets		
Current and other assets	\$ 17.6	\$ 8.7
Capital assets	27.6	23.1
Total assets	45.2	31.8
Liabilities		
Current liabilities	48.9	65.5
Long-term liabilities	34.3	23.3
Total liabilities	83.2	88.8
Net Position		
Net investment in capital assets	4.1	(2.3)
Restricted	5.2	5.0
Unrestricted	(47.3)	(59.7)
Total net position	\$ (38.0)	\$ (57.0)

The analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was (\$38.0 million) at June 30, 2014. Net investment in capital assets totaling \$4.1 million compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of \$5.2 million is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use the net position for day-to-day operations. The remaining amount of net position of (\$47.3 million) was unrestricted.

The (\$47.3 million) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position deficit represents the accumulated working capital and cash flow requirements of the School District as well as demonstrates the significant financial challenges that lie ahead. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years ended June 30, 2014 and 2013.

**School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2014**

Table 2

	Governmental Activities	
	2014	2013
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.2	\$ 0.1
Operating grants and contributions	28.3	26.2
General revenue:		
Property taxes	39.4	35.8
State foundation allowance	2.6	7.1
Federal sources - Unrestricted	-	0.1
Insurance Proceeds	7.6	-
Other	1.6	1.0
Total revenue	<u>79.7</u>	<u>70.3</u>
Functions/Program Expenses		
Instruction	28.3	35.4
Support services	28.1	36.6
Food services	2.8	2.7
Community services	0.3	0.1
Interest on long-term debt	1.5	2.8
Impairment loss on capital assets	-	0.6
Total functions/program expenses	<u>61.0</u>	<u>78.2</u>
Increase (Decrease) in Net Position	18.7	(7.9)
Net Position - Beginning of year (Restated)	<u>(56.7)</u>	<u>(49.1)</u>
Net Position - End of year	<u>\$ (38.0)</u>	<u>\$ (57.0)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$61.0 million. Certain activities were partially funded from those who benefited from the programs \$0.2 million or by other governments and organizations that subsidized certain programs with grants and contributions \$28.3 million. We paid for the remaining “public benefit” portion of our governmental activities with \$39.4 million in taxes, \$2.6 million in State foundation allowance, \$7.6 million in insurance proceeds, and with our other revenues, i.e., interest and general entitlements, totaling \$1.6 million.

The School District experienced an increase in net position of \$18.7 million. Key reasons for the change in net position were the ability to secure an emergency loan in the amount of \$10 million recognizing prior period adjustments of \$1.2 million, collecting on old insurance claims, being able to recognize grant revenue throughout the year with cash on hand, as well as obtaining health care and bargaining concessions.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District’s Funds

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

School District of the City of Pontiac Management Discussion and Analysis Year Ended June 30, 2014

As the School District completed this year, the governmental funds reported a combined fund deficit of (\$33.3 million), which is a decrease of \$13.4 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund deficit decreased \$12.6 million to a deficit of (\$39.1 million). The change is mainly due to:

- An emergency loan of \$10 million was secured with a 20-year amortization.
- Implementing a balanced calendar for students and obtaining bargaining concessions on salaries and benefits.
- A loosening in cash flow constraints, the School District previously had difficulty in paying its vendors and as a result incurred significant penalties and interest on outstanding balances, which are recorded as additional expenditures. The school district has been able to meet its general operating.
- The loosening of cash flow constraints also aided the School District in requesting reimbursement under certain federal grants, which allowed additional revenues to be realized in these financial statements.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

As a result of the deficit mentioned above, the School District was required to file a Deficit Elimination Plan (DEP). This DEP was filed and previously approved for a ten-year period (2014-2024). Due to the existence of the deficit, this DEP will be amended and submitted to the Department of Education for approval, along with the Finance and Operating Plan (FOP) and other required documents under the School District's consent agreement with the State of Michigan.

Our Food Service Fund had their beginning fund balance restated for a prior period adjustment. This restatement dealt with the repayment of services provided to the food service fund and paid for out of the general fund. It should also be noted that the Food Service Fund has continued to remain stable and showed, a net increase of \$143,800.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. There were significant revisions made to the 2013-2014 General Fund original budget. Budgeted revenues were increased by \$7.4 million this was largely due to the receipt of an emergency loan. Budget expenditures were increased by \$14.2 million this was discovered to reflect a truer picture and alignment of projected expenditures.

A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the School District had \$27.6 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$4.5 million, or approximately a 19 percent, from last year.

**School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2014**

	2014	2013
Land	\$ 3,289,804	\$ 3,289,804
Construction in progress	2,433,914	1,865,712
Buildings and building improvements	56,368,555	51,999,422
Buses and other vehicles	85,797	847,017
Furniture and equipment	<u>27,986,055</u>	<u>29,952,471</u>
Total capital assets	90,164,125	87,954,426
Less accumulated depreciation	<u>62,575,445</u>	<u>64,842,561</u>
Net capital assets	<u>\$ 27,588,680</u>	<u>\$ 23,111,865</u>

Building improvements were extensive at the Whitmer Human Resource Center Elementary school due to the severe inclement weather in January, 2014. Other capital projects started was the roof replacement at Owen Kennedy Elementary and a fire alarm system at Pontiac High School.

Several major capital projects are planned for the 2014-2015 fiscal year which includes a fire alarm/security access system district wide, a roof replacement at Frost Elementary, installation of security cameras district-wide, installation of site lighting district-wide, boiler replacements and other improvements. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$24.0 million in bonds outstanding versus \$17.0 million in the previous year – an increase of 41 percent. Those bonds consisted of the following:

	2014	2013
General obligation bonds	<u>\$ 23,996,755</u>	<u>\$ 16,994,148</u>

Other obligations include compensated absences, accreted interest, school bond loan, claims and judgments, and termination benefits. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2014-2015 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2015 fiscal year is 10 percent and 90 percent of the February 2015 and October 2014 student counts, respectively. The 2014-2015 budget was adopted in June 2014, based on an estimate of students that will be enrolled in September 2014. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2014-2015 school year, we anticipate that the Fall student count will be better than the estimates used in creating the 2014-2015 budget by approximately 120 students.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State will increase the foundation allowance in 2014-2015 slightly from \$7,080 to \$7,130 for Pontiac Schools.

**School District of the City of Pontiac
Management Discussion and Analysis
Year Ended June 30, 2014**

As a result of the School District's overall deficit and financial stress, the District entered into a Consent Agreement with the Michigan Department of Treasury which became effective September 18, 2013. Under the terms of the Consent Agreement the District then entered into an Alternate Service Provider Agreement with Oakland Schools dated October 28, 2013 which became effective on November 15, 2013. Oakland Schools has since reorganized and staffed the financial and human resource teams of the District. The District has since, with the assistance of Oakland Schools provided and will continue to do so, all the required documents of the Michigan Department of Treasury and Michigan Department of Education under the timelines established within the Consent Agreement.

Contacting the District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Business Office.

BASIC FINANCIAL STATEMENTS

School District of the City of Pontiac
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>
Assets	
Cash	\$ 8,573,829
Accounts receivable	2,653,244
Due from other governmental units	6,268,639
Inventory	28,323
Prepaid items	44,158
Capital assets not being depreciated	3,858,006
Capital assets - net of accumulated depreciation	<u>23,730,674</u>
 Total assets	 <u>45,156,873</u>

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Statement of Net Position
June 30, 2014

	Governmental Activities
Liabilities	
Accounts payable	\$ 6,159,165
State aid and tax anticipation note payable	19,552,646
Interest payable	1,053,001
Due to other governmental units	6,981,419
Due to agency fund activities	8,496
Accrued expenditures	351,812
Accrued salaries payable	3,037,923
MESSA Judgment payable	5,898,483
Vendor repayment plans payable	3,416,115
Unearned revenue	2,402,173
Noncurrent liabilities	
Due within one year	12,108,322
Due in more than one year	22,170,599
	83,140,154
Total liabilities	
Net Position	
Net investment in capital assets	4,090,963
Restricted for:	
Food service	528,167
Debt service	4,716,418
Unrestricted	(47,318,829)
	\$ (37,983,281)
Total net position	

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Statement of Activities
For the Year Ended June 30, 2014

	Program Revenues				
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
Functions/Programs					
Governmental activities					
Instruction	\$ 28,319,248	\$ -	\$ 12,700,893	\$ -	\$(15,618,355)
Supporting services	28,033,933	87,534	12,572,933	-	(15,373,466)
Food services	2,828,619	35,470	2,972,630	-	179,481
Community services	278,592	82,992	51,524	-	(144,076)
Interest on long-term debt	1,539,485	-	-	-	(1,539,485)
Total governmental activities	\$ 60,999,877	\$ 205,996	\$ 28,297,980	\$ -	(32,495,901)
General revenues					
					27,988,463
					11,416,277
					2,565,616
					13,110
					7,649,970
					1,538,809
Total general revenues					51,172,245
Change in net position					18,676,344
Net position (deficit) - beginning, as restated					(56,659,625)
Net position (deficit) - ending					\$(37,983,281)

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Governmental Funds
Balance Sheet
June 30, 2014

	General Fund	School Improvements 1991-C2 Debt Service	1985 Refunding 1991-D Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 7,457,229	\$ 856,756	\$ 259,548	\$ 296	\$ 8,573,829
Accounts receivable	2,648,294	-	-	4,950	2,653,244
Due from other funds	93	2,182,936	2,032,445	516,486	4,731,960
Due from other governmental units	5,965,232	55,917	36,951	210,539	6,268,639
Inventory	-	-	-	28,323	28,323
Prepaid items	44,158	-	-	-	44,158
	<u>44,158</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,158</u>
Total assets	<u>\$ 16,115,006</u>	<u>\$ 3,095,609</u>	<u>\$ 2,328,944</u>	<u>\$ 760,594</u>	<u>\$ 22,300,153</u>
Liabilities					
Accounts payable	\$ 6,013,104	\$ -	\$ -	\$ 146,061	\$ 6,159,165
State aid and tax anticipation note payable	19,552,646	-	-	-	19,552,646
Interest payable	489,166	-	-	-	489,166
Due to other funds	4,731,867	-	-	93	4,731,960
Due to other governmental units	6,858,639	30,123	21,309	71,348	6,981,419
Due to agency fund activities	8,496	-	-	-	8,496
Accrued expenditures	183,848	-	-	699	184,547
Accrued salaries payable	3,028,047	-	-	9,876	3,037,923
MESSA Judgment payable	5,898,483	-	-	-	5,898,483
Vendor repayment plans payable	3,416,115	-	-	-	3,416,115
Unearned revenue	2,402,173	-	-	-	2,402,173
	<u>52,582,584</u>	<u>30,123</u>	<u>21,309</u>	<u>228,077</u>	<u>52,862,093</u>
Total liabilities	<u>52,582,584</u>	<u>30,123</u>	<u>21,309</u>	<u>228,077</u>	<u>52,862,093</u>

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Governmental Funds
Balance Sheet
June 30, 2014

	General Fund	School Improvements 1991-C2 Debt Service	1985 Refunding 1991-D Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Deferred Inflows of Resources					
Unavailable revenue					
Grants received	\$ 592,843	\$ -	\$ -	\$ -	\$ 592,843
Insurance recoveries	1,665,639	-	-	-	1,665,639
Property taxes	-	55,917	36,951	-	92,868
Non-grants	<u>351,587</u>	<u>-</u>	<u>-</u>	<u>4,350</u>	<u>355,937</u>
Total deferred inflows of resources	<u>2,610,069</u>	<u>55,917</u>	<u>36,951</u>	<u>4,350</u>	<u>2,707,287</u>
Fund Balance					
Non-spendable					
Inventory	-	-	-	28,323	28,323
Prepaid items	44,158	-	-	-	44,158
Restricted for:					
Food service	-	-	-	499,844	499,844
Debt service	-	3,009,569	2,270,684	-	5,280,253
Unassigned (deficit)	<u>(39,121,805)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39,121,805)</u>
Total fund balance (deficit)	<u>(39,077,647)</u>	<u>3,009,569</u>	<u>2,270,684</u>	<u>528,167</u>	<u>(33,269,227)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 16,115,006</u>	<u>\$ 3,095,609</u>	<u>\$ 2,328,944</u>	<u>\$ 760,594</u>	<u>\$ 22,300,153</u>

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2014

Total fund balances for governmental funds	\$(33,269,227)
Total net position for governmental activities in the statement of net position is different because:	
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	
Other governmental units	2,707,287
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	3,858,006
Capital assets - net of accumulated depreciation	23,730,674
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(563,835)
Claims and judgments	(167,265)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(781,204)
Bonds payable	(23,996,755)
School bond loan payable	(4,125,000)
Accreted interest payable	(5,331,567)
Premium on bond	(44,395)
<u>Premium on bond</u>	<u>(44,395)</u>
Net position of governmental activities	<u>\$(37,983,281)</u>

School District of the City of Pontiac
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014

	General Fund	School Improvements 1991-C2 Debt Service	1985 Refunding 1991-D Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local sources	\$ 29,425,751	\$ 5,296,940	\$ 3,939,407	\$ 2,230,800	\$ 40,892,898
State sources	10,944,046	-	-	105,289	11,049,335
Federal sources	9,675,560	-	-	2,867,341	12,542,901
Interdistrict sources	6,420,265	-	-	-	6,420,265
Total revenues	<u>56,465,622</u>	<u>5,296,940</u>	<u>3,939,407</u>	<u>5,203,430</u>	<u>70,905,399</u>
Expenditures					
Current					
Education					
Instruction	27,993,970	-	-	-	27,993,970
Supporting services	27,796,976	-	-	-	27,796,976
Food services	-	-	-	2,757,090	2,757,090
Community services	254,545	-	-	-	254,545
Capital outlay	6,837,819	-	-	-	6,837,819
Principal	-	816,963	620,430	1,560,000	2,997,393
Interest and other expenditures	-	3,521,125	2,667,005	674,009	6,862,139
Total expenditures	<u>62,883,310</u>	<u>4,338,088</u>	<u>3,287,435</u>	<u>4,991,099</u>	<u>75,499,932</u>
Excess (deficiency) of revenues over expenditures	<u>(6,417,688)</u>	<u>958,852</u>	<u>651,972</u>	<u>212,331</u>	<u>(4,594,533)</u>

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014

	General Fund	School Improvements 1991-C2 Debt Service	1985 Refunding 1991-D Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Proceeds from bonds	\$ 10,000,000	\$ -	\$ -	\$ -	\$ 10,000,000
Insurance recoveries	7,649,970	-	-	-	7,649,970
Transfers in	1,916,344	-	-	1,847,813	3,764,157
Transfers out	<u>(1,756,000)</u>	<u>(91,813)</u>	<u>-</u>	<u>(1,916,344)</u>	<u>(3,764,157)</u>
Total other financing sources (uses)	<u>17,810,314</u>	<u>(91,813)</u>	<u>-</u>	<u>(68,531)</u>	<u>17,649,970</u>
Net change in fund balance	11,392,626	867,039	651,972	143,800	13,055,437
Fund balance (deficit) - beginning, as restated	<u>(50,470,273)</u>	<u>2,142,530</u>	<u>1,618,712</u>	<u>384,367</u>	<u>(46,324,664)</u>
Fund balance (deficit) - ending	<u><u>\$(39,077,647)</u></u>	<u><u>\$ 3,009,569</u></u>	<u><u>\$ 2,270,684</u></u>	<u><u>\$ 528,167</u></u>	<u><u>\$(33,269,227)</u></u>

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

Net change in fund balances - Total governmental funds	\$ 13,055,437
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Operating grants	1,120,852
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(2,037,861)
Capital outlay	7,139,589
Sale of capital assets (net book value)	(624,913)
Expenses are recorded when incurred in the statement of activities.	
Accreted interest	5,506,451
Accrued interest	(190,139)
Claims and judgments	1,241,004
Compensated absences and retirement incentives	462,189
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(10,000,000)
Repayments of long-term debt	2,997,393
Amortization of premiums	6,342
Change in net position of governmental activities	<u><u>\$ 18,676,344</u></u>

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2014

	<u>Agency Funds</u>
Assets	
Cash	\$ 119,534
Due from other funds	<u>8,496</u>
Total assets	<u><u>\$ 128,030</u></u>
Liabilities	
Due to agency fund activities	<u><u>\$ 128,030</u></u>

See Accompanying Notes to Financial Statements

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District of the City of Pontiac (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources

measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

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

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

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

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

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

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds. The General Fund includes the General Fund, categorical funded programs, noncenter special education programs, and athletic programs.

School Improvements 1991-C2 Debt Service – Debt service funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on outstanding bond issues.

1985 Refunding 1991-D - Debt service funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on outstanding bond issues.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Service Fund. Operating deficits generated by these activities are generally transferred from the General Fund.

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

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

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

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2014, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	3.87000
MESSA Judgment	0.34240

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 100% of the School District's tax roll lies within Oakland County.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are

due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Oakland and remitted to the School District by May 15.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$16,000 and an estimated useful life in excess of one year. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	25-50 years
Equipment and furniture	5-20 years
Buses and other vehicles	8 years

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of earned but unusual accumulated sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which the amount for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payment upon normal retirement are included.

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

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

Deferred inflows of resources - A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

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

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

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used,

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

the District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

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

Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board ("The GASB") has issued Statement 68, *Accounting and Financial Reporting for Pensions*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net pension liability will be recorded on the government-wide

statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. The District is evaluating the impact these standards will have on its financial reporting. Statements 68 and 71 are effective for the year ending June 30, 2015.

Statement 69 provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity. Statement 69 is effective for the year ending June 30, 2015.

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

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

Excess of Expenditures over Appropriations

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

<u>Function</u>	<u>Final Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund			
School administration	2,580,000	3,019,322	439,322
Pupil transportation services	4,379,000	4,386,748	7,748

Fund Deficits

The School District has an accumulated fund deficit in the general fund in the amount of \$39,077,647 as of June 30, 2014. The District also has a deficit unrestricted net position in the amount of \$47,318,829 on the statement of net position. These accumulated deficits raise substantial doubt about the ability of the School District to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The School District has filed a deficit elimination plan with the State of Michigan. The School District is in compliance with the plan as of June 30, 2014. Additionally the School District has entered into a consent agreement with the State Treasurer which requires the School District to enter into a cooperative agreement with an Alternate Service Provider (Oakland Schools) to provide certain services to the School District as part of the plan to address the financial emergency.

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

NOTE 3 - DEPOSITS

The School District's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash	<u>\$ 8,573,829</u>	<u>\$ 119,534</u>	<u>\$ 8,693,363</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 8,693,363</u>
--	---------------------

Interest rate risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

Credit risk – State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District has no investment policy that would further limit its investment choices.

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year-end, \$8,941,978 of the District's bank balance of \$9,691,978 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - LONG TERM RECEIVABLE

During 2014, the School District entered into an agreement to sell equipment in the amount of \$167,250 with a repayment period of 60 months with zero percent interest and a monthly payment of \$2,787.50. As of June 30, 2014 the remaining receivable amount was \$161,675. The amounts that are expected to be received over the term of the payment plan are as follows:

2015	\$ 27,875
2016	33,450
2017	33,450
2018	33,450
2019	<u>33,450</u>
	<u>\$ 161,675</u>

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3,289,804	\$ -	\$ -	\$ 3,289,804
Construction in progress	-	568,202	-	568,202
Total capital assets not being depreciated	3,289,804	568,202	-	3,858,006
Capital assets being depreciated				
Land improvements	1,865,712	-	-	1,865,712
Building and building improvements	51,999,422	6,067,560	1,698,427	56,368,555
Equipment and furniture	29,952,471	418,030	2,384,446	27,986,055
Buses and other vehicles	847,017	85,797	847,017	85,797
Total capital assets being depreciated	84,664,622	6,571,387	4,929,890	86,306,119
Less accumulated depreciation for				
Land improvements	1,743,812	41,687	-	1,785,499
Building and building improvements	33,208,782	1,555,166	1,284,672	33,479,276
Equipment and furniture	29,171,532	387,012	2,301,870	27,256,674
Buses and other vehicles	718,435	53,996	718,435	53,996
Total accumulated depreciation	64,842,561	2,037,861	4,304,977	62,575,445
Net capital assets being depreciated	19,822,061	4,533,526	624,913	23,730,674
Net capital assets	\$ 23,111,865	\$ 5,101,728	\$ 624,913	\$ 27,588,680

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

Governmental activities	
Instruction	\$ 1,089,237
Supporting services	853,048
Food services	71,529
Athletics	<u>24,047</u>
Total governmental activities	\$ <u>2,037,861</u>

Construction Contracts

As of year end, the School District had the following construction contracts in progress:

	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
Various Projects	\$ 2,212,456	\$ 1,644,254	\$ 568,202

Contracts payable at year end represent actual contractor billings of \$568,202 and are recorded as a General Fund liability. All projects are expected to be complete during the 2015 school year.

Idle Facilities

As part of the terms of the emergency loan obtained in 2014, the Michigan Department of Treasury required the School District to approve a real estate plan that includes a disposal provision for any idle property that has not received any sale offers by December 31, 2014. Those properties will be

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

disposed of by one of three methods. The local unit of government has the first right of refusal to purchase the buildings. The second method allows for the Superintendent to select the auction process to sell the building. The final method of disposal would be to dispose of the building with the assistance of the State of Michigan Land Bank Fast Track Authority. The estimated net book value of idle buildings at year end was \$1,800,000.

NOTE 6 - INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS

Individual interfund receivable and payable balances at year end were:

<u>Due From Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General Fund	School Improvements 1991-C2 Debt Service	\$ 2,182,936
General Fund	1985 Refunding 1991-D	2,032,445
Nonmajor- MESSA Levy	General Fund	93
General Fund	Nonmajor -Food Service	516,486
General Fund	Agency fund	<u>8,496</u>
		<u>\$ 4,740,456</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

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

Interfund transfers were made during the year from Food Service to General Fund of \$107,210 for indirect costs; from General Fund to the Building and Site 2006 Fund of \$1,756,000 for debt service principal and interest; from the School Improvements 1991-C2 Debt Service fund to the School Improvement 2010A fund of \$91,813 to cover debt payments, and from the MESSA Levy Fund to General Fund of \$1,809,134 for tax collections.

NOTE 7 - UNEARNED REVENUE

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

	<u>Unearned</u>
Grant and categorical aid payments received prior to meet all eligibility requirements	<u>\$ 2,402,173</u>

NOTE 8 - STATE AID AND TAX ANTICIPATION NOTE

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

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

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

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 7,318,000	\$ 7,380,000	\$ 9,039,354	\$ 5,658,646
Tax anticipation note	-	13,894,000	-	13,894,000
	<u>\$ 7,318,000</u>	<u>\$ 21,274,000</u>	<u>\$ 9,039,354</u>	<u>\$ 19,552,646</u>

NOTE 9 - VENDOR REPAYMENT PLANS PAYABLE

In January 2013, a \$7.8 million judgment was levied against the School District related to outstanding health care premiums owed to its carrier, MESSA. This judgment was for the period from January 2012 through December 2013. Property taxes levied to satisfy this levy are being received by the School District over a one to ten year time period depending on how the respective jurisdiction issued its levy. As property taxes are collected and remitted to the School District by the taxing authority, they are submitted to the vendor as payment against the obligation. As of June 30, 2014, \$5,898,483 is the amount that is still owed.

The School District has also set up various other payment plans with vendors for operating expenditures owed which is included in accounts payable. The future requirements in association with all vendor payment plans are as follows:

Year Ending June 30,	Due to Other		
	Governments	Due to Vendors	Total
2015	\$ 1,015,242	\$ 940,684	\$ 1,955,926
2016	692,986	361,055	1,054,041
2017	341,493	64,655	406,148
Total	<u>\$ 2,049,721</u>	<u>\$ 1,366,394</u>	<u>\$ 3,416,115</u>

NOTE 10 - LONG-TERM DEBT

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

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
	Government obligation bonds	\$ 16,994,148	\$ 10,000,000	\$ 2,997,393	\$ 23,996,755
Accreted interest	10,838,018	-	5,506,451	5,331,567	5,331,567
School Loan Revolving Fund	4,125,000	-	-	4,125,000	4,125,000
Compensated absences	1,235,625	-	454,421	781,204	-
Retirement incentives	7,768	-	7,768	-	-
Premium on bonds	50,737	-	6,342	44,395	-
Total	<u>\$ 33,251,296</u>	<u>\$ 10,000,000</u>	<u>\$ 8,972,375</u>	<u>\$ 34,278,921</u>	<u>\$ 12,108,322</u>

For governmental activities, compensated absences and retirement incentives are primarily liquidated by the general fund.

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

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

\$19,779,956 capital appreciation bonds due in one remaining installment of \$790,933 through June 15, 2015, interest at 7.3%	\$ 790,933
\$15,835,128 capital appreciation bonds due in one remaining installment of \$600,822 through June 15, 2015, interest at 7.3%	600,822
\$18,395,000 general obligation limited tax energy conservation bonds due in annual installments of \$1,110,000 to \$2,400,000 through May 1, 2021, interest at 4.0% to 5.0%	12,605,000
\$10,000,000 general obligation limited tax emergency loan bond due in annual installments of \$410,000 to \$665,000 through May 1, 2034, interest at 2.75%	10,000,000
Total general obligation bonded debt	\$ 23,996,755

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

Year Ending June 30,	Principal	Interest	Total
2015	\$ 2,651,755	\$ 7,233,745	\$ 9,885,500
2016	1,835,000	802,500	2,637,500
2017	2,015,000	719,975	2,734,975
2018	2,210,000	628,675	2,838,675
2019	2,410,000	535,860	2,945,860
2020-2024	6,975,000	1,326,700	8,301,700
2025-2029	2,750,000	664,125	3,414,125
2030-2034	3,150,000	564,550	3,714,550
Total	\$ 23,996,755	\$ 12,476,130	\$ 36,472,885

The general obligation bonds, other than the Emergency Loan, are payable from the Debt Service Funds. As of year end, the funds had a balance of \$5,280,253 to pay this debt. Future debt and interest will be payable from future tax levies.

Capital appreciation bonds included accreted interest of \$67,212,092 to be amortized over the life of the bond. Amortization of the accreted interest for the year ended June 30, 2014 was \$5,506,451. The remaining accreted interest of \$5,331,567 will be fully amortized in 2015 when the bonds are fully repaid.

School Loan Revolving Fund

The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in Accordance with Section 9 of Act No. 92 of the Public Acts of 2005, as amended. Interest at the rate of 3.52% has been assessed for the year ended June 30, 2014. The amount outstanding as of June 30, 2014 was \$4,125,000. The predetermined mandatory final loan repayment date was June 30, 2014. The remaining balance on the loan was repaid in September 2014.

Accrued Interest

Interest payable is accrued in the General Fund for the interest expense relating to the State Aid Anticipation Note, Tax Anticipation Note, and the MESSA Levy in the amount of \$489,166. Additional interest relating to long term debt is

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

accrued on the statement of net position in the amount of \$563,835. The total amount of accrued interest for the District at June 30, 2014 is \$1,053,001.

Compensated Absences

Accrued compensated absences at year end, consists of \$26,802 of vacation hours earned and vested and \$754,402 in accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District for the year. These estimates are recorded as liabilities in the General Fund to the extent they are considered due at June 30, 2014 in the amount of \$1,367,058, with the remainder included in long-term debt of \$20,844.

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

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

The School District estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded as liabilities in the General Fund to the extent they are considered due at June 30, 2014, in the amount of \$0, with the remainder included in long-term debt of \$146,421.

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

	2014	2013
Estimated liability at the beginning of the year	\$ 1,408,269	\$ 933,070
Estimated claims incurred including changes in estimates	685,541	1,440,795
Claim payments	(559,487)	(965,596)
Estimated liability end of year	\$ 1,534,323	\$ 1,408,269

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

NOTE 12 - PENSION PLANS AND POST EMPLOYMENT BENEFITS

Plan Description

The School District has a group of defined benefit and defined contribution retirement plans covering substantially all employees. The plans are operated by the State of Michigan's Public School Employees' Retirement System (MPSERS), which is a cost-sharing multiple-employer public employee retirement system (PERS).

The plans provide retirement, survivor and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and their beneficiaries who elect to receive the benefits.

MPSERS operates within the Michigan Department of Technology, Management and Budget, Office of Retirement Services, under the authority established by the Michigan Public School Employees Retirement Act (Retirement Act), as enacted and amended by the Michigan Legislature. The Michigan Legislature has the authority to amend the Retirement Act. The Michigan Department of Technology, Management and Budget issues a publicly-available financial report that includes financial statements and required supplementary information for MPSERS. The report provides information for the plans as a whole and information helpful for understanding the scale of the information presented relative to the School District. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671, calling 800-381-5111 or on the web at <http://www.michigan.gov/orsschools>.

Full details on each of these plans are available on the MPSERS website at the address provided above.

Pension Benefits

Employer contributions to MPSERS result from the applying rules and applicable changes of the School Finance Reform Act. Accordingly, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. Depending on the plan selected, a plan member's contribution may range from 0% to 7% of their gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

For the period of July 1, 2013 through September 30, 2013, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP	Pension Plus	Pension Plus PHF (first worked September 4, 2012 or later)	Pension Plus to DC with PHF (first worked September 4, 2012 or later)	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Defined contribution plan employer contributions:							
DC	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
PHF	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

For the period of October 1, 2013 through June 30, 2014, employees had the following plan options with the corresponding employer contribution rates:

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

	Basic MIP	Pension Plus	Pension Plus PHF (first worked September 4, 2012 or later)	Pension Plus to DC with PHF (first worked September 4, 2012 or later)	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%
Defined contribution plan							
employer contributions:							
DC	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
PHF	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

The School District's required and actual contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were approximately \$3,870,000, \$3,890,000, and \$6,975,000, respectively. Contributions made by the participants of the plan for the year ended June 30, 2014 were \$1,607,330.

Post Employment Benefits

In addition to the pension benefits described above, state law requires the District to provide post-retirement healthcare benefits for eligible retirees and beneficiaries through MPSERS.

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes 2% of their salary, and receives a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

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

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

For the periods of July 1, 2013 through September 30, 2013 and October 1, 2013 through June 30, 2014, the employer contribution rate ranged from 8.18% to 9.11% and 5.52% to 6.45%, respectively. See above two tables for rates.

The District's actual contributions match the required contributions for the years ended June 30, 2014, 2013, and 2012 and were approximately \$1,570,000, \$2,190,000, and \$4,170,000, respectively.

Unfunded Accrued Actuarial Liability

During the year ended June 30, 2014, the District had contributions in the amount of \$1,426,202, to the Michigan Public School Employee Retirement System (MPSERS). This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 4.56% for the year. These contributions are not included in the above tables.

School District of the City of Pontiac
Notes to Financial Statements
June 30, 2014

NOTE 13 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2014.

The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.

NOTE 14 - PRIOR PERIOD ADJUSTMENT

During fiscal year 2014, it was determined that several expenditures that were related to food service were actually recorded in the general fund in error. These expenditures were related to building helpers, vehicles, and a driver. A six year look back of those expenditures was performed and it was determined that the beginning fund balance of both the General Fund and the Food Service Fund was misstated. A prior period adjustment was posted to increase beginning fund balance in the General Fund and decrease beginning fund balance in the Food Service Fund in the amount of \$889,797.

Additionally, as a result of prior year reconciliations not being performed timely, it was determined that prior period adjustments were necessary relating to federal grants. Title I ARRA funds of \$212,074 and Title II funds of \$105,408 were

incorrectly reported as deferred revenue in fiscal year 2013. The schedule of federal awards from fiscal year 2012, did not reflect all overpayment activity and therefore an incorrect deferral amount was carried forward into fiscal year 2013. As a result the beginning fund balance in the General Fund was increased by \$317,482 through a prior period adjustment.

During fiscal year 2014, it was found that incorrect claim information was submitted for food service programs during 2013. Amended claim reports were submitted, and as a result the ending accounts receivable as of June 30, 2013 was understated by \$39,283. A prior period adjustment was posted to increase beginning fund balance in the amount of \$39,283.

The following is a summary of the prior period adjustment that is included in the June 30, 2014 audited financial statements:

	As originally stated	As restated	Prior period adjustment
General Fund fund balance	\$ (51,677,552)	\$ (50,470,273)	\$ (1,207,279)
Food Service fund balance	1,234,881	384,367	850,514

REQUIRED SUPPLEMENTARY INFORMATION

Pontiac School District
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 35,150,189	\$ 27,923,000	\$ 29,425,751	\$ 1,502,751
State sources	14,411,622	11,547,600	10,944,046	(603,554)
Federal sources	14,735,000	14,935,800	9,675,560	(5,260,240)
Interdistrict sources	<u>8,331,104</u>	<u>6,419,400</u>	<u>6,420,265</u>	<u>865</u>
Total revenues	<u>72,627,915</u>	<u>60,825,800</u>	<u>56,465,622</u>	<u>(4,360,178)</u>
Expenditures				
Instruction	30,538,704	31,878,200	27,993,970	(3,884,230)
Supporting services				
Pupil	5,093,576	3,894,000	3,190,580	(703,420)
Instructional staff	2,590,389	3,584,300	2,019,933	(1,564,367)
General administration	653,138	1,537,000	1,303,178	(233,822)
School administration	2,968,180	2,580,000	3,019,322	439,322
Business	3,538,432	4,720,200	4,455,923	(264,277)
Operations and maintenance	4,430,705	6,689,000	6,586,592	(102,408)
Pupil transportation services	4,533,914	4,379,000	4,386,748	7,748
Central	1,586,758	2,987,300	2,591,666	(395,634)
Other	180,000	308,500	243,034	(65,466)
Community services	496,446	314,300	254,545	(59,755)
Capital outlay	-	7,501,200	6,837,819	(663,381)
Debt service				
Interest and fiscal charges	-	45,200	-	(45,200)
Total expenditures	<u>56,610,242</u>	<u>70,418,200</u>	<u>62,883,310</u>	<u>(7,534,890)</u>
Excess (deficiency) of revenues over expenditures	<u>16,017,673</u>	<u>(9,592,400)</u>	<u>(6,417,688)</u>	<u>3,174,712</u>

Pontiac School District
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>			Over (Under) Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Other Financing Sources (Uses)				
Proceeds from bonds	\$ -	\$ 10,000,000	\$ 10,000,000	\$ -
Insurance recoveries	-	7,027,000	7,649,970	622,970
Transfers in	-	2,146,000	1,916,344	(229,656)
Transfers out	<u>(1,856,702)</u>	<u>(2,295,200)</u>	<u>(1,756,000)</u>	<u>539,200</u>
Total other financing sources (uses)	<u>(1,856,702)</u>	<u>16,877,800</u>	<u>17,810,314</u>	<u>932,514</u>
Net change in fund balance	14,160,971	7,285,400	11,392,626	4,107,226
Fund balance - beginning	<u>(50,470,273)</u>	<u>(50,470,273)</u>	<u>(50,470,273)</u>	<u>-</u>
Fund balance - ending	<u>\$ (36,309,302)</u>	<u>\$ (43,184,873)</u>	<u>\$ (39,077,647)</u>	<u>\$ 4,107,226</u>

OTHER SUPPLEMENTARY INFORMATION

School District of the City of Pontiac
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2014

	Special Revenue Fund	Debt Service Funds			Total Nonmajor
	Food Service	School Improvements 2010A	Building and Site 2006	MESSA Levy	Governmental Funds
Assets					
Cash	\$ -	\$ -	\$ -	\$ 296	\$ 296
Accounts receivable	4,950	-	-	-	4,950
Due from other funds	516,486	-	-	-	516,486
Due from other governmental units	210,539	-	-	-	210,539
Inventory	28,323	-	-	-	28,323
Total assets	<u>\$ 760,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296</u>	<u>\$ 760,594</u>
Liabilities					
Accounts payable	\$ 145,858	\$ -	\$ -	\$ 203	\$ 146,061
Due to other funds	-	-	-	93	93
Due to other governmental units	71,348	-	-	-	71,348
Accrued expenditures	699	-	-	-	699
Accrued salaries payable	9,876	-	-	-	9,876
Total liabilities	<u>227,781</u>	<u>-</u>	<u>-</u>	<u>296</u>	<u>228,077</u>

School District of the City of Pontiac
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2014

	Special Revenue Fund	Debt Service Funds			Total Nonmajor
	Food Service	School Improvements 2010A	Building and Site 2006	MESSA Levy	Governmental Funds
Deferred Inflows of Resources					
Non-grant funds	\$ 4,350	\$ -	\$ -	\$ -	\$ 4,350
Fund Balance					
Non-spendable					
Inventory	28,323	-	-	-	28,323
Restricted for:					
Food service	499,844	-	-	-	499,844
Total fund balance	528,167	-	-	-	528,167
Total liabilities, deferred inflows of resources, and fund balance	\$ 760,298	\$ -	\$ -	\$ 296	\$ 760,594

School District of the City of Pontiac
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014

	Special Revenue Fund	Debt Service Funds			Total Nonmajor
	Food Service	School Improvement: 2010A	Building and Site 2006	MESSA Levy	Governmental Funds
Revenues					
Local sources	\$ 35,470	\$ 385,789	\$ -	\$ 1,809,541	\$ 2,230,800
State sources	105,289	-	-	-	105,289
Federal sources	2,867,341	-	-	-	2,867,341
Total revenues	<u>3,008,100</u>	<u>385,789</u>	<u>-</u>	<u>1,809,541</u>	<u>5,203,430</u>
Expenditures					
Current					
Education					
Food services	2,757,090	-	-	-	2,757,090
Debt service					
Principal	-	450,000	1,110,000	-	1,560,000
Interest and other expenditures	-	27,602	646,000	407	674,009
Total expenditures	<u>2,757,090</u>	<u>477,602</u>	<u>1,756,000</u>	<u>407</u>	<u>4,991,099</u>
Excess (deficiency) of revenues over expenditures	<u>251,010</u>	<u>(91,813)</u>	<u>(1,756,000)</u>	<u>1,809,134</u>	<u>212,331</u>
Other Financing Sources (Uses)					
Transfers in	-	91,813	1,756,000	-	1,847,813
Transfers out	(107,210)	-	-	(1,809,134)	(1,916,344)
Total other financing sources (uses)	<u>(107,210)</u>	<u>91,813</u>	<u>1,756,000</u>	<u>(1,809,134)</u>	<u>(68,531)</u>
Net change in fund balance	143,800	-	-	-	143,800
Fund balance - beginning, as restated	384,367	-	-	-	384,367
Fund balance - ending	<u>\$ 528,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 528,167</u>

School District of the City of Pontiac
Other Supplementary Information
General Fund
Combining Balance Sheet
June 30, 2014

	<u>General Fund</u>	<u>Categorical Funded Programs</u>	<u>Athletics</u>	<u>Noncenter Special Education Programs</u>	<u>Insurance Fund</u>	<u>Eliminations</u>	<u>Total</u>
Assets							
Cash	\$ 7,243,524	\$ -	\$ 1,587	\$ 180	\$ 211,938	\$ -	\$ 7,457,229
Accounts receivable	2,124,070	-	-	-	524,224	-	2,648,294
Due from other funds	-	4,022,363	288,060	-	-	(4,310,330)	93
Due from other governmental units	794,052	4,220,565	-	950,615	-	-	5,965,232
Prepaid items	30,761	13,397	-	-	-	-	44,158
	<u>\$ 10,192,407</u>	<u>\$ 8,256,325</u>	<u>\$ 289,647</u>	<u>\$ 950,795</u>	<u>\$ 736,162</u>	<u>\$ (4,310,330)</u>	<u>\$ 16,115,006</u>
Accounts payable	\$ 4,142,344	\$ 821,751	\$ 285,208	\$ 279,312	\$ 484,489	\$ -	\$ 6,013,104
State aid anticipation note payable	19,552,646	-	-	-	-	-	19,552,646
Interest payable	489,166	-	-	-	-	-	489,166
Due to other funds	8,016,291	-	-	828,649	197,257	(4,310,330)	4,731,867
Due to other governmental units	5,408,525	986,828	3,956	451,244	8,086	-	6,858,639
Due to agency fund activities	8,496	-	-	-	-	-	8,496
Payroll deductions and withholdings	-	-	-	-	-	-	-
Accrued expenditures	97,078	28,383	101	58,286	-	-	183,848
Accrued salaries payable	1,366,071	1,152,614	382	508,980	-	-	3,028,047
MESSA Judgments payable	5,898,483	-	-	-	-	-	5,898,483
Vendor repayment plans payable	3,416,115	-	-	-	-	-	3,416,115
Unearned revenue	-	2,402,173	-	-	-	-	2,402,173
	<u>48,395,215</u>	<u>5,391,749</u>	<u>289,647</u>	<u>2,126,471</u>	<u>689,832</u>	<u>(4,310,330)</u>	<u>52,582,584</u>
Total liabilities							

School District of the City of Pontiac
Other Supplementary Information
General Fund
Combining Balance Sheet
June 30, 2014

	<u>General Fund</u>	<u>Categorical Funded Programs</u>	<u>Athletics</u>	<u>Noncenter Special Education Programs</u>	<u>Insurance Fund</u>	<u>Eliminations</u>	<u>Total</u>
Deferred Inflows of Resources							
Grant funds	\$ -	\$ 566,295	\$ -	\$ 26,548	\$ -	\$ -	\$ 592,843
Insurance recoveries	1,575,855	-	-	-	89,784	-	1,665,639
Non-grant funds	<u>300,520</u>	<u>-</u>	<u>-</u>	<u>45,355</u>	<u>5,712</u>	<u>-</u>	<u>351,587</u>
Total deferred inflows of resources	<u>1,876,375</u>	<u>566,295</u>	<u>-</u>	<u>71,903</u>	<u>95,496</u>	<u>-</u>	<u>2,610,069</u>
Fund Balance							
Non-spendable							
Prepaid items	30,761	13,397	-	-	-	-	44,158
Restricted for:							
Unassigned (deficit)	<u>(40,109,944)</u>	<u>2,284,884</u>	<u>-</u>	<u>(1,247,579)</u>	<u>(49,166)</u>	<u>-</u>	<u>(39,121,805)</u>
Total fund balance (deficit)	<u>(40,079,183)</u>	<u>2,298,281</u>	<u>-</u>	<u>(1,247,579)</u>	<u>(49,166)</u>	<u>-</u>	<u>(39,077,647)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 10,192,407</u>	<u>\$ 8,256,325</u>	<u>\$ 289,647</u>	<u>\$ 950,795</u>	<u>\$ 736,162</u>	<u>\$ (4,310,330)</u>	<u>\$ 16,115,006</u>

School District of the City of Pontiac
Other Supplementary Information
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund
For the Year Ended June 30, 2014

	General Fund	Categorical Funded Programs	Athletics	Noncenter Special Education Programs	Insurance Fund	Eliminations	Funds
Revenues							
Local sources	\$ 29,278,869	\$ 97,612	\$ 18,945	\$ 30,280	\$ 45	\$ -	\$ 29,425,751
State sources	3,140,494	4,815,493	-	2,988,059	-	-	10,944,046
Federal sources	-	7,945,551	-	1,730,009	-	-	9,675,560
Interdistrict sources	4,613	-	-	6,415,652	-	-	6,420,265
Total revenues	<u>32,423,976</u>	<u>12,858,656</u>	<u>18,945</u>	<u>11,164,000</u>	<u>45</u>	<u>-</u>	<u>56,465,622</u>
Expenditures							
Current							
Education							
Instruction	13,030,628	7,049,300	-	7,914,042	-	-	27,993,970
Supporting services	19,893,794	3,246,625	237,555	4,419,002	-	-	27,796,976
Community services	-	254,545	-	-	-	-	254,545
Capital outlay	797,763	-	-	-	6,040,056	-	6,837,819
Total expenditures	<u>33,722,185</u>	<u>10,550,470</u>	<u>237,555</u>	<u>12,333,044</u>	<u>6,040,056</u>	<u>-</u>	<u>62,883,310</u>
Excess (deficiency) of revenues over expenditures	<u>(1,298,209)</u>	<u>2,308,186</u>	<u>(218,610)</u>	<u>(1,169,044)</u>	<u>(6,040,011)</u>	<u>-</u>	<u>(6,417,688)</u>
Other Financing Sources (Uses)							
Proceeds from notes and loans	10,000,000	-	-	-	-	-	10,000,000
Insurance recoveries	1,659,125	-	-	-	5,990,845	-	7,649,970
Transfers in	2,322,674	-	218,610	-	-	(624,940)	1,916,344
Transfers out	(1,975,018)	(327,387)	-	(78,535)	-	624,940	(1,756,000)
Total other financing sources (uses)	<u>12,006,781</u>	<u>(327,387)</u>	<u>218,610</u>	<u>(78,535)</u>	<u>5,990,845</u>	<u>-</u>	<u>17,810,314</u>
Net change in fund balance	10,708,572	1,980,799	-	(1,247,579)	(49,166)	-	11,392,626
Fund balance (deficit) - beginning, as restated	(50,787,755)	317,482	-	-	-	-	(50,470,273)
Fund balance (deficit) - ending	<u>\$ (40,079,183)</u>	<u>\$ 2,298,281</u>	<u>\$ -</u>	<u>\$ (1,247,579)</u>	<u>\$ (49,166)</u>	<u>\$ -</u>	<u>\$ (39,077,647)</u>

School District of the City of Pontiac
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2014

Year Ending June 30,	School Improvements 1991-C2	1998 Refunding 1991-D	2006 Energy Conservation Bonds	Emergency Loan 2014	Total
2015	\$ 790,933	\$ 600,822	\$ 1,260,000	\$ -	\$ 2,651,755
2016	-	-	1,425,000	410,000	1,835,000
2017	-	-	1,595,000	420,000	2,015,000
2018	-	-	1,780,000	430,000	2,210,000
2019	-	-	1,970,000	440,000	2,410,000
2020	-	-	2,175,000	455,000	2,630,000
2021	-	-	2,400,000	465,000	2,865,000
2022	-	-	-	480,000	480,000
2031	-	-	-	495,000	495,000
2032	-	-	-	505,000	505,000
2033	-	-	-	520,000	520,000
2034	-	-	-	535,000	535,000
2035	-	-	-	550,000	550,000
2036	-	-	-	565,000	565,000
2037	-	-	-	580,000	580,000
2038	-	-	-	595,000	595,000
2039	-	-	-	615,000	615,000
2040	-	-	-	630,000	630,000
2041	-	-	-	645,000	645,000
2042	-	-	-	665,000	665,000
Total	<u>\$ 790,933</u>	<u>\$ 600,822</u>	<u>\$ 12,605,000</u>	<u>\$ 10,000,000</u>	<u>\$ 23,996,755</u>
Principal payments due	June 15	June 15	May 1	May 1	
Interest payments due	June 15	June 15	May 1	May 1 and November 1	
Interest rate	7.30%	7.30%	4.00% to 5.00%	2.75%	
Original issue	<u>\$ 19,779,956</u>	<u>\$ 15,835,128</u>	<u>\$ 18,395,000</u>	<u>\$ 10,000,000</u>	

School District of the City of Pontiac

Pontiac, Michigan

Single Audit Report

June 30, 2014

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

Independent Auditors' Report

Members of the Board of Education
School District of the City of Pontiac

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of Pontiac as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise School District of the City of Pontiac's basic financial statements, and have issued our report thereon dated November 14, 2014. Our report contains opinion qualifications on those financial statements as described in the "Basis for Qualified Opinions on the General Fund and Governmental Activities."

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described at 2014-001 to 2014-003, in the accompanying schedule of findings and questioned costs to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-005 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether School District of the City of Pontiac's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-004 and 2014-005.

School District of the City of Pontiac's Response to Findings

The management of the School District's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. We noted certain matters that we have reported to management of the School District in a separate letter dated November 14, 2014.

Purpose of this Report

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

Yeo & Yeo, P.C.

Saginaw, Michigan
November 14, 2014

**Report on Compliance For Each Major Federal Program;
Report on Internal Control Over Compliance;
and Report on Schedule of Expenditures for Federal
Awards Required by OMB Circular A-133**

Independent Auditors' Report

Members of the Board of Education
School District of the City of Pontiac

Report on Compliance for Each Major Federal Program

We have audited School District of the City of Pontiac's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of School District of the City of Pontiac's major federal programs for the year ended June 30, 2014. School District of the City of Pontiac'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of School District of the City of Pontiac's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 School District of the City of Pontiac's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, School District of the City of Pontiac complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-006 through 2014-013. Our opinion on each major federal program is not modified with respect to these matters.

School District of the City of Pontiac's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. School District of the City of Pontiac's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of School District of the City of Pontiac is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered School District of the City of Pontiac's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 School District of the City of Pontiac's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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 certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-006 through 2014-013 that we consider to be significant deficiencies.

The School District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The School District's

responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of Pontiac as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise School District of the City of Pontiac's basic financial statements. We issued our report thereon dated November 14, 2014, which contained modified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
November 14, 2014

School District of the City of Pontiac
Schedule of Expenditures of Federal Awards
June 30, 2014

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue July 1, 2013 (Restated)	Adjustments	Federal Funds/ Payments/ In-kind Received	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2014
U.S. Department of Agriculture								
Passed through the Michigan Department of Education								
Child Nutrition Cluster								
Noncash Assistance (Commodities):								
National School Lunch Program:								
Entitlement Commodities	10.555	\$ 161,127	\$ -	\$ -	\$ -	\$ 161,127	\$ 161,127	\$ -
Cash Assistance:								
National School Breakfast Program:								
131970	10.553	794,788	687,148	43,218	-	150,858	107,640	-
141970		691,301	-	-	-	631,556	691,301	59,745
Total National School Breakfast Program		1,486,089	687,148	43,218	-	782,414	798,941	59,745
National School Lunch Program:								
131960	10.555	1,878,867	1,630,186	133,684	-	382,365	248,681	-
141960		1,597,584	-	-	-	1,467,845	1,597,584	129,739
Total National School Lunch Program		3,476,451	1,630,186	133,684	-	1,850,210	1,846,265	129,739
National School Snack Program:								
141980	10.555	88	-	-	-	88	88	-
Total Child Nutrition Cluster		5,123,755	2,317,334	176,902	-	2,793,839	2,806,421	189,484
Child & Adult Care Food Program								
131920	10.558	51,128	51,128	12,853	-	12,853	-	-
132010		4,067	4,067	1,023	-	1,023	-	-
141920		56,441	-	-	-	52,992	56,441	3,449
142010		4,479	-	-	-	4,205	4,479	274
Total Child & Adult Care Food Program		116,114	55,195	13,876	-	71,072	60,919	3,723
Fresh Fruit and Veggie Program	10.582	64,043	64,043	4,563	-	4,563	-	-
Total U.S. Department of Agriculture		5,303,912	2,436,572	195,341	-	2,869,474	2,867,340	193,207
U.S. Department of Defense								
Direct Program								
Project Number JROTC MI-171530 & MI-171531 (2013 Grant)		100,354	100,357	4,798	-	4,798	-	-
Project Number JROTC MI-171530 & MI-171531 (2014 Grant)		48,096	-	-	-	44,005	48,096	4,091
Total U.S. Department of Defense		148,450	100,357	4,798	-	48,803	48,096	4,091

See accompanying notes to the Schedule of Expenditures of Federal Awards

School District of the City of Pontiac
Schedule of Expenditures of Federal Awards
June 30, 2014

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue July 1, 2013 (Restated)	Adjustments	Federal Funds/ Payments In-kind Received	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2014
U.S. Department of Education								
Passed through Oakland County ISD								
Special Education Cluster								
	84.027							
IDEA Flowthrough								
Project Number 120450		\$ 1,680,662	\$ 1,680,662	\$ 51,109	\$ -	\$ 51,109	\$ -	\$ -
Project Number 130450		1,672,961	1,115,827	490,079	-	894,727	474,514	69,866
Project Number 140450		1,451,823	-	-	-	898,916	1,190,757	291,841
Total IDEA Flowthrough		<u>4,805,446</u>	<u>2,796,489</u>	<u>541,188</u>	<u>-</u>	<u>1,844,752</u>	<u>1,665,271</u>	<u>361,707</u>
Preschool Incentive:								
	84.173							
Project Number 120460		45,603	45,603	3,491	-	3,491	-	-
Project Number 130460		51,013	41,262	41,262	-	51,013	9,751	-
Project Number 140460		42,770	-	-	-	-	42,770	42,770
Total IDEA Preschool Incentive		<u>139,386</u>	<u>86,865</u>	<u>44,753</u>	<u>-</u>	<u>54,504</u>	<u>52,521</u>	<u>42,770</u>
Total Special Education Cluster		<u>4,944,832</u>	<u>2,883,354</u>	<u>585,941</u>	<u>-</u>	<u>1,899,256</u>	<u>1,717,792</u>	<u>404,477</u>
Direct Program								
Fund for the Improvement of Education								
PRIDE - Putting Resources Into Developing Excellence								
Project Number Q215E100162 (2011)	84.215E	1,173,850	667,800	87,968	-	346,355	286,692	28,305
PLAY - Promoting Lifetime Activity in Youth								
Project Number Q215F110284 (2012)	84.215F	988,406	149,352	61,242	-	127,771	242,411	175,882
Total Fund for the Improvement of Education		<u>2,162,256</u>	<u>817,152</u>	<u>149,210</u>	<u>-</u>	<u>474,126</u>	<u>529,103</u>	<u>204,187</u>
Passed through the Michigan Department of Education								
Title I, Part A								
	84.010							
Project Number 121530 1112		8,293,584	5,661,399	130,176	(130,176)	-	-	-
Project Number 131530 1213		10,661,586	3,065,523	1,075,931	-	2,028,310	891,047	(61,332)
Project Number 141530 1314		13,268,963	-	-	-	1,777,218	3,989,105	2,211,887
Total Title I, Part A		<u>32,224,133</u>	<u>8,726,922</u>	<u>1,206,107</u>	<u>(130,176)</u>	<u>3,805,528</u>	<u>4,880,152</u>	<u>2,150,555</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

School District of the City of Pontiac
Schedule of Expenditures of Federal Awards
June 30, 2014

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue July 1, 2013 (Restated)	Adjustments	Federal Funds/ Payments In-kind Received	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2014
21st Century Community Learning Centers:	84.287							
Project Number 132110 F09053		\$ 675,000	\$ 538,862	\$ 155,800	\$ (230,266)	\$ 15,515	\$ -	\$ (89,981)
Project Number 142110 F09053		675,000	-	-	-	603,738	675,000	71,262
Total 21st Century Community Learning Centers		<u>1,350,000</u>	<u>538,862</u>	<u>155,800</u>	<u>(230,266)</u>	<u>619,253</u>	<u>675,000</u>	<u>(18,719)</u>
Direct Programs								
GAINS - Growing Arts Integration Network for Students	84.351D							
Project Number U351D100092 (2012)		<u>274,875</u>	<u>31,390</u>	<u>7,077</u>	<u>(7,077)</u>	<u>-</u>	<u>-</u>	<u>-</u>
High School Graduation Initiative	84.360A							
SOS -Strengthening the Odds for Success								
Project Number S360A100030 (2012)		<u>3,429,045</u>	<u>1,114,288</u>	<u>506,424</u>	<u>(39,362)</u>	<u>594,025</u>	<u>505,368</u>	<u>378,405</u>
Passed through the Michigan Department of Education								
Title III English Language Acquisition:	84.365							
Project Number 120580 1112		330,649	189,757	5,998	(5,998)	-	-	-
Project Number 130580 1213		225,404	16,313	16,313	-	54,134	37,821	-
Project Number 140580 1314		<u>148,039</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,983</u>	<u>141,886</u>	<u>33,903</u>
Total Title III		<u>704,092</u>	<u>206,070</u>	<u>22,311</u>	<u>(5,998)</u>	<u>162,117</u>	<u>179,707</u>	<u>33,903</u>
Title II Part A Improving Teacher Quality State Grants:	84.367							
Project Number 120520 1112		1,705,378	1,005,966	(28,808)	-	-	-	(28,808)
Project Number 130520 1213		2,519,321	529,579	202,200	(110,168)	277,663	185,631	-
Project Number 140520 1314		<u>2,709,482</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>165,684</u>	<u>387,284</u>	<u>221,600</u>
Total Title II Part A		<u>6,934,181</u>	<u>1,535,545</u>	<u>173,392</u>	<u>(110,168)</u>	<u>443,347</u>	<u>572,915</u>	<u>192,792</u>
Total U.S. Department of Education		<u>52,023,414</u>	<u>15,853,583</u>	<u>2,806,262</u>	<u>(523,047)</u>	<u>7,997,652</u>	<u>9,060,037</u>	<u>3,345,600</u>
Department of Health and Human Services								
Passed through Oakland County ISD:								
Medicaid - Administrative Outreach	93.778	<u>6,901</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,901</u>	<u>6,901</u>	<u>-</u>
Total federal awards		<u>\$ 57,482,677</u>	<u>\$ 18,390,512</u>	<u>\$ 3,006,401</u>	<u>\$ (523,047)</u>	<u>\$ 10,922,831</u>	<u>\$ 11,982,374</u>	<u>\$ 3,542,898</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

School District of the City of Pontiac
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2014

1. The Schedule of Expenditures of Federal Awards (SEFA) was prepared using the accrual basis of accounting.
2. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports that have been submitted as of June 30, 2014 with the exception of the 2013 Title I final expenditure report which has been reopened and is in the process of being resubmitted.
3. The federal amounts reported on the "Grant Auditor Report" are in agreement with the Schedule of Expenditures of Federal Awards, except as noted below for timing differences of when receipts were deposited:

Grant	Reported on Grant Auditor Report	Schedule of Expenditures of Federal Awards	Variance
1405801314 Title III Limited English	\$ 126,895	\$ 107,983	\$ 18,912
1405201314 Title II Part A	239,854	165,684	74,170

4. The amounts reported on the Recipient Entitlement Balance Report agree with the Schedule of Expenditures of Federal Awards for U.S.D.A. donated food commodities.
5. The following is a reconciliation of federal revenues per the financial statements and the schedule of federal awards.

Federal revenue per financial statements	\$ 12,542,901
Prior year deferred inflow of resources collected in the current year, but reported on prior Schedule of Expenditures of Federal Awards	(1,615,244)
Current year deferred inflow of resources, but reported on current Schedule of Expenditures of Federal Awards	711,788
Questioned costs owed to MDE at year end but unpaid	(180,121)
Adjustments	523,047
Rounding	3
Expenditures per Schedule of Expenditures of Federal Awards	\$ 11,982,374

6. During the year, the District lost several grant opportunities when reimbursement requests for allowable expenditures were not filed timely. This resulted in adjustments on the Schedule of Expenditures of Federal Awards in the current year to Title III for \$5,998, Title I for \$130,176, 21st Century for \$140,285, and GAINS for \$7,077. In addition, funding agencies recaptured questioned costs on Title II for \$110,168, 21st Century for \$89,981, and SOS for \$39,362.

School District of the City of Pontiac
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2014

7. A restatement of the accrued (unearned) revenue from July 1, 2013 was made in order to reflect prior period adjustments that were posted to correct deferred revenue that was presented in the prior year schedule of federal awards of \$212,074 of Title I ARRA funds and \$105,408 deferred funds relating to Title II. Those amounts were improperly included as a liability as of June 30, 2013 based on errors in the fiscal year 2012 schedule of federal awards that were carried forward to fiscal year 2013. Additionally it was found that incorrect claim information was submitted for food service programs during 2013 that resulted in a prior period adjustment to increase the ending accounts receivable as of June 30, 2013 in the amount of \$39,283.

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Modified

Internal control over financial reporting:

- Material weaknesses identified? ___X___ yes ___ no
- Significant deficiency(s) identified that are not considered to be material weaknesses? ___X___ yes ___ none reported

Noncompliance material to financial statements noted? ___X___ yes ___ no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ___X___ yes ___ no
- Significant deficiency(s) identified that are not considered to be material weaknesses? ___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 section 510(a) of Circular A-133? _____ yes ___X___ no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.553, 10.555	Child Nutrition Cluster
84.010	Title I Part A
84.027, 84.173A	Special Education Cluster
84. 215E & 84.215F	Fund for the Improvement of Education (PRIDE) (PLAY)
84.287	21 st Century Community Learning Centers
84.360A	Strengthening the Odds for Success (High School Graduation Initiative) (SOS)
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between type A and type B programs: \$ 359,471

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

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2014

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

2014-001, 2013-1 – Material Weakness – Reconciliations and Adjusting Journal Entries

Criteria – SAS 115 requires auditors to evaluate entries posted subsequent to year end and assess whether the entries are period-end closing, cut-off entries, or entries that should have been recorded throughout the year.

Condition – A significant number of adjustments were made to the general ledger subsequent to year end which resulted in a delay in providing a final trial balance to the auditors. Timely review and reconciliation of certain accounts was not consistently performed during fiscal year 2014, partially due to the size and depth of clean-up necessary. Certain items noted during the audit were as follows:

- Lack of timely review and reconciliation of federal grant revenue and receivables.
- Lack of timely review and reconciliation of accounts payable balances during the year.

Cause and Effect – The significant number of adjustments prevented a timely closing of the books and records at year end, which impacted the overall timing of the audit.

Recommendation – General ledger accounts should be reconciled on a timely and regular basis in order to present accurate financial statements to management and the Board of Education.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

2014-002 – Material Weakness – Timely Cutoff of Information

Criteria – SAS 115 requires auditors to evaluate entries posted subsequent to year end and assess whether the entries are period-end closing, cut-off entries, or entries that should have been recorded throughout the year.

Condition – Numerous adjustments were required due to discovery of information several months after year end related to the fiscal year under audit. The cut-off of information was not communicated or enforced, which created additional work and resulted in several instances of noncompliance due to limited time and resources to fully investigate the effects.

Cause and Effect – The lack of timely cutoff prevented an efficient and accurate closing of the books for each grant as well as at year end, which impacted the overall timing of the audit and close out of the grants.

Recommendation – The District should implement a hard cut-off of information to avoid the quantity of adjustments that were required in the current year. This will further improve the District's ability to evaluate the status of grant utilization prior to grant end dates, as well as evaluate their budget to actual position prior to the final budget amendment. One potential means to monitor cutoff is to encourage the use of purchase orders. This will allow management to evaluate open purchase orders at any given point to follow up on potential expenditures that can be charged to the grant within the period of availability and provide a better utilization of funds.

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2014

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

2014-003 – Material Weakness – Prior Period Adjustment

Criteria – Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position and results of operations in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Misstatements were not detected by the District's internal controls over financial reporting in previous years. The net amount of the prior period adjustments increased general fund balance and decreased food service fund balance by a material amount.

Cause and Effect – The lack of a timely reconciliations and number of adjustments performed in the prior year as well as some expenditures being recorded in incorrect funds, resulted in prior period adjustments to the general fund and food service fund related to grant revenues and food service transfers. The prior period adjustments increased beginning general fund balance by \$1,207,279 and decreased food service fund balance by \$850,514.

Recommendation – We recommend that the District review their financial statements and accounting records to ensure amounts are properly cutoff in relation to grant awards and properly classified in the correct funds.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

2014-004 – Material Noncompliance – Operational Deficit

Criteria – In accordance with Public Act 621 of 1978, no fund shall have a deficit fund balance.

Condition – As of June 30, 2014, the General Fund has an operating deficit of \$39,077,648..

Cause and Effect – Due to an operating deficit incurred in the General Fund during the preceding years, the School District has a cumulative deficit in the General Fund as of June 30, 2014. During the year ended June 30, 2014, General Fund operations decreased the cumulative deficit by \$11,392,625. Therefore, the School District is in violation of Public Act 621.

Recommendation – In accordance with Public Act 621 of 1978, the Deficit Elimination Plan should be updated as necessary. Additional cost cutting and revenue enhancement alternatives must continue during the next year to reduce the deficit and meet the goals of the School District's Deficit Elimination Plan.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2014

2014-005, 2013-2 – Significant Deficiency and Noncompliance – Budgeting

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

Condition – During the year, we also noted that the School District incurred expenditures in the General Fund which were in excess of the budgeted amounts. The School Administration function had actual expenditures of \$3,019,322, which exceeded the budgeted amount of \$2,580,000 by \$439,322.

Cause and Effect – The School District is operating under a deficit elimination plan and adopted a budget with revenues in excess of expenditures, but the district still remained in a deficit. Furthermore, in one function, the School District exceeded the budgeted amount by a material amount and was in violation of the State law.

Recommendation – We recommend that all the budgeting requirements be complied with and that all expenditures be closely monitored to ensure that they do not exceed the appropriations as specified in the adopted budget for the year.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

SECTION III - FEDERAL AWARD FINDINGS

2014-006 – Significant Deficiency and Noncompliance – Allowable Costs

Program Information – Title I - Part A, U.S. Department of Education, Passed Through Michigan Department of Education, 84.010

Criteria – 34 CFR 75.563 and 34 CFR 76.564 through 76.569 allows indirect costs charged to a grant, which are determined by applying the restricted indirect cost rate to total direct costs of the grant minus capital outlays, sub grants, and other distorting or unallowable items as specified in the grantee's indirect cost rate agreement.

Condition – The District over charged indirect costs to Title I for the 2013 grant end date of \$16,613 and for the 2014 grant end date of \$11,390.

Questioned Costs – None

Cause and Effect – Adjustments were made to the general ledger that resulted in the elimination of certain grant expenditures that were previously included. This decreased total direct expenditures, which should have triggered a decrease in indirect costs. However, indirect costs were not adjusted at the time of the audit work performed. Subsequent to identification of this, the district adjusted the expenditures in order to comply with the indirect cost rate agreement and avoid any recoveries of questioned costs.

Recommendation – We recommend that the School District reevaluate indirect costs charged to the grant whenever adjustments are made to federal expenditure accounts. A final verification should be performed prior to the submission of the final expenditure reports.

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2014

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

2014-007 – Significant Deficiency and Noncompliance – Supplement vs. Supplant

Program Information – Title I - Part A, U.S. Department of Education, Passed Through Michigan Department of Education, 84.010

Criteria – Funds must be used to supplement non-federal and other federal categorical funds normally provided by the School District or required by law. In school-wide programs, funds must be used in accordance with the school's Title I school-wide plan. In targeted assistance schools, the Title I funds must be used to provide supplementary services to eligible students.

Condition – The District could not provide supporting documentation that indicated two of the individuals tested were providing supplemental services to the School District, as they had been funded under a different grant source in the previous year.

Questioned Costs – Could not be determined

Cause and Effect – The expenditures charged to the grant could have been supplanting funds rather than providing supplementary services to eligible Title I students within the targeted assistance school.

Recommendation – The School District should ensure that it has proper support indicating the services provided are supplemental to the programs offered.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

2014-008 – Significant Deficiency and Noncompliance – Allowable Costs

Program Information – Title I - Part A, U.S. Department of Education, Passed Through Michigan Department of Education, 84.010

Criteria – According to the Office of Management and Budget Circular No. A-87, Cost Principles for State, Local, and Indian Tribal Governments, funds can only be requested for allowable expenditures that were consumed during the grant period, and cannot include estimates. Internal controls also encourage adhering to the budget and incurring expenditures in accordance with the budget.

Condition – Title I funds were requested for expenditures that did not relate to the Title I grant and were based on budgeted expenditures instead of actual expenditures in the amount of \$46,365. Upon discovery during the audit, the expenditures requested were moved out of Title I after year end and reclassified to the general fund.

Questioned Costs – None

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2014

Cause and Effect – Proper monitoring controls were not in place by the District, including budget-to-actual monitoring and expense and grant classification. This resulted in improper expense account classifications between grants and therefore improper reimbursement requests being submitted by the School District.

Recommendation – The School District should put procedures in place in order to properly monitor budget-to-actual variances within each grant.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

2014-009 – Significant Deficiency and Noncompliance – Special Tests

Program Information – Title I - Part A, U.S. Department of Education, Passed Through Michigan Department of Education, 84.010

Criteria – Schools identified for improvement as priority schools must have a set aside of 10% of funds to be used for professional development that pertains the reason identified for improvement.

Condition – The School District properly budgeted for the 10% set-aside, however we could not verify the amount was fully spent.

Questioned Costs – None

Cause/Effect – The set-aside budget line item was not closely monitored to ensure the appropriate amounts were spent. Although the amount was properly budgeted, a portion of the set-aside was unspent at the end of the grant period. The district did not fully utilize this grant, so no amounts were improperly spent elsewhere.

Recommendation – We recommend that the School District strive to maintain and retain the required documentation to verify compliance with the 10% set-aside.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

2014-010, 2013-19 – Significant Deficiency and Noncompliance – Equipment Management

Program Information – Title I - Part A, U.S. Department of Education, Passed Through Michigan Department of Education, 84.010 and Special Education Cluster, U.S. Department of Education, Passed Through Oakland Schools, 84.027 and 84.173A

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

Condition – During our audit, a historical list of items (equipment) purchased from grant funds was not provided for review. Current year purchases, were properly tracked.

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2014

Questioned Costs – None

Cause and Effect – Due to lack of historic supporting documents, it could not be verified whether an inventory list is being maintained identifying the funding source. This could potentially result in the School District being unable to inform the granting source when any disposal of such items is made in the future.

Recommendation – We recommend that the School District maintain a complete inventory of all equipment purchased with the federal funds.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

2014-011 – Significant Deficiency and Noncompliance – Private Non-public School Participation

Program Information – 21st Century Community Learning Center, U.S. Department of Education, Passed Through Michigan Department of Education, 84.287

Criteria – No Child Left Behind Act legislation requires private schools be provided access to federal programs and services through local public school Districts. As per the grant agreement the applicant must assure that private non-profit schools have been invited to participate in the grant program and participating schools have been consulted in assessing needs, planning and implementation of the activities of the applicants. Further, the School District is required to maintain continuing administrative control and direction over funds and property that benefits students enrolled in private schools.

Condition – Supporting documents to verify the required participation of private schools and invitation extended to the private schools was not provided for in-district schools.

Questioned Costs – Could not be determined

Cause/Effect – An oversight was made during the invitation process that resulted in 21st Century grant funds not being offered to the in-district private non-profit schools.

Recommendation – We recommend that the School District establish a process for ensuring that all private non-profit schools are offered grant funds to comply with the grant requirements.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

2014-012 – Significant Deficiency and Noncompliance – Parental Involvement

Program Information – Putting Resources Into Developing Excellence (PRIDE) and Promoting Lifetime Activity in Youth (PLAY), U.S. Department of Education, Direct Program, 84.215E and 84.215F

Criteria – Title V, Part D Section 5421 requires that the grant recipient appoint an advisory

School District of the City of Pontiac
Schedule of Findings and Questioned Costs
June 30, 2014

board composed of interested parties, including parents, teachers, school administrators, counseling services providers and community leaders, to advise the local educational agency on the design and implementation of the program.

Condition – The District did not establish parental advisory boards for federal programs in this cluster.

Questioned Costs – None

Cause/Effect – Due to inadequate staffing levels, the District overlooked the parental involvement requirements in these grants. No parental advisory boards were established during the year.

Recommendation – We recommend that the School District establish a parental advisory board and engage appropriate individuals to satisfy parental involvement requirements as stipulated in the grant agreement.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

2014-013 – Significant Deficiency and Noncompliance – Reporting

Program Information – Strengthening the Odds for Success (SOS), U.S. Department of Education, Direct Program, 84.360A

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

Condition – The annual expenditure report and performance reports could not be consistently provided or substantiated. As a result, compliance requirements and stipulations, if any, could not be verified.

Questioned Costs – None

Cause/Effect – Due to lack of supporting documents and retention, it could not be verified whether the annual expenditure report and performance reports were properly completed and submitted for fiscal year 2014.

Recommendation – We recommend that the School District retain and provide copies of annual expenditure reports and performance reports submitted to Department of Education, as well as the supporting documentation used to prepare these reports.

View of Responsible Officials and Corrective Action Plan – See corrective action plan at page 24.

**School District of the City of Pontiac
Summary Schedule of Prior Audit Findings
June 30, 2014**

SECTION IV – PRIOR AUDIT FINDINGS

Prior Year Finding Number	Federal Program	Original Finding Description	Status	Corrective Action
2013-1	N/A	<p>Due to turnover, reduced staffing levels in the accounting department and lack of internal controls and oversight, a significant number of adjustments were made to the general ledger subsequent to the year end in conjunction with the audit. Timely review and reconciliation of certain accounts was not performed during fiscal year 2013. Certain items noted during the audit were as follows:</p> <ul style="list-style-type: none"> • Lack of timely review and reconciliation of property tax, State aid, federal grant revenue and receivables. • Lack of timely review and reconciliation of accounts payable balances during the year. 	Repeat finding, see 2014-001.	Significant improvement has been made, however numerous adjustments were made subsequent to yearend and in conjunction with the audit.
2013-2	N/A	During our review, the School District did not adopt a balanced budget for 2012-13. During the year, we also noted that the School District incurred expenditures in the General Fund which were in excess of the budgeted amounts, as follows will not be an opportunity to put any recommendation into practice. Further, the School District did not adopt a budget for the Food Service fund which is a major special revenue fund.	Repeat finding, see 2014-005.	Significant improvement has been made, however material budget overages still existed as of year end. The district did adopt a food service budget in the current year.
2013-3	N/A	During our audit, we noted that the School District recorded Athletic Fund revenue based on the bank deposits into the fund's bank account. No additional documentation was provided to verify that the amount represents complete game attendance revenue, concession revenue, and/or any additional athletic event revenue.	No longer a material weakness. A Management comment was made to continue to improve this area.	Contracted business office instituted several policies and procedures to improve documentation and timeliness of athletic revenue in the general ledger.

**School District of the City of Pontiac
Summary Schedule of Prior Audit Findings
June 30, 2014**

2013-4	N/A	During our audit, we noted that the School District does not have a consistent system for performing a physical inventory of fixed assets and other non-capitalized equipment purchases. This is a weakness in the system of controls and has the potential for allowing discrepancies to exist due to error or misappropriation of assets and not be detected in a timely manner.	RESOLVED	Major improvements were made during the year to improve the safeguarding of District assets and maintaining appropriate listings.
2013-5	N/A	During our audit, we noted that the School District does not have adequate internal controls surrounding their procurement activity. We noted 1 instance where bidding documents was not provided during the audit. In addition, signed copies of the contracts were not available in 2 out of 4 samples tested.	RESOLVED	We noted no instances of missing bid documentation or unsigned contracts during our current year testing.
2013-6	N/A	During our audit of disbursements, the following items were noted. <ul style="list-style-type: none"> • 3 instances where the expenditures were not properly classified based on the State code of accounts • 1 instance where the wrong invoice number was entered in the system • 5 instances where evidence of proper review and approval was not noted on the invoices prior to payments being made. 	RESOLVED	Significant improvement was made in this area, only immaterial instances of departures from District's policies and procedures.
2013-7	10.553 & 10.555	For the two months selected for testing for all nine schools, the supporting records indicating the number of meals served (daily student roster or School tally report) for breakfast and lunch did not agree to the claim report submitted for reimbursement for four of the nine schools.	RESOLVED	Meals served tied to claim reimbursement requests for months selected during nutrition cluster testing.

**School District of the City of Pontiac
Summary Schedule of Prior Audit Findings
June 30, 2014**

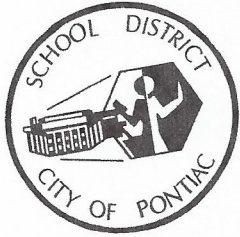
2013-8	10.553 & 10.555	For the three weeks selected for testing in five different schools there were 6 instances where meals served did not comply with requirements based on the review of production records and menus for breakfast and lunch. The required elements on the menu did not agree to the production reports provided for review.	No longer required to be tested during compliance audit procedures.	N/A
2013-9	84.010, 84.389A, 84.027, 84.173, 84.215E	During our cash management compliance testing, we noted 2 drawdowns in Title I Part A Cluster, 1 drawdown in Special Education Cluster and 1 drawdown in PRIDE grant where the School District used incurred costs as a basis for cash drawdowns. Adequate documentation to verify that the costs were paid prior to draw downs was not made available for our review.	RESOLVED	All cash draws were supported by expenditures incurred at time of draw.
2013-10	84.010, 84.389A, 84.367, 84.287, 84.360A, 84.215F	For two pay periods selected for payroll testing, semi-annual certifications, personnel activity reports and/or approved timesheets were not provided. We also noted that for 11 out of 69 employees the pay rates did not agree to the union contracts resulting in 5 employees being under paid and 6 employees being over paid.	No longer a finding. A Management comment was made to continue to improve this area.	Employees were properly paid in the current year, however we noted that wage rates are not well documented in personnel files.
2013-11	All	For the first several months during the year the School District did not develop federal procedures. These procedures remain in draft form as of the end of the audit.	No longer a finding. A Management comment was made to continue to improve this area.	Procedures are still in draft form but have been implemented.

**School District of the City of Pontiac
Summary Schedule of Prior Audit Findings
June 30, 2014**

2013-12	84.027, 84.173, 84.367	Supporting documents to verify the required participation of private schools and invitation extended to the private schools was not provided for 2 out of 6 schools (Special Education Cluster) and for 1 out of 6 schools (Title II A grant).	Resolution in progress. See Finding 2014-011	No longer an issue for these programs in the current year. The current year finding was only for CFDA number 84.287
2013-13	84.010, 84.027, 84.173, 84.287, 84.360A, 84.389A	During our allowability testing the following items were noted: <ul style="list-style-type: none"> • 7 out of 30 samples tested no indication of approval on the invoices for Special Education Cluster. • 1 out of 40 samples tested, the transaction did not occur within the period of availability for Title I Part A Cluster. • 7 out of 40 samples, no indication of approval on invoices for Title I cluster. • 1 out of 10 samples tested, the cost could not be verified to the approved budget for 21st Century grant. • 5 out of 34 samples tested evidence of review and approval of invoices prior to payment was not noted for SOS grant. 	RESOLVED	Significant improvement was made in this area, only immaterial instances of departures from District's policies and procedures.
2013-14	84.010, 84.287 84.389A, 84.367	During our review of submitted final expenditure reports for Title I Part A Cluster, Title II Part A and 21 st CCLC, the total expenditures did not agree to the supporting trial balance. For Title I Part A Cluster, copies of the 2012-2013 fiscal year Comparability Report, Annual Educational Report and Annual Report Card were not provided for review.	RESOLVED	All final expenditures reports were properly filed or are pending MDE's approval for re-opening based on District cleanup and adjustments. Reports also agree with the District's records.
2013-15	84.027, 84.173	The supporting documents provided for total students with Individualized Education Program (IEP) used in the proportionate share calculation for private school children with disabilities did not agree to the total amount on IEPs used in the calculation.	RESOLVED	Proportionate share calculation was correctly performed in the current year.
2013-16	84.010, 84.389A	The School District did not provide documentation to verify that the information about Priority and Focus Schools was made publicly available to all schools and parents of students attending schools in the School District.	RESOLVED	Documentation was provided to verify information was available to necessary parties.

**School District of the City of Pontiac
Summary Schedule of Prior Audit Findings
June 30, 2014**

2013-17	84.367	Supporting documents for total number of private school students used to calculate the reserve for equitable services for participating private schools was not provided for review.	RESOLVED	Supporting documentation was provided in the current year.
2013-18	84.010, 84.389A, 84.287	During our review of the budget and grant expenditures, we noted that the expenses exceeded the budget under contract services for Title I Part A Cluster and for 21st Century grant, expenditures exceeded appropriations in several categories. The MDE requirements prohibit School Districts from expending funds that are not authorized in the approved budget.	RESOLVED	No material budget overages noted in the current year.
2013-19	84.010, 84.389A	During our audit, list of items (equipment) purchased from grant funds was not provided for review.	Repeat finding, see 2014-010	Current year listing was provided, however historical listings not available.
2013-20	84.215E, 84.215F	The annual expenditure report and performance report for PRIDE was not available for review. In addition, the grant application for PLAY was not provided. As a result, compliance requirements and stipulations, if any, could not be verified.	RESOLVED	Expenditure and performance reports were provided with support in the current year.



School District of the City of Pontiac

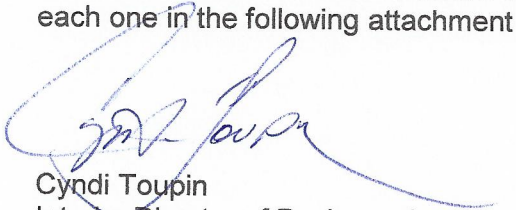
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Cyndi Toupin, Interim Director of Business Services

Yeo & Yeo
3023 Davenport
Saginaw, MI 48065

Response to Fiscal Year 2014 Audit Findings

Within in the course of completing the 2013-14 annual audit, several material weaknesses, material non-compliance and significant deficiencies were identified.

The District administration is aware of the ramifications of these noted findings and has addressed each one in the following attachment entitled "Corrective Action Plan for Fiscal Year Ending 2014".



Cyndi Toupin
Interim Director of Business Services

Pontiac School District

Corrective Action Plan For Fiscal Year Ending 2014 – as of November 13, 2014

Finding Number:	2014-001, 2013-1 Material Weakness – Reconciliations & Adjusting JE's
Finding Description:	<p>A significant number of adjustments were made to the general ledger subsequent to year end which resulted in a delay in providing a final trial balance to the auditors. Timely review and reconciliation of certain accounts was not consistently performed during fiscal year 2014, partially due to the size and depth of clean-up necessary. Certain items noted during the audit were as follows:</p> <ul style="list-style-type: none"> • Lack of timely review and reconciliation of federal grant revenue and receivables. • Lack of timely review and reconciliation of accounts payable balances during the year.
Corrective Action Plan:	The District Business Office will implement a process that will include a pre-determined cut-off date to ensure accurate and timely reconciliations of federal grant revenue and receivables as well as accounts payables. This date will be shared district-wide and strictly enforced in the future.
Responsibility:	Business Office
Update:	

Finding Number:	2014-002 Material Weakness - Timely Cutoff of Information
Finding Description:	Numerous adjustments were required due to discovery of information several months after year end related to the fiscal year under audit. The cut-off of information was not communicated or enforced, which created additional work and resulted in several instances of noncompliance due to limited time and resources to fully investigate the effects.
Corrective Action Plan:	The District Business Office will create and implement a Grant & Business Report Calendar with specified timelines (dates) of information cut-off and report due dates. This calendar and timeline will be communicated to the staff and will allow the District to evaluate the status of grant utilization prior to grant end dates as well monitor and evaluate the budget to actual positions prior to year end.
Responsibility:	Business Office
Update:	

Pontiac School District
 Corrective Action Plan For Fiscal Year Ending 2014 – as of November 13, 2014

Finding Number:	2014-003 Material Weakness - Prior Period Adjustment
Finding Description:	Misstatements were not detected by the District's internal controls over financial reporting in previous years. The net amount of the prior period adjustments increased general fund balance and decreased food service fund balance by a material amount.
Response:	The prior period adjustment was discovered by the diligent efforts of the Business Office and review of the prior years' records. The staff will continue to review and validate all information on a timely basis to ensure proper recording and reconciling of District financial records.
Responsibility:	Business Office
Update:	

Finding Number:	2014-004 Material Noncompliance – Operational Deficit
Finding Description:	Due to an operating deficit incurred in the General Fund during the preceding years, the School District has a cumulative deficit in the General Fund as of June 30, 2014. During the year ended June 30, 2014, General Fund operations decreased the cumulative deficit by \$11,392,625. Therefore, the School District is in violation of Public Act 621.
Response:	The District is currently under a Consent Agreement with the State of Michigan (dated September 18, 2013) and operating under an approved 10-year Deficit Elimination Plan (DEP) and Finance and Operating Plan (FOP). The District will continue to review and amend both the DEP and FOP throughout each fiscal year to maintain compliance under the Consent Agreement.
Responsibility:	Business Office
Update:	

Finding Number:	2014-005, 2013-2 Significant Deficiency & Noncompliance - Budgeting
Finding Description:	During the year, we noted that the School District incurred expenditures in the General Fund which were in excess of the budget amounts. The School Administration function had actual expenditures of \$3,019,322, which exceeded the budgeted amount of \$2,580,000 by \$439,322.
Corrective Action Plan:	A Budget Officer position has been created and filled within the Intergovernmental Agreement between the School District of the City of Pontiac and Oakland Schools. This position will provide a closer monitoring of all expenditures to ensure that they do not exceed the appropriations of the adopted budget as well as provide timely information of needed budget amendments throughout the fiscal year.
Responsibility:	Business Office
Update:	

Pontiac School District
 Corrective Action Plan For Fiscal Year Ending 2014 – as of November 13, 2014

Finding Number:	2014-006 Significant Deficiency & Noncompliance – Allowable Costs
Finding Description:	The District over charged indirect costs to Title I for the 2013 grant end date of \$16,613 and for the 2014 grant end date of \$11,390 as of 6/30/2014.
Response:	<p>The District is currently engaged in the process of amending the 2013 Title I grant FER due to information discovered once the Intergovernmental Agreement between the School District of the City of Pontiac and Oakland Schools was implemented and new Business Office staff was reviewing data. The 2013 indirect cost correction will be reflected on the final amended FER.</p> <p>The indirect costs were removed and corrected on the financial statements as of 6/30/2014.</p> <p>An additional check step has been added to each draw request throughout the year for reimbursement. Indirect costs will be checked against unallowable items and the calculation will be supported at each draw. In addition, a sequence of steps will be taken at year end to ensure that if items are removed from the grant, the indirect costs related to such is also properly removed.</p>
Responsibility:	Business Office
Update:	

Finding Number:	2014-007 Significant Deficiency & Noncompliance – Supplement vs Supplant
Finding Description:	The district could not provide supporting documentation that indicated three of the individuals tested were providing supplemental services to the School District, as they had been funded under a different grant source in the previous year.
CFDA Number:	Title I, Part A (2013-2014 grant application)
Response:	<p>The Preschool Program is considered a supplementary program covered by Title I, Part A grant with an allotment of a certain amount of Preschool teachers and teacher assistants that are allowed to be budgeted and expended within Title I, Part A grant (excluding IEP services employees). All other Preschool teachers and teacher assistants (excluding IEP services employees) are budgeted and expended within the GSRP grant.</p> <p>The Grants Compliance and Billing Office will diligently monitor the shifting of employees between these two grants so that these expenditures are not viewed as supplanting.</p>
Responsibility:	Grants Compliance and Billing Office
Update:	

Pontiac School District
 Corrective Action Plan For Fiscal Year Ending 2014 – as of November 13, 2014

Finding Number:	2014-008 Significant Deficiency and Noncompliance – Allowable Costs
Finding Description:	Title I funds were requested for expenditures that did not relate to the Title I grant and were based on budgeted expenditures instead of actual expenditures in the amount of \$46,365.00. Upon discovering during the audit, the expenditures requested were moved out of Title I after year end and reclassified to the general fund.
CFDA Number:	Title I, Part A (2012-2013 grant application)
Response and Corrective Action Plan:	For the 2012-2013 grant application, , the invoices for Extended Year and Summer School of 2013 included Special Education transportation services that were unintentionally coded to be paid via a Title I transportation account thus the full invoice was paid out of Title I, Part A accounts. For the 2013-2014 grant application, the invoices for Extended Year and Summer School of 2014 included Special Education transportation services also; however, these two invoices were thoroughly reviewed by the Grants Compliance and Billing Coordinator whom calculated and took out all Special Ed services costs out of the amount that she coded and paid with Title I, Part A accounts. Evidence of this was provided of this during this year's audit.
Responsibility:	Grants Compliance and Billing Office
Update:	

Finding Number:	2014-009 Significant Deficiency and Noncompliance – Special Tests
Finding Description:	The school district properly budgeted for the 10% set-aside, however we could not verify the amount was fully spent.
CFDA Number:	Title I, Part A (2013-2014 grant application)
Corrective Action Plan:	The Grants Compliance and Billing Office will monitor budget to actual reports and usage of all set-aside budget lines on a monthly basis to meet the 10% Priority set-aside requirement.
Responsibility:	Grants Compliance and Billing Office
Update:	

Finding Number:	2014-010, 2013-19 Significant Deficiency and Noncompliance – Equipment Management
Finding Description:	During our audit, a historical list of items (equipment) purchased from grant funds was not provided for review. Current year purchases were properly tracked.
CFDA Number:	Title I, Part A and IDEA Special Education (2013-2014 grant application)
Response:	The Grants Compliance and Billing Office will make every effort to gather the most accurate <u>historical list</u> based on the available documentation; the office will continue to maintain current yearly equipment list as done during FY14.
Responsibility:	Grants Compliance and Billing Office
Update:	

Pontiac School District
 Corrective Action Plan For Fiscal Year Ending 2014 – as of November 13, 2014

Finding Number:	2014-011 Significant Deficiency and Noncompliance –Private Non-public School Participation
Finding Description:	Supporting documents to verify the required participation of private schools and invitation extended to the private schools was not provided for in-district schools.
CFDA Number:	21 st Century Community Learning Center (Project Excel)
Response and Corrective Action Plan:	The Grants Compliance and Billing Office has ensured that an invitation was extended to all eligible private schools in FY15 school year and will ensure the same in all future school and grant application years.
Responsibility:	Grants Compliance and Billing Office
Update:	

Finding Number:	2014-012 Significant Deficiency and Noncompliance – Parental Involvement
Finding Description:	The District did not establish parental advisory boards for federal programs in this cluster
CFDA Number:	PRIDE and PLAY (PEP)
Corrective Action Plan:	The Grants Compliance and Billing Coordinator and the Program Manager for PEP have ensured the implementation of a parental advisory board in FY15 school year and will continue to ensure that it is implemented and continued as required in all future school and grant application years.
Responsibility:	Grants Compliance and Billing Office and PEP Program Manager
Update:	

Finding Number:	2014-013 Significant Deficiency and Noncompliance – Reporting
Finding Description:	The annual expenditure report and performance reports could not be consistently provided or substantiated. As a result, compliance requirements and stipulations, if any, could not be verified.
CFDA Number:	SOS
Corrective Action Plan:	The Grants Compliance and Billing Office and the Business Office will ensure that all annual expenditure reports, performance reports and their supporting documents used to prepare the reports are kept in both the Business Office and Grants Compliance and Billing Office
Responsibility:	Grants Compliance and Billing Office and Business Office
Update:	



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November 14, 2014

Management and the Board of Education
School District of the City of Pontiac
47200 Woodward Avenue
Pontiac, MI 48342

We have completed our audit of the financial statements of School District of the City of Pontiac as of and for the year ended June 30, 2014, and have issued our report dated November 14, 2014. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Other Matters for Management's Consideration

We discussed these matters with various personnel in the district during the audit and are currently scheduled to meet with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the district, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.
Saginaw, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 12, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the district are described in Note 1 of the financial statements. We noted no transactions entered into by the district during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

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

- Management's estimate of the useful lives of fixed assets, which is based on the length of time management believes those assets will provide some economic benefit in the future.

- Management's estimate of compensated absences, which is based on the accumulated vacation and sick days and salary and wage rates in effect.

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

Accounting Standards and Regulatory Updates

Accounting Standards

The Government Accounting Standards Board ("The GASB") has issued Statement 68, *Accounting and Financial Reporting for Pensions*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net pension liability will be recorded on the government-wide statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. Statements 68 and 71 are effective for the year ending June 30, 2015.

The GASB has also issued Statement 69, *Government Combinations and Disposals of Government Operations*. Statement 69 provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity. Statement 69 is effective for the year ending June 30, 2015.

Uniform Grant Guidance (Super Circular)

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

Highlights of the Super Circular:

- Raises the single audit threshold from \$500,000 to \$750,000 (federal expenditures during the June 30, 2016, yearend)
- Increases monitoring and risk assessment necessary by federal program offices
- Focuses heavily on internal controls and policies/procedures, which should be in compliance with COSO (Committee of Sponsoring Organizations of the Treadway Commissions)
- Additional monitoring by pass-through agencies of sub recipients
- New rules for procurement/property management
- Cost principles are more principles based, with intention to reduce administrative burden

Additional information and resources are available at the following websites:

- OMB http://www.whitehouse.gov/omb/grants_docs
- Council on Federal Assistance Reform (COFAR) <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR <http://1.usa.gov/1pOUq2p>

Sec. 147c- State Share of Unfunded Liability – Michigan Public School Employees Retirement System (MPSERS)

For 2014-15 the method in which the State will allocate the State Share of the Unfunded Liability will not change. However, the rate will increase to an estimated 7.63% of payroll. The funding was increased to accommodate the unfunded liability statutory cap of 20.96%.

Audit and FID Submission Deadline

For the upcoming year, June 30, 2015, the deadline to submit the Financial Information Database (FID) and the school district financial audits will be October 15th.

Sec. 22f - Best Practices

For the upcoming fiscal year, June 30, 2015, your district must meet 7 out of 9 Best Practices. Per pupil funding, if this is met, will be \$50. The nine best practices are:

- Act as policyholder for health care services benefits
- Competitively bid at least one non-instructional service
- Participate in schools of choice
- Provide online learning opportunities
- Provide a public online dashboard with finance and academic metrics
- Use teacher and administrator job performance as a significant factor in determining compensation requirements under MCL 380.1250
- Collective bargaining agreements shall not include any prohibited subjects of bargaining as required under the Public Employment Relations Act
- Implement a comprehensive guidance and counseling program.
- Offer pupils in grades K to 8 the opportunity to complete coursework or other learning experiences that are substantially equivalent to 1 credit in a language other than English

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

The following material and immaterial misstatements were detected as a result of our audit procedures and corrected by management:

	<u>General Fund</u>	<u>Food Service Fund</u>
Change in fund balance - unaudited	\$ 10,673,858	\$ 147,178
To adjust public employee trust payable	40,000	-
To remove IRS payable	381,391	-
To adjust Chartwells payable	-	(3,378)
To adjust MESSA accrual	297,377	-
Change in fund balance - audited	<u>\$ 11,392,626</u>	<u>\$ 143,800</u>

There were no uncorrected misstatements that were more than trivial other than what was mentioned in the qualified audit opinion.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction

that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the district's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the district's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Qualified Opinion

Management was unable to provide documentation to determine whether adjustments to the balance sheet were for activity related to the current year or prior year. The School District opted to post all adjustments through miscellaneous revenue in the current year. Accounting principles generally accepted in the United States of America require activity to be recorded in the period in which they were incurred. This results in a qualified opinion of the statement of revenues, expenditures, and changes in fund balance, which is expected to read:

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pontiac School District as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter in Independent Auditors' Report

The School District has an accumulated unassigned deficit in the General Fund, which we thought to be important information for the users of the financial statements. Our report will therefore include the following emphasis of matter paragraph:

The School District has an accumulated unassigned deficit in the General Fund of \$39,121,805 as of June 30, 2014, which has resulted from operating deficits. The deficit and status of the District's Deficit Elimination Plan that is required by the Michigan

Department of Education, are disclosed in Note 2. This raises substantial doubt about the ability of the School District to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Reports

Other information that is required to be reported to you is included in the: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis and budgetary comparison information, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management 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.

Report on Other Information

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

Appendix II Other Matters for Management's Consideration

In planning and performing our audit of the financial statements of School District of the City of Pontiac as of and for the year ended June 30, 2014, we considered School District of the City of Pontiac's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the district's internal control. Accordingly, we do not express an opinion on the effectiveness of the district's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated November 14, 2014 on the financial statements of Pontiac School District. Our comments and recommendations regarding those matters are:

Documentation and Implementation of Internal Controls

During our audit, we noted significant improvement to the documentation and implementation of internal controls. However, there were still several policies and procedures that were not implemented or enforced during the year. We also noted several instances where controls were only operating effectively for a portion of the year. One specific instance that was not universally applied was the utilization of purchase orders. Purchase orders are especially useful to ensure proper cutoff, accurate classification of expenditures, and monitoring of budgets.

We recommend that the District continue to work on consistent application of all policies and procedures. It is also important to document controls through sign offs or audit trails. External support is especially important when making general journal entries.

Time Documentation and Personnel Files

During our testing of payroll expenditures, we noted several areas where improvement could be made related to employee time documentation and wage support. There were several instances where time sheets had an 'X' instead of total hours worked. This did not consistently translate to eight hour days, but rather an indicator that the employee was present for their contracted amount of time. We would encourage the District to require that actual hours be entered on time sheets. This would also allow for better reconciliation between the various departments involved in payroll processing.

In addition, there were instances of missing or incomplete documentation in personnel files related to wage rates. In the majority of employee files, there is no documentation of the employee's "Step" in their personnel file, and no indication when an employee moves to the next level. There were also instances where employees are paid at state mandated pay rates, however, these pay rates were not specifically stated in the personnel files.

We recommend signed contracts be obtained for all employees to ensure employees are being paid and charged to programs in accordance with their agreed upon contract, or at a minimum retention in the employee file approving the pay level the individual would fall under. We also recommend that time-keeping documents track hours worked and not only whether an employee is present or not and that all time sheets should be approved for hours worked.

Private School Correspondence

During the Title I, Title II, and 21st Century program testing, we noted that letters are sent to private schools offering services. For those schools that did not send their response, the district assumed they were declining services, however, there was no formal documentation of who was contacted at the private school, the date they were contacted, and their official response as required by Michigan Department of Education. Additionally, we noted that the private school allocation was severely underspent. Although the district continues to carry forward the proper allocation, they should work to follow up with the private schools to ensure they are spending their allocation.

We recommend that the district document follow-up correspondence with private schools in writing by indicating who was contacted, the date contacted, and their response. We also recommend that they assist them in spending their allocations.

Athletic Cash Collections

We noted during our review of the athletic cash collection process that policies and procedures were not consistently followed during the fiscal year. Although significant improvement has been made, transactions tested showed untimely bank deposits and inconsistent sign offs on reconciliations.

We recommend that all cash is deposited in the bank within 48 hours of the athletic event. We would also recommend that policies and procedures are followed at all times. This will help ensure that all cash collected at an event is properly safeguarded and the control process is thoroughly documented.

Retention of Supporting Documentation

During our audit and compliance testing, we noted multiple instances where reports were completed and filed, however no supporting documentation was maintained. We have listed the specific instances related to our grant testing where these items were noted:

- The Title I School Selection worksheet must be completed annually to determine which schools are eligible to receive Title I funds and the allocation of those funds. The supporting documentation was not retained to show that the report was completed accurately. The documentation provided to us did not agree with the figures reported in the worksheet. The calculations in the worksheet were not materially different from the recalculations the auditors were able to perform.
- The Community Eligibility Program for food service was required to be completed using total direct certifications as downloaded from the State of Michigan. The original application as filed and carried forward could not be substantiated as the direct certification reports for the time period were not retained. It also appears that the original application was completed with meal claims versus direct certifications, however it was approved by the Michigan Department of Education.
- PEP & PLAY and PRIDE grant agreements require the filing of quarterly and annual performance reports related to financial information and compliance objectives. We could not agree these reports to supporting documentation to verify if they were properly filed with current information.

We recommend that information used to complete any required grant documents is retained in one location and is easily accessible. If there is any turnover, the new staff should have no problem locating this information.

Monitoring of Grant and District Budgets

Upon review of program budgets, it was noted that the allocation of funds did not tie to the budget or grant award in several instances. In addition, there were several instances of immaterial budget overages.

We also noted that the budget approved by the governing board did not agree to the budget imported into the accounting software and monitored by District officials as some of the fund modifications and transfers budgeted for did not agree with the transfers and the local and inter-district categories approved by the Board of Education. In total the budgeted amounts approved by the Board of Education did agree to the budget in the accounting software.

We recommend that all documents relating to the grants be reviewed for consistency and that any differences should be corrected in a timely fashion. We also recommend that the budget adopted by the Board of Education is properly imported into the accounting software to ensure consistency of expense utilization among buildings, departments, and functions.

Fixed Asset Recording

During our audit we noted that the fixed asset listing needs to be reevaluated to ensure it accurately reflects the District's actual capital assets. We noted several items on the listing that were fully depreciated and seem unlikely to be in the district's possession. In addition, the listing did not provide the ability to adequately match the building names and sale offers to the impairment listing.

We recommend that an external party is hired to perform a complete inventory of the district's capital assets. The listing should also be evaluated annually by a member of management with suitable skills and knowledge for the appropriate useful lives and existence of assets. When new assets are added, we recommend a thorough description and breakdown for better tracking. An adequate listing is essential to depict the true assets of the School District on a full accrual basis.

Maintenance of Effort

Although the district received a 'PASS' for their Maintenance of Effort calculation for the Special Education Cluster requirements at the ISD level, their individual District received a 'CONTINUE' which indicates that the district must meet local and state fiscal efforts and resubmit the calculation in the following fiscal year.

We recommend that the district work towards meeting all requirements necessary to receive a 'PASS' on this document.

Timely and Accurate Completion of Final Expenditure Reports

We noted several issues with final expenditure reports filed for federal programs. There were multiple instances where the final expenditure report was reopened for corrections. These corrections were typically the result of untimely cutoff of grant expenditures. We noted one instance where this report no longer matched district records due to adjustments occurring after submission.

We recommend that the district work towards proper and timely cutoff of grant expenditures to ensure that all required submissions are completed accurately and match the district records.

Indirect Cost Calculation

During our testing of major program expenditures, we noted several instances where indirect cost allocations were over or under charged to their respective grants. Overcharged indirect expenditures would result in questioned costs and disallowed expenditures. Undercharged indirect expenditures leaves money that the district was otherwise entitled to receive.

We recommend that the district perform a final verification that their indirect cost calculation properly accounts for all direct expenses (less those disallowed by grant stipulations). The district should implement this in conjunction with a more timely cutoff of grants as adjustments made to grant ledger accounts after indirect costs have been requested is often the contributing factor to over or under charged indirect costs.

Staffing Requirements

During our audit, we noted that the District would benefit from the presence of more individuals in the business office. There were several instances where the amount of work necessary to complete timely and accurate general ledger activity and grant reconciliations exceeded the time available for current staff. We recommend that the District reevaluate the size of their business office and redistribute responsibilities to ensure that all activity is being properly recorded on a timely basis.

Parental Involvement

The School District must reserve at least 1% of its total allocations for parental involvement activities. The School District must distribute not less than 95% of the amount reserved for parent involvement to schools receiving Title I services. Parental involvement expenditures were not monitored and there were not enough parental related activities for Title I planned during the year causing the expenditures to fall short of the requirement.

We recommend that the School District monitor its parental involvement expenditures and adequately spend amounts allocated for such activities.