



Public Schools of the City of Ann Arbor

Financial Audit
Year ended June 30, 2018



Audit Summary

- All school districts in Michigan are required by state law to have an audit
- As a result of our audit, we rendered an unmodified or 'clean' opinion
- Our audit of your federal programs had no findings or questioned costs



Highlights and Challenges

Highlights:

- Enrollment continues to grow year-over-year
- The District continued its investment in the classroom – adding reading interventionists to support early literacy (3rd grade reading) focus
- \$15.2 million in current year capital investments from the Technology Bond and 2015 Bond funds
- Sinking Fund millage increase supported by taxpayers, with \$18.7 million in current year capital investments from this fund
- Continue expansion to meet needs of housing development and growing enrollment in the Ann Arbor community



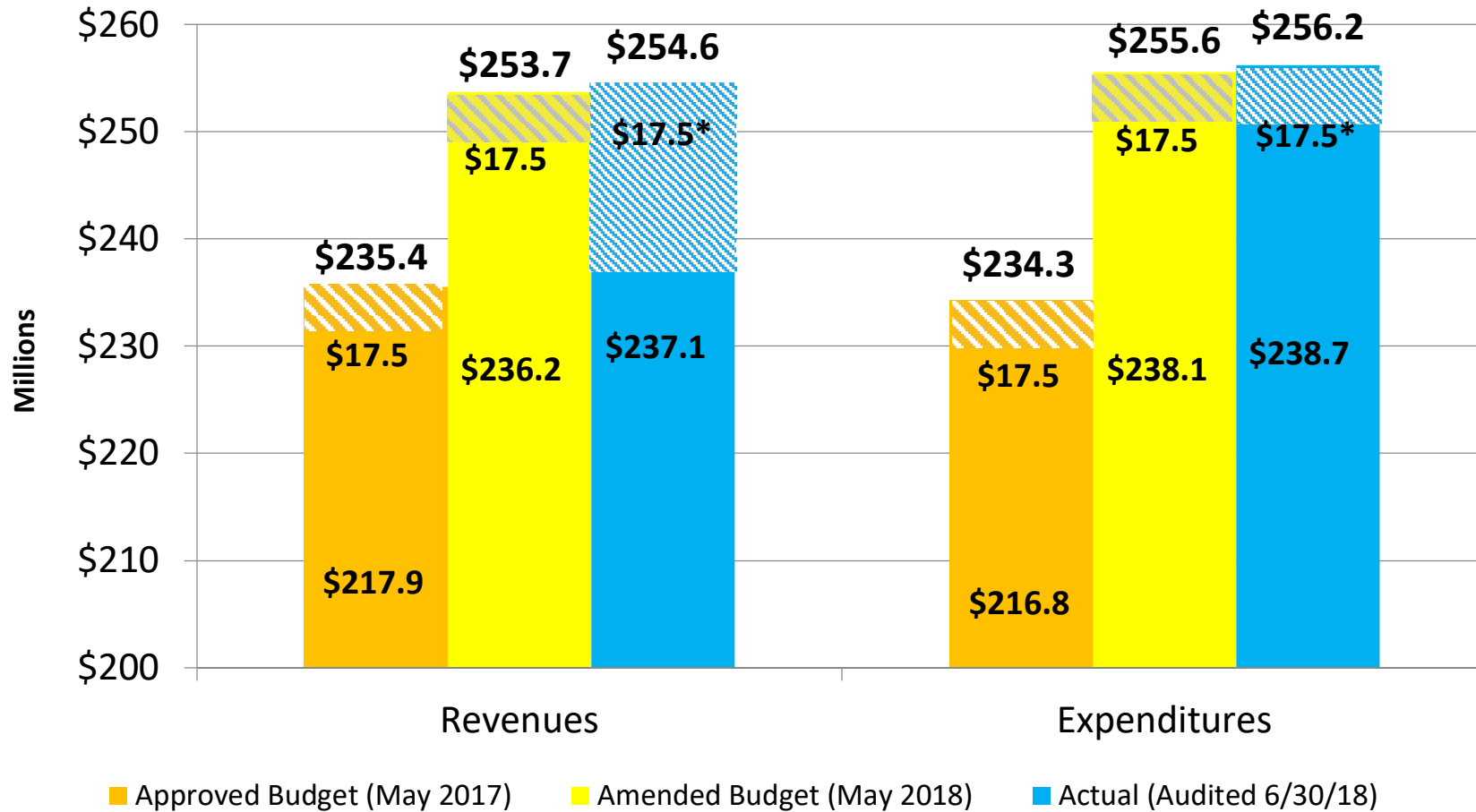
Highlights and Challenges

Challenges:

- Continual balancing among priorities: providing much-needed additional student & classroom supports, improved programming to address disparities in student achievement and opportunities - and improve overall student achievement
- Balancing priorities of investments in staff to attract and retain the very best in every classroom and school while maintaining a fund balance to weather future fiscal challenges
- Despite sizeable capital investment over recent years, infrastructure investment needs continue – update and renovation of aged school buildings remains an important priority



General Fund – Budget to Actual



*Both revenue and expenditures include \$17.5 million in Michigan Public Schools Employee Retirement System (MPERS) retirement contributions passed-through from State of Michigan



General Fund

Budget to Actual

Year Ended June 30, 2018

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>% variance</u>
Fund Balance - June 30, 2017	\$ 19,880,752	\$ 19,880,752	\$ -	
Revenue	253,675,143	254,596,628	921,485	0.36%
Expenditures	<u>255,568,179</u>	<u>256,209,727</u>	<u>641,548</u>	0.25%
Excess of Expenditures Over Revenue	(1,893,036)	(1,613,099)	279,937	
Plus: Other Financing Sources/(Uses)	<u>-</u>	<u>92,598</u>	<u>92,598</u>	
Change in Fund Balance	<u>(1,893,036)</u>	<u>(1,520,501)</u>	<u>372,535</u>	
Fund Balance - June 30, 2018	<u><u>\$ 17,987,716</u></u>	<u><u>\$ 18,360,251</u></u>		
Fund Balance as % of Expenditures		7.2%		
Fund Balance as % of Revenue		7.2%		
Days of operation (365 day year)		26		



Comparative General Fund

Fund Balance History

Year Ended June 30



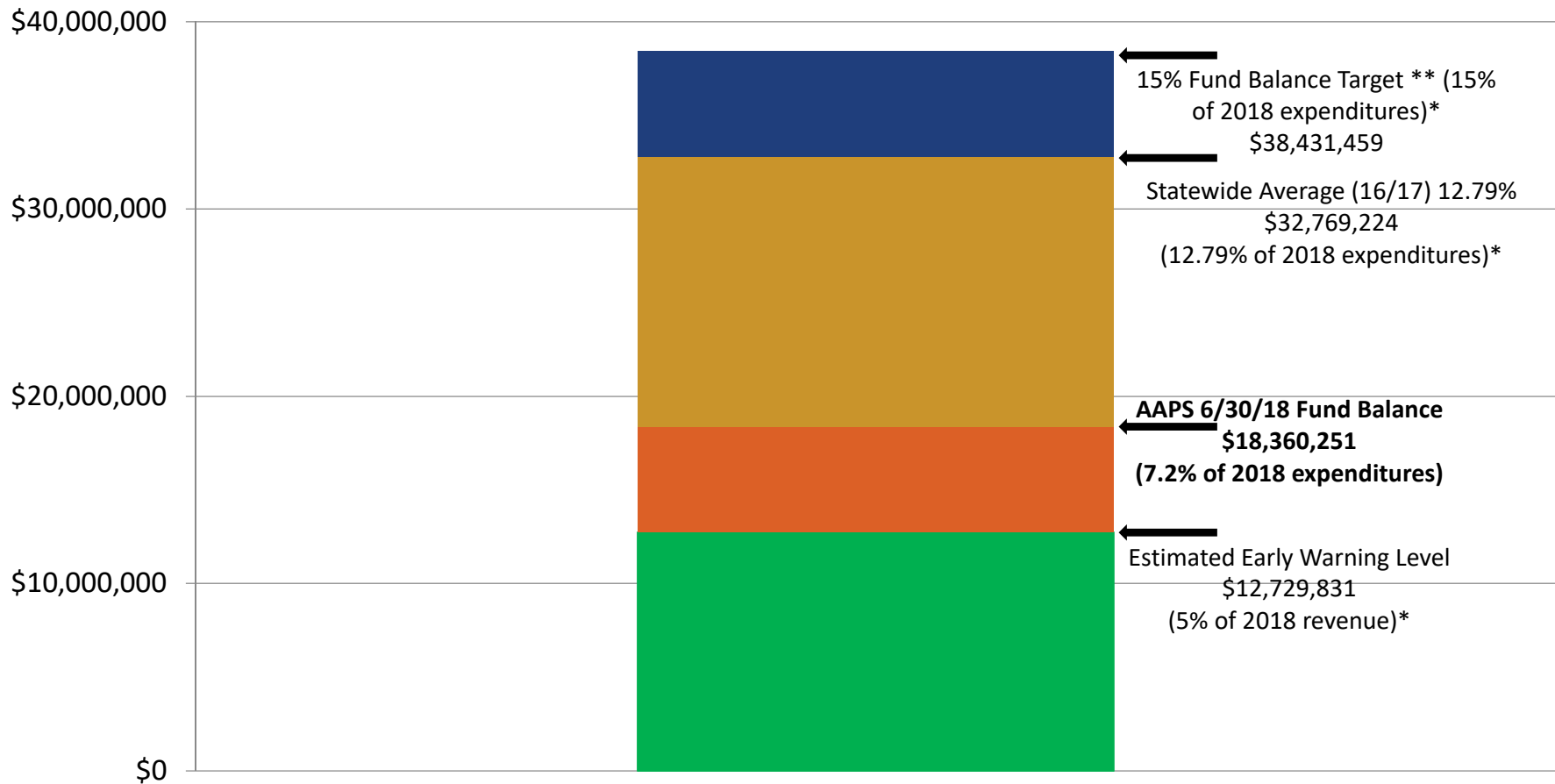
Percentage of Expenditures	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	13.9%	8.2%	10.5%	8.5%	4.7%	4.6%	8.3%	10.2%	8.5%	7.2%



General Fund

Fund Balance Indicators

June 30, 2018



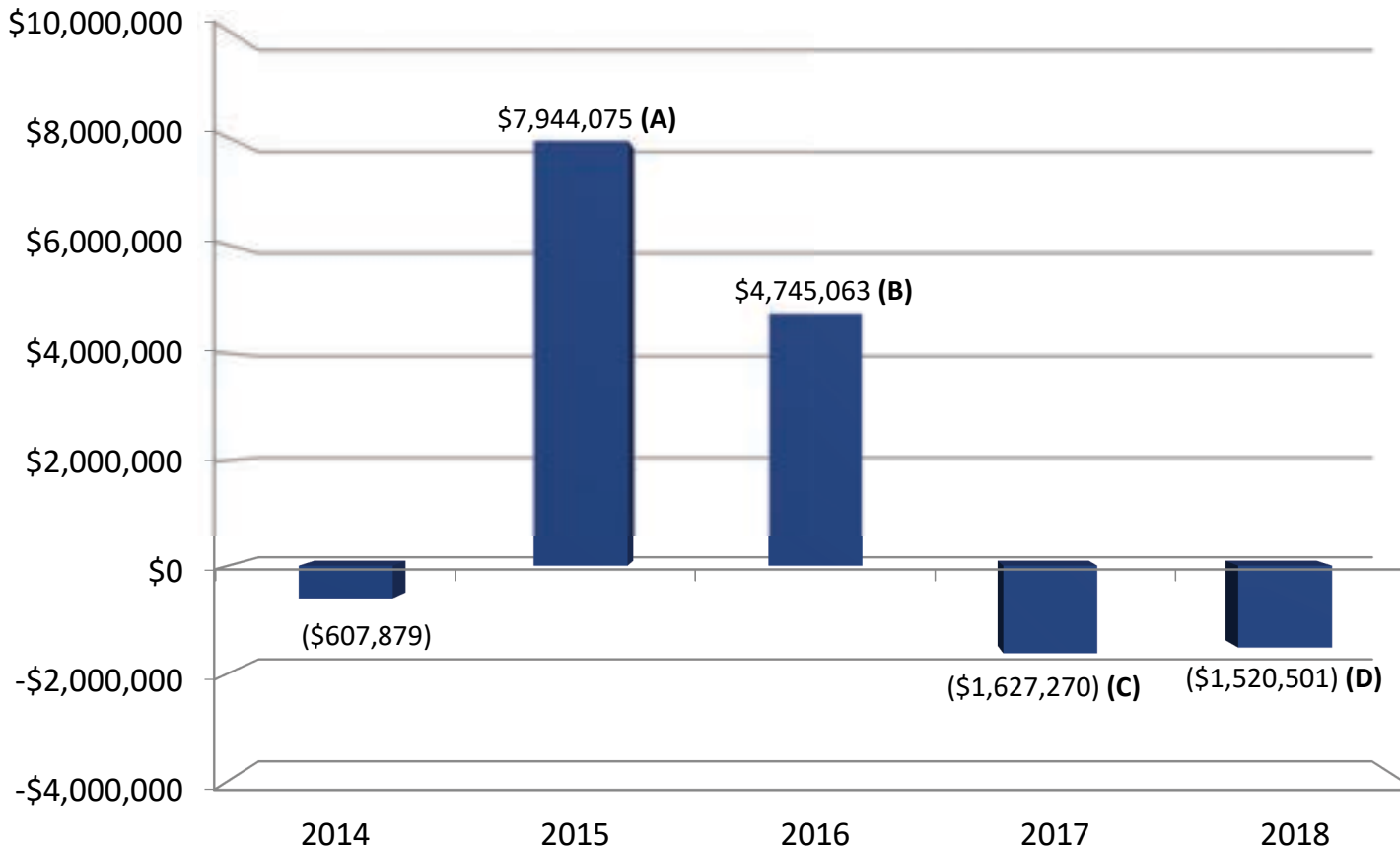
**Estimated Early Warning Line and Fund Balance target percentages based on 2018 general fund revenues and expenditures. Board policy is range of 6-15% of expenditures*

*** Michigan School Business Officials (MSBO) recommended target*



Net Change in Fund Balance – General Fund

Year Ended June 30

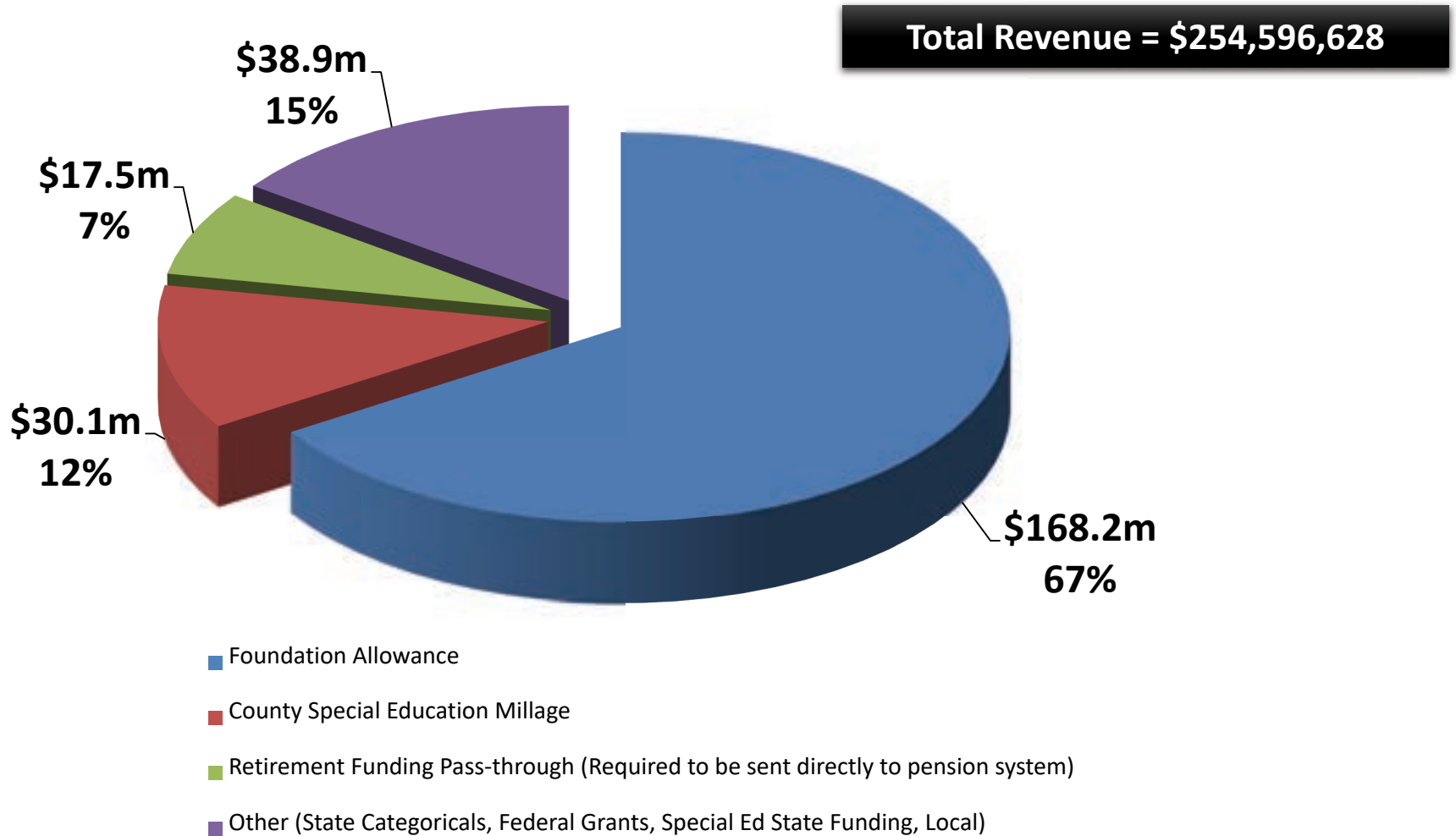


- (A) Includes one-time funds for Special Education from WISD (\$4.6 million) and Medicaid funds (\$400,000)
- (B) Includes one-time funds related to sale of Roberto Clemente (\$1 million) and Ann Arbor District Library interest (\$3 million)
- (C) Includes certain one-time direct expenses related to the Allen Elementary flood during the 2016/2017 school year (\$1.3 million)
- (D) Includes one-time funding related to Cell Tower leases (\$2.4 million), easement to ITC (\$1.1 million), and Tax Base Prior Year Adjustments from the State of Michigan (\$3.1 million), also includes impact of collective bargaining agreement settlements



General Fund Revenue

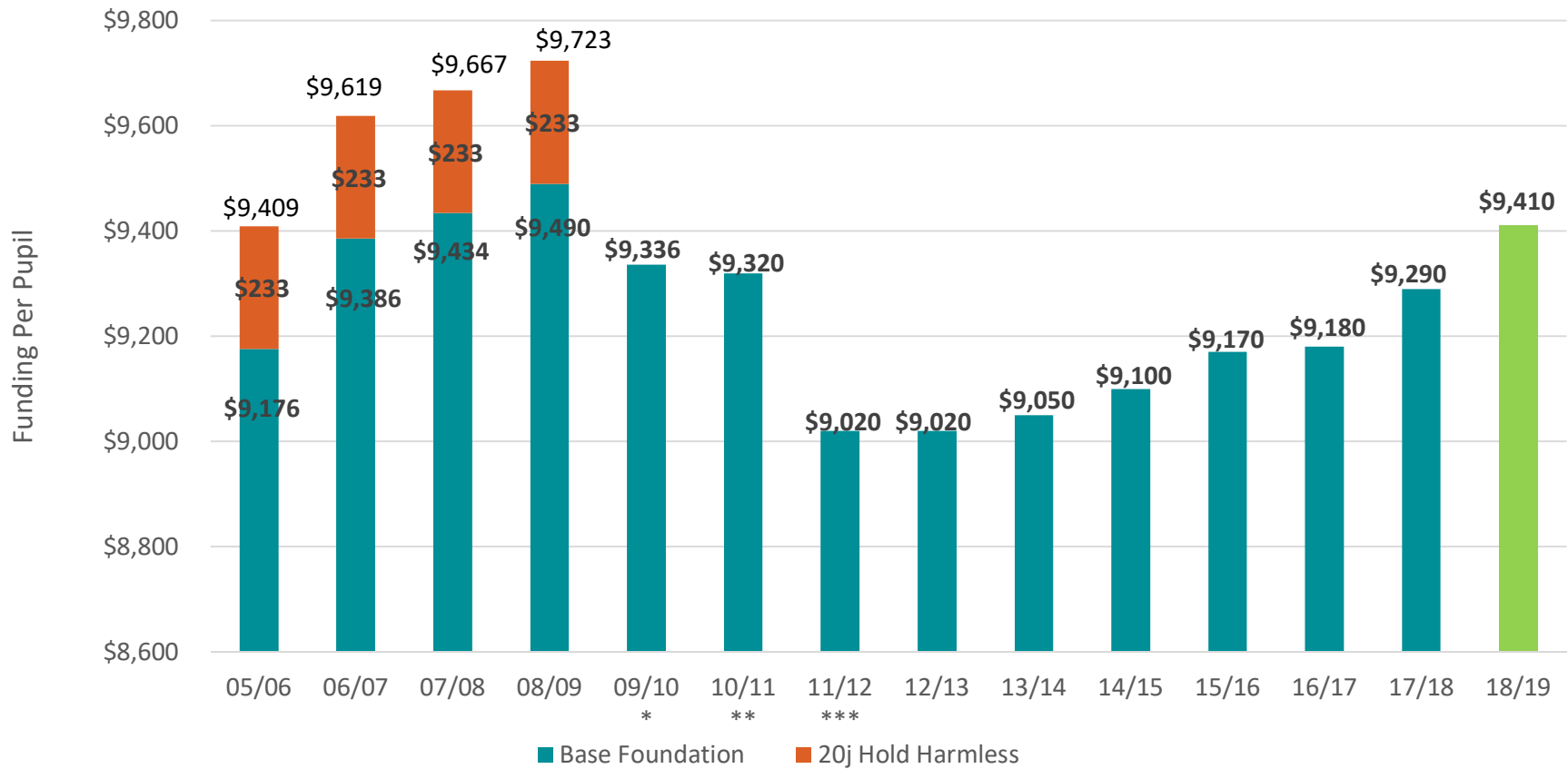
Year Ended June 30, 2018





Foundation Allowance

Historical lookback at funding



* 09/10 reflects Section 11d funding reduction of \$154 per pupil

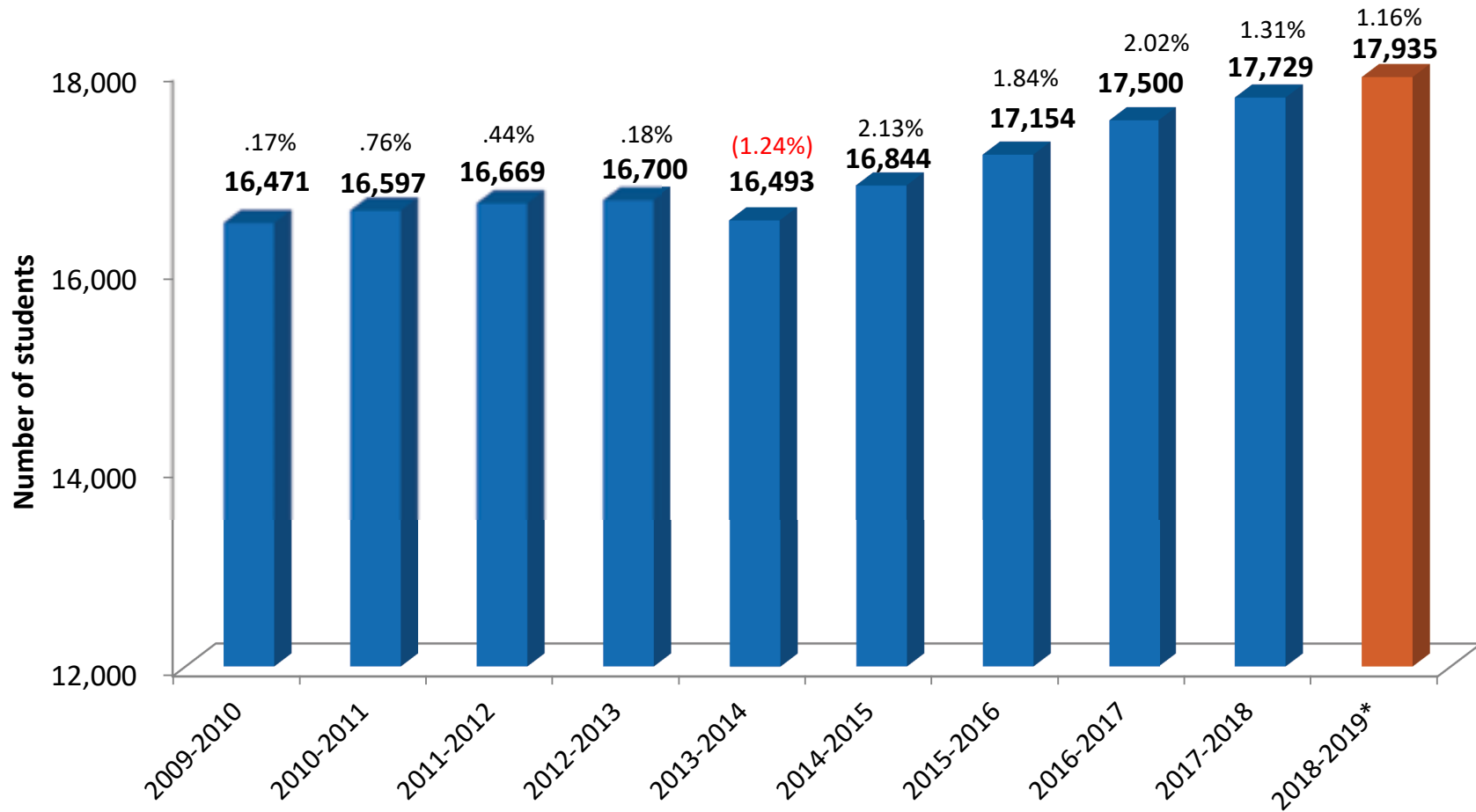
** 10/11 reflects Section 11d funding reduction of \$170 per pupil

*** 11/12 \$170 reduction noted for 10/11 was statutory enacted in 11/12, along with an additional \$300 per pupil rollback of foundation allowance



Student Enrollment Comparison

Fall Count and Percentage Change from the Previous Years Ended June 30

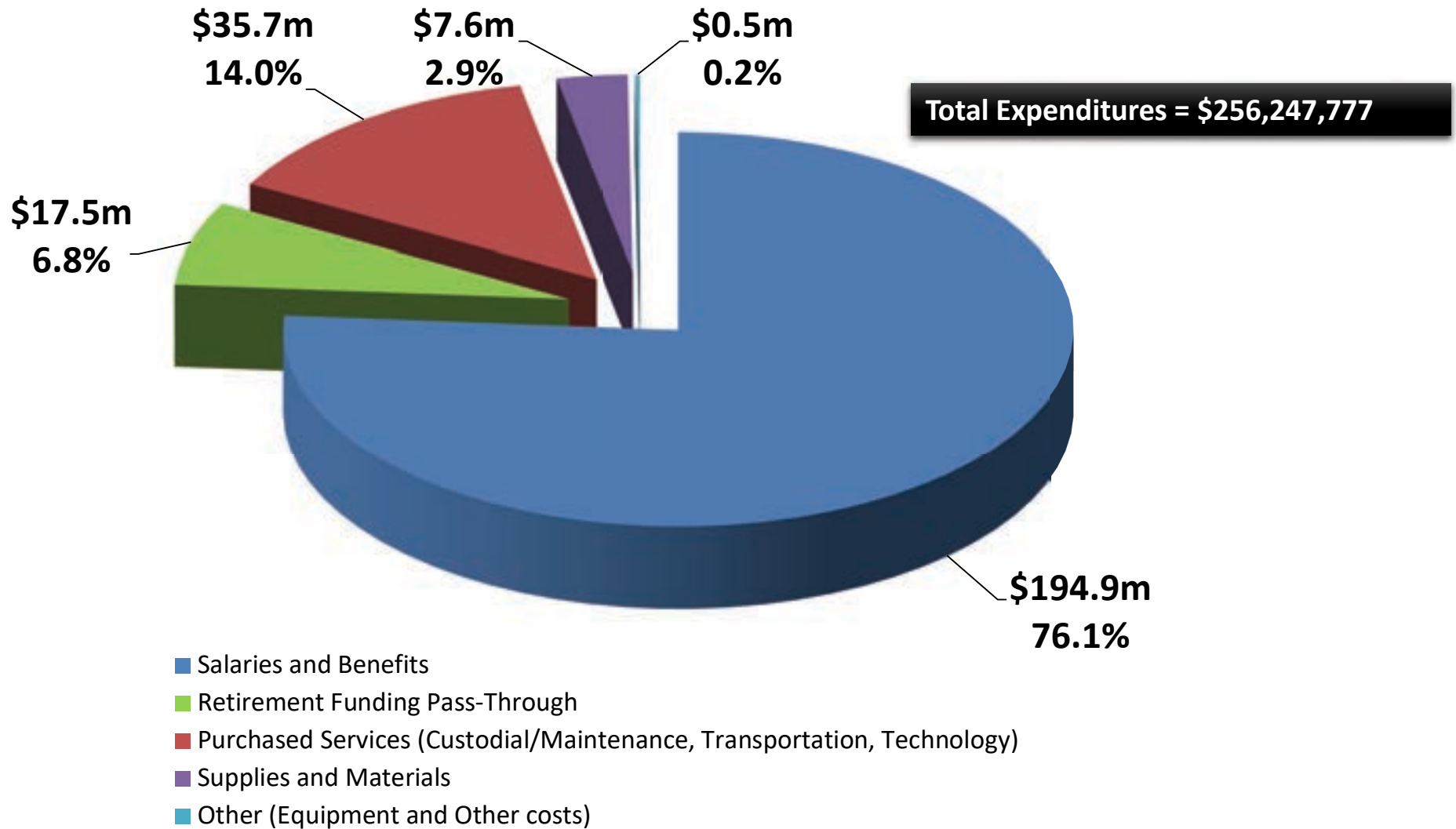


* Estimated Fall 2018 count (FTE)



General Fund Expenditures

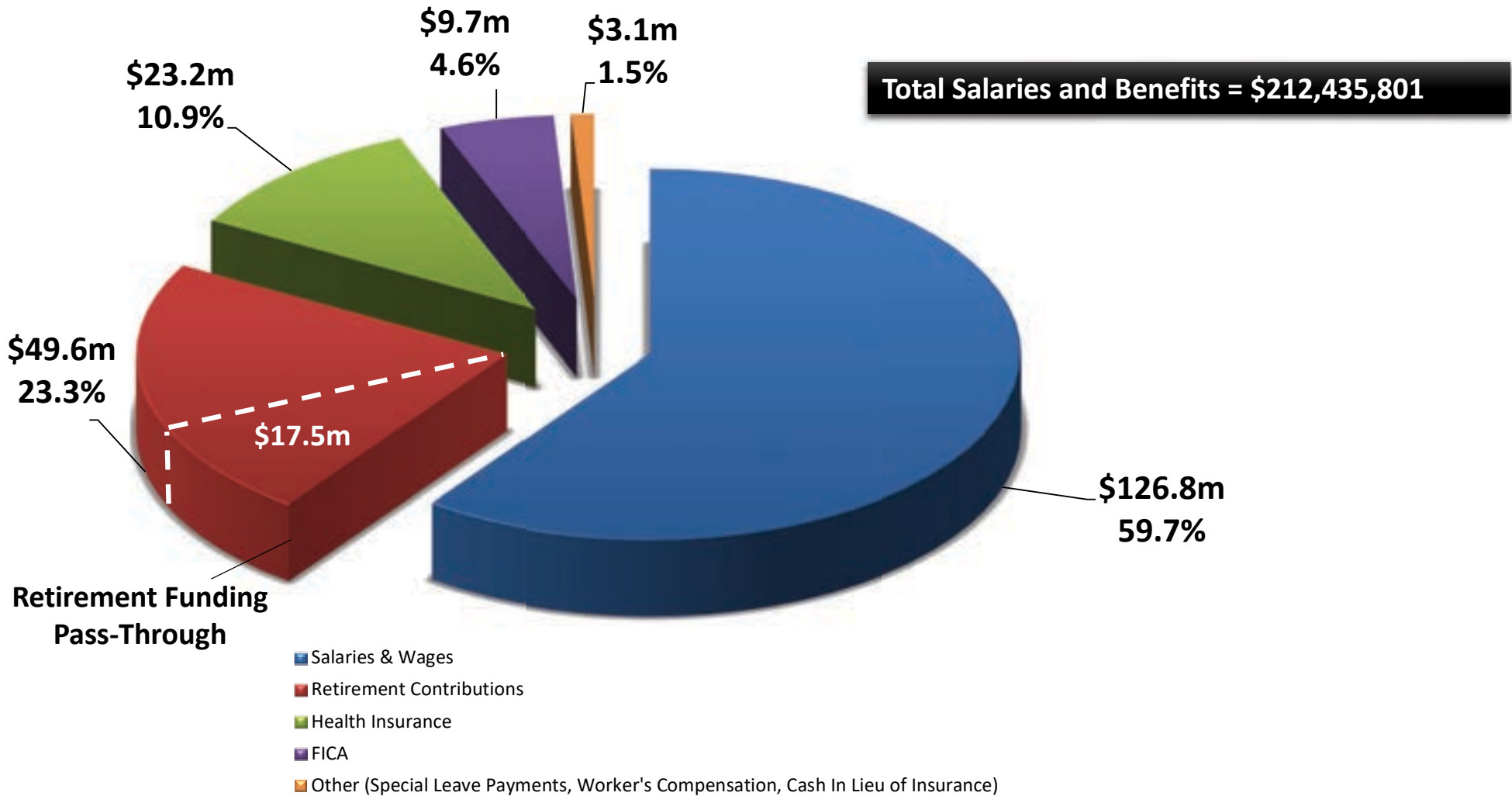
Year Ended June 30, 2018





General Fund Salaries and Benefits

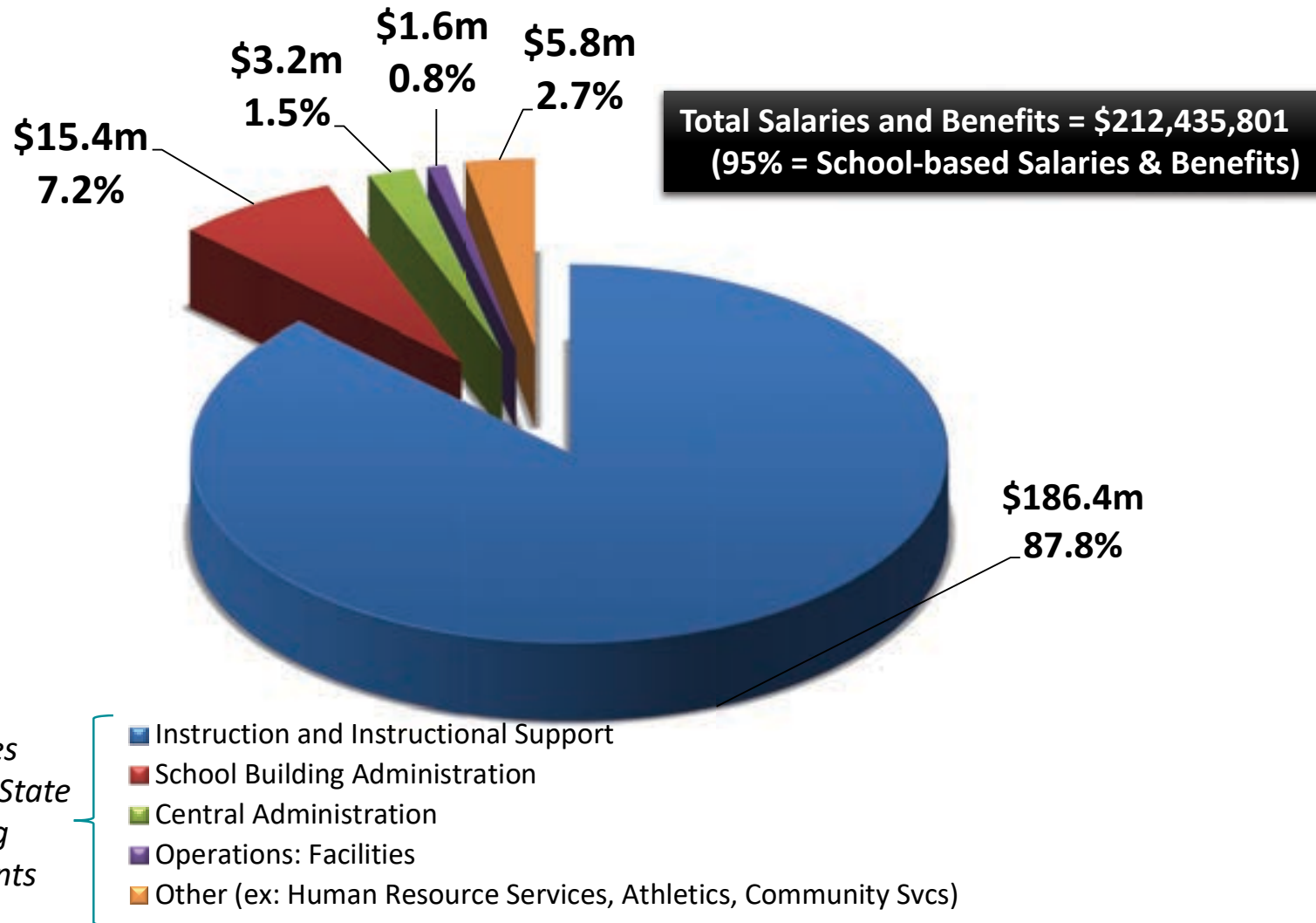
Year Ended June 30, 2018





General Fund Breakdown of Salaries and Benefits

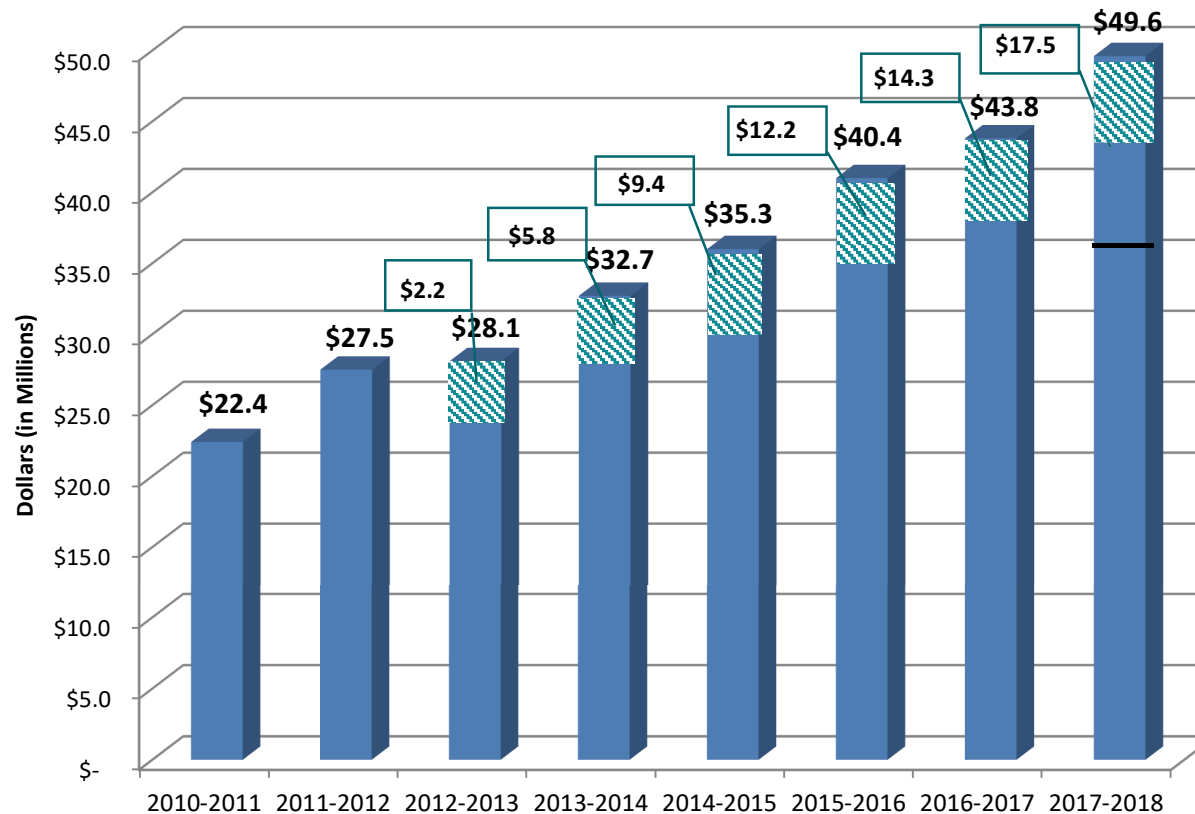
Year Ended June 30, 2018





Retirement Funding – Total Michigan Public Schools Employee Retirement System (MPERS) Expense

Year Ended June 30



MPERS Unfunded Actuarial Accrued Liability (UAAL) expense from State Aid.

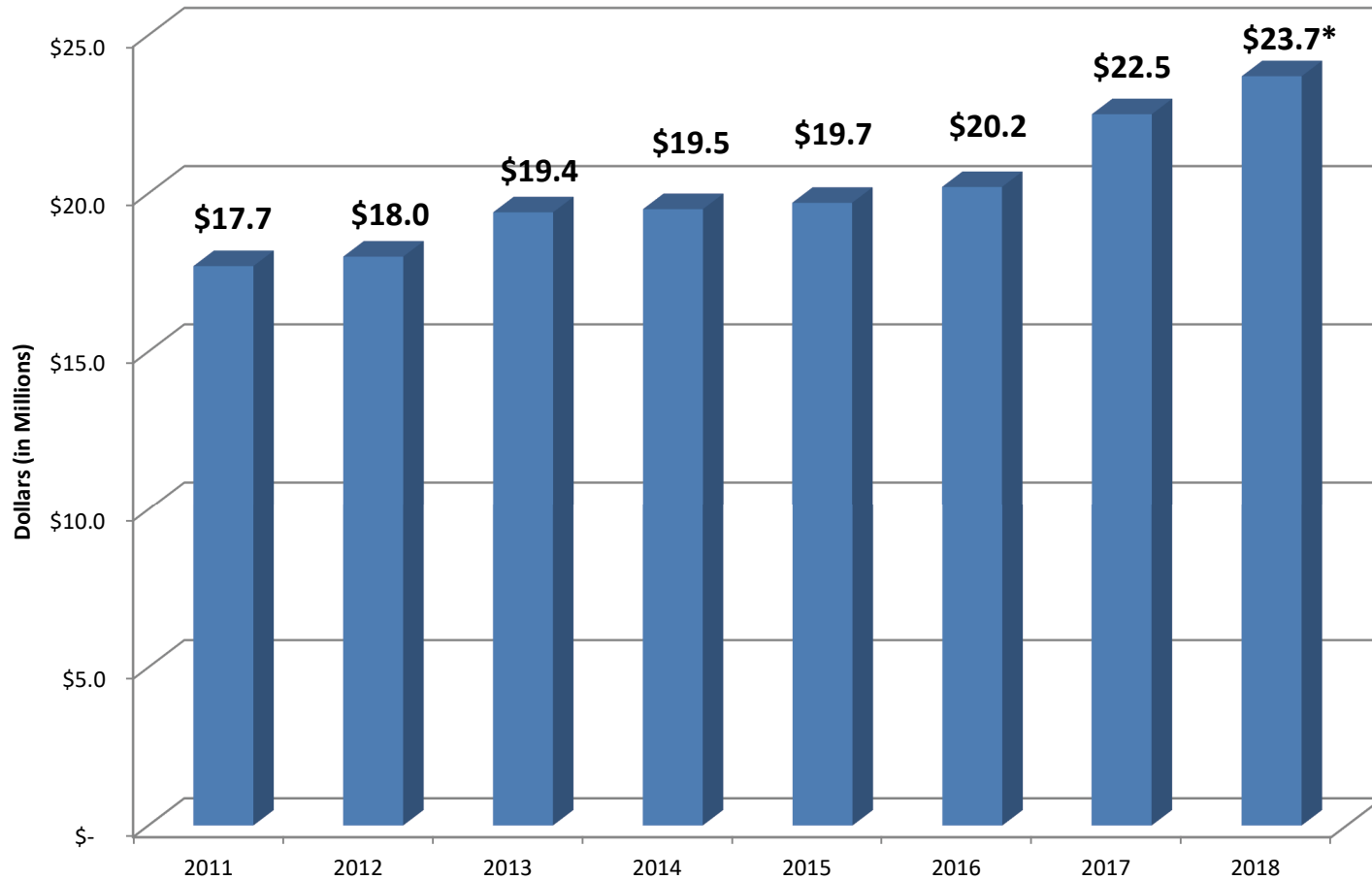
This is a direct pass-through from State:

- 2013 includes \$2.2 million
- 2014 includes \$5.8 million
- 2015 includes \$9.4 million
- 2016 includes \$12.2 million
- 2017 includes \$14.3 million
- 2018 includes \$17.5 million



Total Health Related Insurance Costs

Year Ended June 30



*Increase in FY2018 was primarily the result of increasing the hard cap. The District currently pays a maximum of \$13,219 per teacher (the largest covered group) for insurance (an increase of \$289 per person from FY 2017)



Comparative General Fund

Fund Balance History

Year Ended June 30



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Percentage of Expenditures	13.9%	8.2%	10.5%	8.5%	4.7%	4.6%	8.3%	10.2%	8.5%	7.2%



Ann Arbor Public Schools

Year Ended June 30, 2018

Key Takeaways

- Your continued success is a community and district collaboration
- For the 5th year in a row, enrollment has increased, this year by 206 students, resulting in a current year increase to revenue of approximately \$1.75 million
- Students are entering and returning to the district from the Ann Arbor footprint due to your robust program offerings (Young Fives, STEAM, Project Lead the Way, International Baccalaureate, World Language)
- Cost containment and improved efficiencies will need to continue to be a focal point for the organization in order to yield positive financial results



Future Developments in the School Environment

Areas to **monitor** as it relates to school operations:

- Cash Flow Needs
- Fund Balance Levels
- Delayed State Aid Payments
- Health Care Costs
- Capital Repairs
- Cost of Utilities
- State economy and politics
- Charter and Private School options
- Employee Group Negotiations
- Federal Funding Changes
- Future Retirement Contribution Rates
- Future changes in foundation allowance funding

Keep an eye on local options that are within your control to provide funding for the student population (examples include: Special education millage; countywide enhancement millage; sinking fund millage; and bond issues)



Next Steps in our AAPPS School Environment

Continue to:

- Advocate at the state level
- Build fund equity to ensure sustainability of the organization
- Monitor monthly budget reports
- Control expenditures and understand market rates for compensation across the district
- Consider potential innovation to develop revenue streams in addition to traditional funding
- Balance long-term investments with funding volatility
- Recognize a large portion of the current fund balance was created by one-time transactions – use caution when spending it



Thank you!

We are all in this together, and we appreciate:

AAPS employees

- the hard work to extend our district quality, ensuring we continue to deliver the 'Ann Arbor Public Schools' difference

Board of Education

- support, advocacy, & courageous decision-making for the short, medium and longterm needs – sustainability & strength for the district

Community

- ongoing support of the Ann Arbor Public Schools



Thank you.

Exceptional⁺
ANN ARBOR PUBLIC SCHOOLS