Detroit Public Schools

Financial Report
with Supplemental Information
June 30, 2017

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Independent Auditor's Report

To the Board of Education
Detroit Public Schools

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 Detroit Public Schools (the "School District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Detroit Public Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Education
Detroit Public Schools

Opinions

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

Emphasis of Matter

As discussed in Notes 1 and 11 to the basic financial statements, effective July 1, 2016, Detroit Public Schools was divided into two separate entities - Detroit Public Schools (DPS) and Detroit Public Schools Community District (DPSCD). The change occurred as a result of the Michigan legislature approving bills to restructure Detroit Public Schools and provide additional funding. The new bills, now known as Public Acts 192-197, prescribed that Detroit Public Schools will continue to exist for the purpose of collecting millages and other taxes in order to pay off existing debt, while DPSCD exists to oversee the daily operations of the schools and student education. The Public Acts also provided funding for the operations of the Detroit Public Schools Community District and provided an emergency loan for Detroit Public Schools. The financial statements referred to above do not reflect any activity of Detroit Public Schools Community District. Our opinion is not modified with respect to this matter.

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Detroit Public Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

To the Board of Education
Detroit Public Schools

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018 on our consideration of Detroit Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Detroit Public Schools' internal control over financial reporting and compliance.

Plante & Moran, PLLC

January 31, 2018

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

Using this Annual Report

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

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

Basic Financial Statements

Government-wide Financial Statements   Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds
Schedule of Proportionate Share of the Net Pension Liability
Schedule of the School District's Pension Plan Contributions

Other Supplemental Information

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 revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net position - the difference between assets 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 revenue and expenses is the School District's operating results. However, the School District's goal is to assess property taxes and to liquidate the School District debt, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the funding plan approved by the State of Michigan and the School District's adherence to the approved financial plan, 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 any final instruction, support services, and community services with the primary expenses being interest and debt, given the restructured School District. Property taxes are the primary source of funding for the School District currently, and will be the sole source of funding for the future.

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 Bond Redemption Fund, for example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. 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.

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, 2017:

TABLE 1	Governmental Activities	
	June 30	
	2017	2016
	(in millions)	
Assets		
Current and other assets	$ 67.0	$ 194.5
Capital assets	-	1,326.0
Total assets	67.0	1,520.5
Deferred Outflows of Resources	22.0	105.9
Total assets and deferred outflows of resources	89.0	1,626.4
Liabilities		
Current liabilities	84.4	525.0
Long-term liabilities	2,154.7	2,703.9
Total liabilities	2,239.1	3,228.9
Deferred Inflows of Resources	-	125.3
Total liabilities and deferred inflows of resources	2,239.1	3,354.2
Net Position		
Net investment in capital assets	(1,636.0)	(344.1)
Restricted	8.4	4.9
Unrestricted (deficit)	(522.5)	(1,388.6)
Total net position	**$ (2,150.1)**	**$ (1,727.8)**

The above 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 a deficit of $2,150.1 million at June 30, 2017 and a deficit of $1,727.8 million at June 30, 2016. Net investment in capital assets totaled negative $1,636.0 million, which is a result of the capital assets being transferred to Detroit Public Schools Community District (DPSCD); however, under the terms of the restricting agreement approved by the State of Michigan, the related long-term debt used to finance the acquisition of those assets remains with the School District. The majority of the debt will be repaid from voter-approved property taxes assessed and collected annually. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the School District's ability to use that net position for day-to-day operations. The remaining amount of net deficit of $522.5 million was unrestricted.

As discussed in Note 1 to the basic financial statements, in an effort to help the School District improve its financial viability, effective July 1, 2016, the Michigan legislature approved a set of bills to restructure Detroit Public Schools (DPS). The bills effectively split the School District into two entities, Detroit Public Schools and Detroit Public Schools Community District (DPSCD), and also provided for a $617 million funding package. DPS will continue to exist for the purpose of collecting 18 mills of property taxes on nonhomestead properties, which are authorized to be assessed and collected through 2022. The tax revenue from the 18 mills will be used to pay down the certain remaining notes payable (the 2011 and 2012 Series notes payable), an emergency loan, the outstanding balance due to the State's retirement system, certain vendor balances, and other obligations as negotiated with the Michigan Department of Treasury. These financial statements reflect the activity of DPS (referred to as the "School District").

The $522.5 million in unrestricted deficit net position of governmental activities represents the accumulated results of all past years' operations. This accumulated deficit represents that the School District's obligations are greater than its assets available to pay them with available resources. 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 a decrease in net position of $422.3 million for the year ended June 30, 2017.

TABLE 2

	Governmental Activities Year Ended June 30 2017	2016
	(in millions)	
Revenue		
Program revenue:		
Charges for services	$ 3.7	$ 3.4
Operating grants and contributions	13.3	375.3
General revenue:		
Property taxes	150.1	150.2
State foundation allowance	-	298.9
Other	23.1	10.3
Total revenue	190.2	838.1
Functions/Program Expenses		
Instruction	4.0	343.4
Support services	8.4	374.0
Athletics	-	3.0
Food services	-	44.5
Community services	-	5.2
Other	2.0	
Interest on long-term debt	116.4	101.5
Depreciation (unallocated)	-	19.4
Total functions/program expenses	130.8	891.0
Special Item	(481.7)	-
Change in Net Position	(422.3)	(52.9)
Net Position - Beginning of year	(1,727.8)	(1,674.9)
Net Position - End of year	**$ (2,150.1)**	**$ (1,727.8)**

As reported in the statement of activities, the cost of all of our governmental activities this year was $130.8 million. Certain activities were partially funded from those who benefited from the programs ($3.7 million) or by other governments and organizations that subsidized certain programs with grants and contributions ($13.3 million). We paid for the remaining "public benefit" portion of our governmental activities with $150.1 million in taxes and with our other revenue, i.e., interest and general entitlements.

The School District experienced a decrease in net position of $422.3 million. The primary cause for the decrease is due to the "special item" of $481.7 million, which represents the one-time transfer of assets and liabilities from the School District to DPSCD as a result of the legislative changes discussed in Note 1 to the financial statements, which restricted the original district into two separate legal organizations.

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.

As the School District completed this year, the governmental funds reported a combined fund balance of $10.2 million, which is an increase of $232.4 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance increased by $240.8 million to an accumulated deficit of $10.8 million. The change is mainly due to the following:

- An agreement to a long-term payment agreement for the delinquent employer contributions to the State's retirement system. Given the obligations will not be paid with currently available financial resources, the Office of Retirement (ORS) liability of approximately $122.4 million was removed as a General Fund obligation and is now being treated as long-term debt, which gets reported in the statement of net position. This resulted in an increase to fund balance; however, the obligation does still exist for the School District.

- Issuance of $150.0 million in emergency loan funding as a result of the legislative change discussed in Note 1 to the financial statements. This resulted in an increase to fund balance as the debt proceeds provide financial resources.

- Operating results of a positive $49.7 million, due to the final recognition of revenue that had previously been reported as unavailable, along with reduced expenditures due to the creation of DPSCD.

- The net impact of the transfer of General Fund assets and liabilities from the School District (DPS) to DPSCD resulted in a decrease to fund balance of $82.5 million

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 revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were significant revisions made to the 2016-2017 General Fund original budget. Budgeted revenue was increased by $31.6 million primarily due to the inclusion of revenue from state and federal sources once cash was received.

Budgeted expenditures were increased $3.0 million to account for the final expenditures associated with the wind-down of the School District general operations, amongst other things.

There were significant variances between the final budget and actual amounts for the year ended June 30, 2017. The most significant variance (budget overrun) relates to the pupil support services function expense variance of $1.8 million, which primarily relates to amounts due back to Wayne RESA for special education center program adjustments. Additionally, debt service expenditures exceeded the budgeted amount by $3.6 million due to the timing of the refinancing. Although variances existed, the net result was that revenue was over budget, expenditures were under budget, and the fund balance improved to a level better than anticipated.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the School District had no capital assets since all capital assets were transferred to DPSCD as a result of the new legislation that split the School District into two separate legal entities. The cost basis and related accumulated depreciation were transferred to DPSCD on July 1, 2016. This transfer is recorded as part of the "special item" in the School District's statement of activities.

	2017	2016
Land	$ -	$ 55,649,591
Construction in progress	-	-
Buildings and building improvements	-	1,804,032,534
Land improvements	-	101,139,554
Buses and other vehicles	-	2,542,371
Furniture and equipment	-	209,148,290
Total capital assets	-	2,172,512,340
Less accumulated depreciation	-	(846,516,322)
Net capital assets	**$ -**	**$ 1,325,996,018**

Debt

At the end of this year, the School District had $1.34 billion in bonds outstanding versus $1.40 billion in the previous year. The School District's long-term debt, including bonds, consisted of the following:

	2017	2016
General obligation bonds	$ 1,342,045,000	$ 1,398,580,000
Unamortized bond premium	56,278,789	64,869,351
Long-term notes payable	346,380,000	217,736,135
Other long-term liabilities	409,997,951	279,919,162
Total long-term debt	**$ 2,154,701,740**	**$ 1,961,104,648**

Other long-term liabilities include the final remaining balance of the employee severance plan, the outstanding retirement system obligation, and the School Loan Revolving Fund balance. 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

This year was a transitional year which occurred under the leadership of Judge Steven Rhodes, the transition manager. The transition moved the School District from direction under an emergency manger under State control to local control with a school board. The future for the School District will entail the assessment and collection of property taxes, sufficient to service the debt obligations, as well as communication with the community about the renewal of the nonhomestead tax millage, to allow the School District to execute the financial plan agreed to by the State of Michigan.

Contacting the School 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.

Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and investments (Note 3)	$ 35,907,360
Receivables:	
Taxes receivable	1,263,836
Due from other governmental units	6,353,269
Prepaid costs and other assets	3,300
Restricted assets - Cash and investments (Note 3)	23,498,083
Total assets	67,025,848
Deferred Outflows of Resources -	
Deferred charges on bond refunding (Note 7)	22,035,587
Total assets and deferred outflows of resources	89,061,435
Liabilities	
Accounts payable	29,005,125
Interest payable	28,570,406
Due to other governmental units	26,882,688
Noncurrent liabilities:	
Due within one year (Note 7)	98,787,250
Due in more than one year (Note 7)	2,055,914,490
Total liabilities	2,239,159,959
Net Position	
Net investment in capital assets (Notes 7 and 11)	(1,636,011,131)
Restricted - Debt service	8,444,679
Unrestricted	(522,532,072)
Total net position	**$ (2,150,098,524)**

Statement of Activities
Year Ended June 30, 2017

	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Functions/Programs				
Primary government - Governmental activities:				
Instruction:				
Basic program	$ 2,558,490	$ -	$ -	$ (2,558,490)
Added needs	1,416,706	-	-	(1,416,706)
Support services	8,378,989	3,655,811	-	(4,723,178)
Community services	66,605	-	-	(66,605)
Payments to other public schools (ISDs, LEAs)	756,108	-	-	(756,108)
Interest	116,409,826	-	13,293,241	(103,116,585)
Debt issuance costs	1,164,698	-	-	(1,164,698)
Total primary government	**$ 130,751,422**	**$ 3,655,811**	**$ 13,293,241**	(113,802,370)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				65,468,125
Property taxes, levied for debt service				84,733,962
State aid not restricted to specific purposes				4,359,814
Interest and investment earnings				3,171,852
Payment in lieu of taxes				5,988,371
Other				9,470,203
Total general revenue				173,192,327
Special Item (Note 11)				(481,690,131)
Change in Net Position				(422,300,174)
Net Position - Beginning of year				(1,727,798,350)
Net Position - End of year				**$ (2,150,098,524)**

Governmental Funds Balance Sheet June 30, 2017

	General Fund	Bond Redemption Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	$ 35,907,360	$ -	$ -	$ 35,907,360
Receivables:				
Taxes receivable	313,552	950,284	-	1,263,836
Due from other governmental units	6,353,269	-	-	6,353,269
Due from other funds (Note 6)	-	1,827,191	2,483,973	4,311,164
Prepaid costs and other assets	-	3,300	-	3,300
Restricted assets - Cash and investments (Note 3)	4,311,164	19,186,919	-	23,498,083
Total assets	**$ 46,885,345**	**$ 21,967,694**	**$ 2,483,973**	**$ 71,337,012**
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	$ 29,002,800	$ 2,325	$ -	$ 29,005,125
Due to other governmental units	24,398,715	-	2,483,973	26,882,688
Due to other funds (Note 6)	4,311,164	-	-	4,311,164
Total liabilities	57,712,679	2,325	2,483,973	60,198,977
Deferred Inflows of Resources -				
Unavailable revenue (Note 4)	-	950,284	-	950,284
Total liabilities and deferred inflows of resources	57,712,679	952,609	2,483,973	61,149,261
Fund Balances (Deficit)				
Restricted - Debt service	-	21,015,085	-	21,015,085
Assigned - Transitional funding	108,832,391	-	-	108,832,391
Unassigned	(119,659,725)	-	-	(119,659,725)
Total fund balances	(10,827,334)	21,015,085	-	10,187,751
Total liabilities, deferred inflows of resources, and fund balances	**$ 46,885,345**	**$ 21,967,694**	**$ 2,483,973**	**$ 71,337,012**

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

Fund Balance Reported in Governmental Funds	$	10,187,751
Amounts reported for governmental activities in the statement of net position are different because:		
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds		950,284
Deferred charges on bond refunding are not reported in the governmental funds		22,035,587
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds		(2,154,701,740)
Accrued interest payable is not included as a liability in governmental funds		(28,570,406)
Net Position of Governmental Activities	**$**	**(2,150,098,524)**

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

	General Fund	Bond Redemption Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	$ 74,097,588	$ 92,487,819	$ 60,417	$ 166,645,824
State sources	4,908,505	-	-	4,908,505
Federal sources	34,501,056	13,293,241	-	47,794,297
Total revenue	113,507,149	105,781,060	60,417	219,348,626
Expenditures				
Current:				
Instruction	8,181,302	-	-	8,181,302
Support services	10,181,228	-	-	10,181,228
Community services	66,605	-	-	66,605
Debt service:				
Principal	32,000,000	56,535,000	-	88,535,000
Interest	11,473,098	81,964,226	-	93,437,324
Other	1,102,348	62,350	-	1,164,698
Capital outlay	90,046	-	28	90,074
Payments to other public schools (ISDs, LEAs)	756,108	-	-	756,108
Total expenditures	63,850,735	138,561,576	28	202,412,339
Excess of Revenue Over (Under) Expenditures	49,656,414	(32,780,516)	60,389	16,936,287
Other Financing (Uses) Sources				
Payment to escrow agent	(225,143,166)	-	-	(225,143,166)
Face value of debt issued	498,790,456	-	-	498,790,456
School Bond Loan Revolving Fund proceeds (Note 7)	-	35,230,987	-	35,230,987
Total other financing sources	273,647,290	35,230,987	-	308,878,277
Special Item (Note 11)	(82,543,784)	-	(10,902,100)	(93,445,884)
Net Change in Fund Balances	240,759,920	2,450,471	(10,841,711)	232,368,680
Fund Balances - Beginning of year	(251,587,254)	18,564,614	10,841,711	(222,180,929)
Fund Balances - End of year	**$ (10,827,334)**	**$ 21,015,085**	**$ -**	**$ 10,187,751**

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

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

Net Change in Fund Balances - Total Governmental Funds	$ 232,368,680
Amounts reported for governmental activities in the statement of activities are different because:	
Revenue is reported in the statement of activities when earned but not reported in the funds until collected or collectible within 60 days of year end	(36,721,822)
Proceeds from long-term obligations provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities. In addition, repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt); amortization of premium/discounts and inflows/outflows related to bond refundings are not expenses in the governmental funds	(534,021,443)
Underwriter's premium/deferred charges on bond refundings reported as revenue/expenditures in the funds and amortized in the statement of activities	7,514,575
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	313,678,166
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(22,972,502)
Transfer of net capital assets and long-term obligations to Detroit Public Schools Community District	(388,244,247)
Employee severance plan payments are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	6,098,419
Change in Net Position of Governmental Activities	**$ (422,300,174)**

Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2017

	Private Purpose Trusts
Assets	$ -
Liabilities	-
Net Position	**$ -**

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

Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2017

	Private Purpose Trusts
Additions	$ 2,000
Deductions	
Scholarships awarded	2,000
Special item (Note 11)	500,350
Total deductions	502,350
Change in Net Position	(500,350)
Net Position - Beginning of year	500,350
Net Position - End of year	$ -

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

Note 1 - Nature of Business and Significant Accounting Policies

Effective July 1, 2016, the Michigan legislature approved a set of bills to restructure Detroit Public Schools (DPS or the "School District"). The bills effectively split the School District into two entities, Detroit Public Schools and Detroit Public Schools Community District (DPSCD). The bills include a funding package totaling $617 million. DPS will continue to exist for the purpose of collecting 18 mills of property taxes on nonhomestead properties, which are authorized to be assessed and collected through 2022. The tax revenue from the 18 mills will be used to pay down the certain remaining notes payable (the 2011 and 2012 Series notes payable), an emergency loan, the outstanding balance due to the state retirement system, certain vendor balances, and other obligations as negotiated with the Michigan Department of Treasury.

DPSCD holds the school buildings and all the assets and employee liabilities that are not specifically left in DPS, and is responsible for overseeing the daily operations of the schools, primarily focused on student education. The students, employees, contracts, employee benefits, and assets transferred to DPSCD when it was established. Once DPS' allocated debt has been discharged, DPS will dissolve. As part of the funding package that created DPSCD, certain funds were to be transferred from DPS to pay for transitional costs and certain operational support items. The amount of funds transferred from DPS to DPSCD for these items totaled approximately $41.0 million. In addition to the transitional funding already provided, DPSCD will collect the full foundation allowance for the students of the School District.

Through negotiations between DPS and the Michigan Department of Treasury, certain assets and liabilities that existed on DPS' balance sheet at July 1, 2016 were allocated to DPSCD. A summary of those allocations is included in Note 11 to these financial statements. The aforementioned splitting of the School District also resulted in certain receivable and payable balances between DPS and DPSCD, which are reported as "due from other governmental units" and "due to other governmental units" in the accompanying financial statements.

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

Reporting Entity

Effective January 2017, the School District became governed by an elected seven-member Board of Education. Prior to the installation of the board, the School District was managed by Judge Steven Rhodes who was appointed by Governor Snyder to function as the transition manager. The transition manager had the same powers as the previous emergency manager.

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

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

Special Item - Transactions within the control of management that are either unusual in nature or infrequent in occurrence are reported as special items. In conjunction with the new legislation which resulted in the creation of DPSCD, these transfers have been accounted for as a "Special Item" in the School District's government-wide and fund level financial statements.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

In previous fiscal years, the School District received revenue from the Wayne County Regional Education Services Agency (Wayne RESA), which was used to partially fund its center-based special education program. The School District recorded recipient revenue from such nonexchange transactions when all eligibility requirements had been met and in the same period the provider expenditures are recorded by Wayne RESA. Amounts initially received by the School District are subject to adjustment in future periods, and may decrease. Management has recorded a liability for amounts due back to Wayne RESA as of June 30, 2017.

Fiduciary fund statements are also reported using the accrual basis of accounting. The School District maintains a private purpose trust fund, the Scholarship Fund, to record private donations and scholarships awarded from these donations. The private purpose trust fund uses the economic resources measurement focus.

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

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund. The School District maintains separate subfunds within the General Fund to account for federal activities, adult education, and special education. The activity in the subfunds was minimal and represented any wind-down activity as the School District transitioned operations to DPSCD.

Bond Redemption Fund - The Bond Redemption Fund is a debt service fund used to record principal and interest payments related to bonds issued by the School District.

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 or committed to expenditure for specified purposes other than debt service or capital projects. The School District's only special revenue fund is the Food Service Fund. As of July 1, 2016, food service operations were transferred to DPSCD.

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

Capital Projects Funds - Capital projects funds are used to record bond proceeds or other revenue and the disbursement specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which is was created is accomplished. The School District's nonmajor capital projects funds include the 1986 School Building Site Improvement Bonds, the 1994 School Building Site Improvement Bonds Series V, and the 2009B Building Site Improvement Bonds. As of July 1, 2016, the 1994 School Building Site Improvement Bonds Series V fund was transferred to DPSCD. Both the 1986 School Building Site Improvement Bonds fund and the 2009B Building Site Improvement Bond fund were closed as of June 30, 2017.

Private Purpose Trust Fund - The private purpose trust fund is used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

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

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value except for the investments in the Michigan Liquid Asset Fund (MILAF), which are valued at amortized cost. Investment income is recorded in the fund for which the investment income account was established.

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Restricted Assets - The unspent property taxes levied in the Bond Redemption Fund are required to be set aside for future bond principal and interest. In addition, the portion of General Fund cash and investments which relates to General Fund interfund payables to other funds represents cash collected on behalf of those funds that have yet to be distributed to those funds; therefore, these amounts have been classified as restricted assets.

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

Long-term Obligations - In the government-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. Bond issuance costs are reported as debt service expenditures.

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District reports deferred outflows related to prior bond refundings.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenue, which arises only under a modified accrual basis of accounting, from long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

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

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

- Assigned: Intent to spend resources on specific purposes expressed by the legislation that created DPSCD. The balance of the emergency loan has been reflected as assigned fund balance, as the intention is for those funds to be used to service the debt in accordance with the plan approved by the Michigan Department of Treasury.
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and the special revenue fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Significant Budget Variances - As shown below, there were several budget variances, as follows: The final adopted budget for the General Fund did not reflect the liability for funding received in excess of eligible costs for the center-based special education program, which totaled approximately $1.6 million; debt service expenditures were higher than budgeted due to the timing of certain refinancing activities; payments to escrow agent and issuance of debt line items did not include the refinancing of Series 2016 Revenue Bonds as well as the movement of the State's retirement obligation out of the General Fund. Local source revenue was higher than anticipated due to the collection of Medicaid funds, property tax collections higher than originally budgeted, and other revenue associated with the splitting of the School District into the two school districts. Future local source revenue should only include property tax revenue and investment earnings.

	Budget	Actual
Support services - Pupil	$ 1,488,538	$ 3,208,798
Debt service	40,996,867	44,575,446
Payments to other public schools (ISDs and LEAs)	-	758,108
Payment to escrow agent	-	225,143,166
Local source revenue	58,100,000	74,097,588
Other financing sources - Issuance of debt	150,000,000	498,790,456

Fund Deficits - For the year ended June 30, 2017, the School District had unassigned deficit fund balances in the General Fund of $119,659,725, which is a violation of state law. This deficit will be corrected over time with the collection of property taxes, in accordance with the restructuring plan.

Note 3 - Deposits and Investments

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

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

Note 3 - Deposits and Investments (Continued)

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost (except that there is a one-day minimum investment period) and investments may not be redeemed for at least 14 calendar days with the exception of direct investments of funds distributed by the State of Michigan. Redemptions made prior to the end of the applicable 14-day period are subject to a penalty equal to 15 days' interest on the amount so redeemed.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The School District’s investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District’s deposits for custodial credit risk. At year end, the School District's deposit balance of $62,223,453 had $61,385,569 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

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

Note 3 - Deposits and Investments (Continued)

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

At year end, the maturities of investments and the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
MILAF+ Cash management Class	$ 2,374,911	N/A	AAAm/NR	S&P Moody's
MILAF+ Max Class	168	N/A	AAAm/NR	S&P Moody's
Total investments	$ 2,375,079			

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All investments held at year end are reported in the schedule above.

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

Note 4 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period. Governmental funds also recognize unearned revenue in connection with resources that have been received but not yet earned. Unavailable revenue of approximately $950,000 as of June 30, 2017 relates to 2017 property tax revenue not received within the period of availability. There is no unearned revenue as of June 30, 2017.

Note 5 - Capital Assets

In conjunction with the new legislation that created DPSCD, all capital assets and their related accumulated depreciation were transferred to DPSCD on July 1, 2016. Capital asset activity of the School District was as follows:

Governmental Activities	Balance July 1, 2016	Transfers to DPSCD	Balance June 30, 2017
Capital assets not being depreciated - Land	$ 55,649,591	$ (55,649,591)	$ -
Capital assets being depreciated:			
Land improvements	101,139,554	(101,139,554)	-
Buildings and improvements	1,804,032,534	(1,804,032,534)	-
Furniture and equipment	209,148,290	(209,148,290)	-
Vehicles	2,542,371	(2,542,371)	-
Subtotal	2,116,862,749	(2,116,862,749)	-
Accumulated depreciation:			
Land improvements	60,437,697	(60,437,697)	-
Buildings and improvements	604,165,986	(604,165,986)	-
Furniture and equipment	179,728,514	(179,728,514)	-
Vehicles	2,184,125	(2,184,125)	-
Subtotal	846,516,322	(846,516,322)	-
Net capital assets being depreciated	1,270,346,427	(1,270,346,427)	-
Net capital assets	$ 1,325,996,018	$ (1,325,996,018)	$ -

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From General Fund
Bond Redemption Fund	$ 1,827,191
Nonmajor governmental funds	2,483,973
Total	$ 4,311,164

Interfund receivables and payables occur in the course of ordinary operations and reflect short-term transactions between funds. All interfund balances are expected to be repaid within one year. There were no interfund transfers during the year ended June 30, 2017.

Note 7 - Long-term Debt

The School District issues bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. As a result of the legislation that created DPSCD, the capital assets acquired by the general obligation bonds were transferred to DPSCD, while the general obligation bonds are retained by the School District (DPS). These bonds are direct obligations and pledge the full faith and credit of the School District. The School District has issued notes payable to refinance short-term state aid anticipation notes into long-term payables. Other long-term obligations include employee severance plan, the State's retirement obligation, and amounts due to the School Loan Revolving Fund. All other obligations were transferred to DPSCD on July 1, 2016. The transfer of those obligations are presented as reductions to the obligation in the table below.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
School building and site improvement bonds:					
Series 1998C	$ 44,555,000	$ -	$ 4,000,000	$ 40,555,000	$ 4,210,000
Series 2001A	183,695,000	-	-	183,695,000	-
Series 2002A	35,785,000	-	-	35,785,000	-
Series 2005A	226,800,000	-	-	226,800,000	-
Series 2009A	69,325,000	-	6,325,000	63,000,000	7,055,000
Series 2009B	186,150,000	-	1,600,000	184,550,000	1,700,000
Series 2010A	136,335,000	-	6,910,000	129,425,000	7,895,000
Series 2010B	49,630,000	-	-	49,630,000	-
Series 2012A	296,330,000	-	8,595,000	287,735,000	8,725,000
Series 2015A	169,975,000	-	29,105,000	140,870,000	29,410,000
Total school building and site improvement bonds	1,398,580,000	-	56,535,000	1,342,045,000	58,995,000
Unamortized bond premium	64,869,351	-	8,590,562	56,278,789	7,748,350
Notes payable:					
Series 2011	140,626,135	-	140,626,135	-	-
Series 2012	77,110,000	-	77,110,000	-	-
Series 2016D-1	-	149,240,000	19,745,000	129,495,000	19,630,000
Series 2016D-2	-	77,140,000	10,255,000	66,885,000	10,110,000
Series 2016 Emergency Loan	-	150,000,000	-	150,000,000	-
Other liabilities:					
Compensated absences payable	4,686,945	-	4,686,945	-	-
Employee severance plan	6,402,319	-	6,098,419	303,900	303,900
Workers' compensation and health insurance claims	18,776,930	-	18,776,930	-	-
Legal and other	4,035,364	-	4,035,364	-	-
School Loan Revolving Fund	246,017,604	43,265,991	-	289,283,595	-
Retirement System obligation	-	122,410,456	2,000,000	120,410,456	2,000,000
Total governmental activities	$ 1,961,104,648	$ 542,056,447	$ 348,459,355	$ 2,154,701,740	$ 98,787,250

Note 7 - Long-term Debt (Continued)

At June 30, 2017, the School District had deferred outflows of $22,035,587 related to deferred benefit on bond refundings.

Annual debt service requirements to maturity for long-term debt are as follows:

	School Building and Site Improvement Bonds					Notes Payable			ORS Obligation		
Years Ending June 30	Principal	Interest	Interest Subsidy	Net Interest	Total - Net	Principal	Interest	Total	Principal	Interest	Total
2018	$ 58,995,000	$ 79,772,396	$ (13,706,631)	$ 66,065,765	$ 125,060,765	$ 29,740,000	$ 9,181,205	$ 38,921,205	$ 2,000,000	$ -	$ 2,000,000
2019	61,525,000	77,538,336	(13,672,148)	63,866,188	125,391,188	30,880,000	8,046,075	38,926,075	12,200,000	-	12,200,000
2020	64,285,000	75,080,276	(13,635,051)	61,445,225	125,730,225	32,050,000	6,873,877	38,923,877	24,800,000	-	24,800,000
2021	67,195,000	72,467,282	(13,587,295)	58,879,987	126,074,987	33,290,000	5,638,695	38,928,695	25,400,000	-	25,400,000
2022	70,135,000	69,695,540	(13,529,483)	56,166,057	126,301,057	34,550,000	4,373,598	38,923,598	26,000,000	-	26,000,000
2023-2027	407,375,000	295,890,018	(69,698,058)	226,191,960	633,566,960	185,870,000	8,177,011	194,047,011	30,010,456	59,000,000	89,010,456
2028-2032	436,500,000	151,315,400	(42,267,637)	109,047,763	545,547,763	-	-	-	-	-	-
2033-2037	125,240,000	45,568,812	(15,622,970)	29,945,842	155,185,842	-	-	-	-	-	-
2038-2042	50,795,000	6,182,948	(2,164,031)	4,018,917	54,813,917	-	-	-	-	-	-
Total	$ 1,342,045,000	$ 873,511,008	$ (197,883,304)	$ 675,627,704	$ 2,017,672,704	$ 346,380,000	$ 42,290,461	$ 388,670,461	$ 120,410,456	$ 59,000,000	$ 179,410,456

Governmental Activities

General obligation bonds consist of the following:

$84,855,000 - 1998 Series C Refunding Bonds due in annual installments of $4,210,000 to $6,025,000 through May 2025; interest at 5.25 percent	$ 40,555,000
$438,365,000 - 2001 Series A Building & Site Bonds due in annual installments of $0 to $43,310,000 through May 2029; interest at 6.00 percent	183,695,000
$388,995,000 - 2002 Series A Building & Site Bonds due in annual installments of $0 to $12,630,000 through May 2021; interest at 6.00 percent	35,785,000
$500,000,000 - 2005 Series A Refunding Bonds due in annual installments of $0 to $69,165,000 through May 2032; interest at 5.25 percent	226,800,000
$90,000,000 - 2009 Series A Qualified School Construction Bonds due in annual installments of $7,055,000 to $9,745,000 through May 2025; interest at 3.19 percent	63,000,000
$200,000,000 - 2009 Series B Build America Bonds due in annual installments of $1,700,000 to $18,625,000 through May 2039; interest from 6.25 to 7.75 percent with a federal interest subsidy of 27.70 percent of the annual interest due	184,550,000
$160,910,000 - 2010 Series A Qualified School Construction Bonds due in annual installments of $7,620,000 to $15,280,000 through May 2029; interest at 6.65 percent	129,425,000
$49,630,000 - 2010 Series B Build America Bonds due in annual installments of $0 to $4,515,000 through May 2040; interest at 6.85 percent with a federal interest subsidy of 27.70 percent of the annual interest due	49,630,000
$337,735,000 - 2012 Series A Refunding Bonds due in annual installments of $8,725,000 to $27,450,000 through May 2033; interest at 5.00 percent	287,735,000
$192,580,000 - 2015 Series A Refunding Bonds due in annual installments of $11,520,000 to $29,410,000 through May 2025; interest at 5.00 percent	140,870,000
Total bonded debt	$ 1,342,045,000

Note 7 - Long-term Debt (Continued)

The 2009 Series A and 2010 Series A bonds require that annual payments be paid to a trustee, which holds the proceeds in trust for full payment of the full amount of the bonds at maturity. The bonds are considered defeased at the time the payments are made to the trust.

During the year ended June 30, 2017, the Series 2011 and 2012 notes payable were refunded. Notes payable consist of the following at June 30, 2017:

				Remaining to Maturity	
Description	Original Amount	Due Date	Interest Rate	Interest	Principal
Series 2016D-1	$ 149,240,000	03/31/2023	3.90%	$ 17,251,104	$ 129,495,000
Series 2016D-2	77,140,000	03/31/2023	3.55%	8,127,256	66,885,000
Series 2016 Emergency Note	150,000,000	09/01/2026	1.31%	16,912,100	150,000,000
Total	$ 376,380,000			$ 42,290,460	$ 346,380,000

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. The interest rate charged to the School District for the year was 3.13 percent through June 30, 2017. Repayment is required when the millage rate necessary to cover the annual bonded debt service requirements falls below 7.0 mills. As of June 30, 2017, the School District did not have a current balance due as a result of this requirement. The School District is required to levy mills and repay the State any excess of the amount levied over the bonded debt service requirement. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule. Changes in principal and interest were as follows:

	Principal	Interest	Total
Beginning balance	$ 224,491,942	$ 21,525,662	$ 246,017,604
Additions	35,230,987	8,035,004	43,265,991
Ending balance	$ 259,722,929	$ 29,560,666	$ 289,283,595

Note 7 - Long-term Debt (Continued)

Termination Benefits - Employee Severance Plans - The Employee Severance Plan (ESP) was available to actively working employees with Detroit Public Schools represented by the Detroit Federation of Teachers (DFT), excluding hourly and substitutes, who (1) had 10 or more years of service with the School District as of June 30, 2013 or (2) were earning a minimum of $60,000 and had a minimum of five years of service with the School District as of June 30, 2013. The ESP was also available to employees represented by AFSCME, Local 345, OSAS, OSAS Related, DAEOE, DAEOE Related, Police Officers Association of Michigan (POAM), POAM Related, Police Officers Labor Council, NISP, paraprofessionals, and nonrepresented employees including principals, assistant principals, and executive staff who had 10 or more years of service with the School District as of June 30, 2013. However, the ESP was not available to any School District employee who notified the School District in writing on or before May 1, 2013 that he/she would be resigning or retiring from DPS for the 2012-2013 school year, was a substitute, temporary or contracted employee, was laid off or terminated, or who had previously retired and returned to the School District. A similar plan was also made available to employees represented by DFT meeting the same requirements as of June 30, 2014 and 2015. This plan was not offered in fiscal year 2017.

The School District is paying a severance incentive payment to any eligible employee who participated in the ESP, provided that the employee has fulfilled his/her contractual obligations through his/her exit date. Eligible employees electing the ESP were required to select a separation of service date of June 30, 2013, or a separation date of June 30, 2014 or July 31, 2014 (for qualified DFT members assigned to summer school or extended year programs) for the ESP offered in 2014. The School District reserved the right to change the separation date of a participant to an alternate date based on operational needs as determined solely by the School District; however, the alternate date shall not be later than June 30, 2015 or July 31, 2015. If the School District exercised this right, the alternate date selected by the School District became the separation of service date of the employee. An employee retained through an alternate date selected by the School District received the same ESP benefit dollar amount he/she would have received had the School District not changed the exit date, but the ESP benefit payments started not later than four months following his/her actual exit date. Failure to fulfill contractual obligations through the employee's exit date will result in forfeiture of the ESP benefits. Death or disability is not considered a lack of fulfillment of contractual obligations and does not preclude the employee from receiving ESP benefits.

Following separation from service with the School District, the employee is free to accept full- or part-time employment with another employer, perform substitute services, or other employment with the School District at the School District's sole discretion.

Note 7 - Long-term Debt (Continued)

Participants receive payment of the total plan benefit over a period of five years, divided into 60 equal monthly payments paid to an annuity contract or custodial account that is designed to meet the tax-qualification requirements of Internal Revenue Code Section 403(b).

Revenue Bond Refundings - On September 29, 2016, the Michigan Finance Authority issued $149,240,000 Series 2016 D-1 and $77,140,000 Series 2016 D-2 Revenue Bonds, maturing on March 31, 2023, bearing interest at a rate of 3.90 percent and 3.55 percent, respectively. The proceeds from these bonds were used to current refund and defease the outstanding Series 2011 and 2012 Michigan Finance Authority Revenue Bonds, which were retained as obligations of DPS. The refunding resulted in an economic gain of approximately $3,400,000.

State Retirement Obligation - At June 30, 2017, the School District had a principal balance due to the Michigan Office of Retirement Services (ORS) of approximately $120,410,000, consisting of delinquent employer contributions for both retirement and postemployment benefits. During the year, the School District entered into a payment agreement with ORS, allowing the School District to pay the amounts due over a period not to exceed 12 years, with interest and fees assessed at 6 percent and 2 percent, respectively, on the outstanding balance. As a result of the School District entering into a payment agreement with ORS, the School District reclassified this obligation to long-term debt in 2017, and removed it from the General Fund. Additional accrued interest of approximately $12.7 million is included in the statement of net position related to this obligation.

Note 8 - State Aid Anticipation Notes

The proceeds from the sale of these notes provide the School District with funds to meet its cash flow requirements for the current fiscal year. The School District's state aid revenue is pledged to repay this obligation, and amounts are set aside from state aid revenue due the School District sufficient to retire this obligation at maturity. During the year ended June 30, 2017, the School District retired its remaining state aid anticipation note obligation of $51,257,769.

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, and errors and omissions. The School District has purchased commercial insurance for these exposures.

The School District purchased commercial insurance for medical claims and was self-insured for workers' compensation, dental, vision, and other claims, litigation, and assessments. Coverage related to these exposures, as well as the obligations related to them, were transferred to DPSCD effective July 1, 2016.

Note 9 - Risk Management (Continued)

A reconciliation of the School District's self-insured claims liability at June 30, 2017 and 2016 is as follows:

	2017	2016
Estimated liability - Beginning of year	$ 18,776,930	$ 18,167,069
Claims incurred, including changes in estimate	-	9,744,268
Payments on claims	-	(9,134,407)
Claims transferred to DPSCD	(18,776,930)	-
Unpaid claims - End of year	$ -	$ 18,776,930

Note 10 - Michigan Public School Employees' Retirement System

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

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

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

Net Pension Liability - Effective July 1, 2016, the net pension liability, which totaled $898,143,083, was transferred to DPSCD as a result of the legislative changes which transferred all of the School District's employees to DPSCD. As a result, the School District did not report a liability for its proportionate share of the net pension liability as this liability is now reported on DPSCD's financial statements.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Postemployment Benefits Other Than Pensions (OPEB) - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate.

As a result of the legislative changes which transferred all of the School District's employees to DPSCD, the School District did not have any required contributions for the year ended June 30, 2017. The School District’s required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016 and 2015 were approximately $16.7 million and $17.3 million, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) stabilization rate was considered a contribution to the retiree healthcare plan.

Note 11 - Split Accounting

In conjunction with the new legislation which resulted in the creation of DPSCD, certain assets and liabilities from DPS transferred to DPSCD on July 1, 2016, based on discussion and negotiation between all parties. These transfers have been accounted for as a "special item" in the School District's government-wide and fund level financial statements. Below is a summary of the assets and liabilities that transferred from DPS to DPSCD:

	Transfers to DPSCD
General Fund transfers:	
Land contract receivable	$ (2,511,628)
Land contract unavailable revenue	2,511,628
Cell tower deferred revenue	3,617,600
State grant unearned revenue	2,943,417
Transfer of interfund payables	4,501,812
Transfer of DPS cash to General Fund	(4,458,222)
Transfer of emergency loan and excess cash to DPSCD, as approved by the State	(40,709,498)
Transfer of cash to fund DPSCD internal service funds, as approved by the State	(48,438,893)
Total General Fund transfers	$ (82,543,784)
Nonmajor fund transfers:	
Transfer of Food Service Fund balance	$ (8,691,423)
Transfer of 1994 Capital Projects Fund balance	(2,210,677)
Total nonmajor fund transfers	$ (10,902,100)

Also included in the transfer from DPS to DPSCD are all capital assets totaling $1,325,996,018 on a net basis, which were recorded on the government-wide statements only, and certain long-term obligations (TIP, legal reserve, workers' compensation, and other insurance activity) totaling $39,608,688. Under the provisions of GASB Statement No. 68, the net pension liability of DPS also transferred to DPSCD in the amount of $898,143,083, which impacts the government-wide only statements. This amount represents the net pension liability and related deferred inflows and outflows of the pension plan that existed at July 1, 2016. The sum of these items, along with the transfers listed above, total $481,690,131 and are reflected as the special item in the statement of activities. In addition, the assets and liabilities related to the private purpose trust fund, which netted to $500,350, were transferred to DPSCD on July 1, 2016. Finally, the Agency Fund assets and liabilities, both totaling $1,433,014, were transferred to DPSCD on July 1, 2016.

Note 12 - Tax Abatements

The School District receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) and Brownfield Redevelopment Agreements granted by cities, villages, and townships within the boundaries of the School District. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2017, the School District's property tax revenue was reduced by $28,635,612 under these programs.

The School District was not reimbursed for lost revenue caused by tax abatements and there are no abatements granted by the School District.

Note 13 - Subsequent Events

On September 7, 2017, the Michigan Finance Authority issued $291,755,000 Series 2017C Revenue Bonds, maturing on May 1, 2024, bearing interest at a rate of 2.91 percent. The proceeds from these bonds were used to refund and defease the outstanding School Loan Revolving Fund obligation. The defeasance was completed pursuant to terms as outlined by the State of Michigan and resulted in a reduction of debt service payments of approximately $16,600,000 over the life of the loan and resulted in an economic gain of approximately $11,950,000. All issuance costs related to the defeasance of this debt were paid by the State of Michigan.

Required Supplemental Information

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	$ 66,000,000	$ 58,100,000	$ 74,097,588	$ 15,997,588
State sources	-	4,339,880	4,908,505	568,625
Federal sources	-	35,160,478	34,501,056	(659,422)
Total revenue	66,000,000	97,600,358	113,507,149	15,906,791
Expenditures				
Current:				
Instruction	-	8,070,275	8,244,089	173,814
Support services:				
Pupil	-	1,488,538	3,208,798	1,720,260
Instructional staff	-	1,436,258	1,334,867	(101,391)
General administration	300,000	341,120	102,505	(238,615)
School administration	-	262,366	160,135	(102,231)
Business office	700,000	3,028,042	1,239,992	(1,788,050)
Operations and maintenance	-	7,746,640	2,100,577	(5,646,063)
Pupil transportation services	-	2,308,425	555,322	(1,753,103)
Central	-	3,032,933	1,291,085	(1,741,848)
Other	-	86,750	215,206	128,456
Total support services	1,000,000	19,731,072	10,208,487	(9,522,585)
Community services	-	181,442	66,605	(114,837)
Facilities acquisitions and improvement	-	2,417	-	(2,417)
Debt service	65,000,000	40,996,867	44,575,446	3,578,579
Payments to other public schools (ISDs, LEAs)	(2,000)	-	756,108	756,108
Total expenditures	65,998,000	68,982,073	63,850,735	(5,131,338)
Other Financing (Uses) Sources				
Payment to escrow agent	-	-	(225,143,166)	(225,143,166)
Face value of debt issued	150,000,000	150,000,000	498,790,456	348,790,456
Total other financing sources	150,000,000	150,000,000	273,647,290	123,647,290
Special Item Including Transition Funding to DPSCD	(25,000,000)	(93,593,388)	(82,543,784)	11,049,604
Net Change in Fund Balance	125,002,000	85,024,897	240,759,920	155,735,023
Fund Balance - Beginning of year	(251,587,254)	(251,587,254)	(251,587,254)	-
Fund Balance - End of year	**$(126,585,254)**	**$(166,562,357)**	**$ (10,827,334)**	**$ 155,735,023**

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

	2016	2015	2014
School District's proportion of the net pension liability	- %	3.53370 %	3.96221 %
School District's proportionate share of the net pension liability	$ -	$ 863,027,538	$ 872,735,996
School District's covered employee payroll	-	294,814,730	330,958,130
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	- %	292.74 %	263.70 %
Plan fiduciary net position as a percentage of the total pension liability	- %	62.92 %	66.20 %

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

	2017	2016	2015
Statutorily required contribution	$ -	$ 81,042,568	$ 98,482,599
Contributions in relation to the statutorily required contribution	-	-	98,482,599
School District's covered employee payroll	-	288,380,872	314,790,059
Contributions as a percentage of covered employee payroll	- %	- %	31.29 %

Effective July 1, 2016, legislative changes transferred all of the School District's employees to DPSCD. As a result, the net pension liability was transferred to DPSCD and the School District no longer reports a liability for its proportionate share of the net pension liability as this liability is now reported on DPSCD's financial statements. In addition, the School District did not have any required contributions to the plan for the year ended June 30, 2017.

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

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

Contributions in Relation to the Statutorily Required Contribution - The School District was previously delinquent in its required contribution payments. During the year ended June 30, 2017, the School District entered into a long-term payment arrangement with the Office of Retirement Services, which allows the outstanding balance to be paid over a period not to exceed 12 years. Although the School District made payments to the plan throughout the years ended June 30, 2017, 2016, and 2015, it is assumed that these were applied toward delinquent contributions related to previous years. Since payments are first applied to amounts in arrears, the payments made in relation to statutorily required contributions are reported as $0. Subsequent to the transfer of the net pension liability to DPSCD, all future statutorily required contributions are the responsibility of DPSCD.

Other Supplemental Information

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

	Special Revenue Fund	Capital Projects Fund				
	Food Service Fund	1986 School Building Site Improvement Bonds	1994 School Building Site Improvement Bonds Series V	2009B Building Site Improvement Bonds Fund	Total	Total Nonmajor Governmental Funds
Assets - Due from other funds	**$ 2,483,973**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,483,973**
Liabilities - Due to other governmental units	**$ 2,483,973**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,483,973**

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

	Special Revenue Funds	Capital Projects Fund				
	Food Service Fund	1986 School Building Site Improvement Bonds	1994 School Building Site Improvement Bonds Series V	2009B Building Site Improvement Bonds Fund	Total	Total Nonmajor Governmental Funds
Revenue - Local sources	$ -	$ -	$ 21,032	$ 39,385	$ 60,417	$ 60,417
Expenditures - Capital outlay	-	28	-	-	28	28
Excess of Revenue (Under) Over Expenditures	-	(28)	21,032	39,385	60,389	60,389
Special Item	(8,691,423)	-	(2,210,677)	-	(2,210,677)	(10,902,100)
Net Change in Fund Balances	(8,691,423)	(28)	(2,189,645)	39,385	(2,150,288)	(10,841,711)
Fund Balances - Beginning of year	8,691,423	28	2,189,645	(39,385)	2,150,288	10,841,711
Fund Balances - End of year	$ -	$ -	$ -	$ -	$ -	$ -

June 30	Series 1998C Principal	Series 2001A Principal	Series 2002A Principal	Series 2005A Principal	Series 2009A Principal
2018	$ 4,210,000	$ -	$ -	$ -	$ 7,055,000
2019	4,430,000	-	11,240,000	-	7,700,000
2020	4,660,000	-	11,915,000	-	7,700,000
2021	4,905,000	-	12,630,000	-	7,700,000
2022	5,165,000	14,320,000	-	-	7,700,000
2023	5,440,000	15,180,000	-	-	7,700,000
2024	5,720,000	16,095,000	-	-	7,700,000
2025	6,025,000	17,055,000	-	-	9,745,000
2026	-	24,420,000	-	16,145,000	-
2027	-	25,885,000	-	16,990,000	-
2028	-	27,430,000	-	17,890,000	-
2029	-	43,310,000	-	18,825,000	-
2030	-	-	-	65,715,000	-
2031	-	-	-	69,165,000	-
2032	-	-	-	22,070,000	-
2033	-	-	-	-	-
2034	-	-	-	-	-
2035	-	-	-	-	-
2036	-	-	-	-	-
2037	-	-	-	-	-
2038	-	-	-	-	-
2039	-	-	-	-	-
2040	-	-	-	-	-
Total	**$ 40,555,000**	**$ 183,695,000**	**$ 35,785,000**	**$ 226,800,000**	**$ 63,000,000**
Principal payments due	May	May	May	May	May
Interest payments due	May and November	May and November	May and November	May and November	May and November
Interest rate	5.25%	6.00%	6.00%	5.25%	3.19%
Original issue	**$ 84,855,000**	**$ 438,365,000**	**$ 388,995,000**	**$ 500,000,000**	**$ 90,000,000**

Series 2009B Principal	Series 2010A Principal	Series 2010B Principal	Series 2012A Principal	Series 2015A Principal	Total
$ 1,700,000	$ 7,895,000	$ -	$ 8,725,000	$ 29,410,000	$ 58,995,000
1,800,000	7,620,000	-	9,100,000	19,635,000	61,525,000
1,900,000	7,985,000	-	9,500,000	20,625,000	64,285,000
2,300,000	8,095,000	-	9,910,000	21,655,000	67,195,000
2,400,000	8,525,000	-	20,505,000	11,520,000	70,135,000
2,500,000	8,960,000	-	21,465,000	12,105,000	73,350,000
2,600,000	9,415,000	-	22,480,000	12,645,000	76,655,000
2,700,000	9,885,000	-	23,655,000	13,275,000	82,340,000
3,150,000	16,850,000	-	24,905,000	-	85,470,000
6,275,000	14,265,000	-	26,145,000	-	89,560,000
6,525,000	14,650,000	-	27,450,000	-	93,945,000
6,625,000	15,280,000	-	14,520,000	-	98,560,000
6,925,000	-	4,510,000	16,095,000	-	93,245,000
6,925,000	-	4,510,000	16,900,000	-	97,500,000
8,925,000	-	4,510,000	17,745,000	-	53,250,000
9,550,000	-	4,510,000	18,635,000	-	32,695,000
18,625,000	-	4,510,000	-	-	23,135,000
18,625,000	-	4,510,000	-	-	23,135,000
18,625,000	-	4,510,000	-	-	23,135,000
18,625,000	-	4,515,000	-	-	23,140,000
18,625,000	-	4,515,000	-	-	23,140,000
18,625,000	-	4,515,000	-	-	23,140,000
-	-	4,515,000	-	-	4,515,000
$ 184,550,000	**$ 129,425,000**	**$ 49,630,000**	**$ 287,735,000**	**$ 140,870,000**	**$1,342,045,000**
May	May	May	May	May	
May and November	May and November	May and November	May and November	May and November	
6.25% - 7.75%	6.65%	6.85%	5.00%	5.00%	
$ 200,000,000	**$ 160,910,000**	**$ 49,630,000**	**$ 337,735,000**	**$ 192,580,000**	**$2,443,070,000**

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Program Title/Project Number/Subrecipient Name	Grant/Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2016	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2017	Current Year Cash Transferred to Subrecipient
Clusters:										
Child Nutrition Cluster - U.S. Department of Agriculture -										
Passed through the Michigan Department of Education:										
Cash Assistance:										
National School Lunch Program 2015-16	161960	10.555	$ 21,655,153	$ 21,655,153	$ 1,645,182	$ -	$ 1,645,182	$ -	$ -	$ -
National School Breakfast Program 2015-16	161970	10.553	11,100,799	11,100,799	848,947	-	848,947	-	-	-
Summer Food Service Program 2015 - 2016	160900	10.559	15,242	15,242	15,242	-	15,242	-	-	-
Summer Food Service Program 2015 - 2016	161900	10.559	147,791	147,772	147,772	19	147,791	-	-	-
Summer Food Service Program Subtotal		10.559	163,033	163,014	163,014	19	163,033	-	-	-
Total Child Nutrition Cluster			32,918,985	32,918,966	2,657,143	19	2,657,162	-	-	-
Special Education Cluster - U.S. Department of Education -										
Passed through the Wayne County Regional Educational Service Agency:										
IDEA Flowthrough:										
IDEA Flowthrough 14/15	N/A	84.027	14,490,121	13,857,609	2,070,594	(481,352)	1,589,242	-	-	-
IDEA Flowthrough 15/16	N/A	84.027	14,569,531	13,053,866	6,123,026	-	6,123,026	-	-	-
IDEA Flowthrough Subtotal		84.027	29,059,652	26,911,475	8,193,620	(481,352)	7,712,268	-	-	-
IDEA Preschool Incentive:										
IDEA Preschool 1415	N/A	84.173	542,511	542,511	159,170	(33,153)	126,017	-	-	-
IDEA Preschool 1516	N/A	84.173	596,448	545,082	232,759	-	232,759	-	-	-
IDEA Preschool Incentive Subtotal		84.173	1,138,959	1,087,593	391,929	(33,153)	358,776	-	-	-
Total Special Education Cluster			30,198,611	27,999,068	8,585,549	(514,505)	8,071,044	-	-	-
Workforce Investment Act Cluster - U.S. Department of Labor -										
Passed through the Detroit Employment Solutions Corporation										
Workforce Investment Act - WIA Adult Program 2016	2016-16	17.258	150,000	134,508	134,508	-	134,508	-	-	-
Medicaid Cluster - U.S. Department of Health and Human Services										
Passed through the Michigan Department of Community Health -										
Medicaid Outreach - 2015-2016	93.778	1516	80,327	80,327	80,327	-	80,327	-	-	-

Program Title/Project Number/Subrecipient Name	Grant/Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2016	Adjustments and Transfers	Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2017	Current Year Cash Transferred to Subrecipient
Other federal awards:										
U.S. Department of Education -										
Passed through the Michigan Department of Education:										
Formula School Improvement Grant:										
Project number 131761 1415	131761	84.377	$ 7,689,873	$ 5,117,921	$ 44,468	$ -	$ 44,468	$ -	$ -	$ -
Project number 131762 1516	131762	84.377	5,530,400	2,860,617	1,536,859	-	1,536,859	-	-	-
Total Formula School Improvement		84.377	13,220,273	7,978,538	1,581,327	-	1,581,327	-	-	-
Title I Part A:										
Title I Part A 1415	151530	84.010	125,473,959	116,702,068	4,177,471	-	4,177,471	-	-	-
Title I Part A 1415	151700	84.010	315,129	259,963	6,618	-	6,618	-	-	-
Title I Part A 1516	161530	84.010	115,144,103	101,044,524	39,462,799	(143,996)	39,318,803	-	-	-
Title I Part A 1516	161700	84.010	236,771	159,698	71,831	-	71,831	-	-	-
Total Title I Part A		84.010	241,169,962	218,166,253	43,718,719	(143,996)	43,574,723	-	-	-
Title II Part A - Improving Teacher Quality:										
Title II Part A 1415	150520	84.367	30,833,214	18,553,131	687,751	-	687,751	-	-	-
Title II Part A 1516	160520	84.367	28,846,263	17,904,235	8,647,596	(942)	8,646,654	-	-	-
Total Title II Part A		84.367	59,679,477	36,457,366	9,335,347	(942)	9,334,405	-	-	-
Title III - Limited English:										
Title III 1415	150580	84.365	1,285,849	834,423	36,779	-	36,779	-	-	
Title III 1516	160580	84.365	1,155,278	582,958	240,315	-	240,315	-	-	-
Total Title III Limited English		84.365	2,441,127	1,417,381	277,094	-	277,094	-	-	-
21st Century Community Learning Center:										
Project number 152110 G12019	152110 G12019	84.287	675,000	662,905	15,671	-	15,671	-	-	-
Project number 152110 H13023	152110 H13023	84.287	675,000	661,461	11,204	-	11,204	-	-	-
Project number 152110 H13024	152110 H13024	84.287	675,000	672,671	19,108	-	19,108	-	-	-
Project number 152110 H13025	152110 H13025	84.287	675,000	675,000	3,472	-	3,472	-	-	-
Project number 162110 G12019	162110 G12019	84.287	675,000	571,328	338,369	-	338,369	-	-	-
Project number 162110 H13023	162110 H13023	84.287	675,000	599,042	362,168	-	362,168	-	-	-
Project number 162110 H13024	162110 H13024	84.287	675,000	549,105	338,701	-	338,701	-	-	-
Project number 162110 H13025	162110 H13025	84.287	675,000	622,332	394,367	-	394,367	-	-	-
Total 21st Century Community Learning Center		84.287	5,400,000	5,013,844	1,483,060	-	1,483,060	-	-	-
Vocational Education - Basic Grants to States (Perkins):										
Vocational Education 1415	153520	84.048	3,000,819	2,669,360	49,166	-	49,166	-	-	-
Vocational Education 1516	163520	84.048	2,781,217	1,966,586	872,289	-	872,289	-	-	-
Total Vocational Education		84.048	5,782,036	4,635,946	921,455	-	921,455	-	-	-
Total U.S. Department of Educaction passed through the Michigan Department of Education			327,692,875	273,669,328	57,317,002	(144,938)	57,172,064	-	-	-
U.S. Department of Education - Direct Awards:										
Climate Transformation Project -										
Climate Transformation Project 1516	S184G140376 - 16	84.184G	699,797	184,959	49,425	-	49,425	-	-	-
Character Awareness Responsibility & Engagement -										
Character Awareness Responsibility & Engagement 1415	S215E150571	84.215E	231,333	29,722	29,722	-	29,722	-	-	-
Total noncluster U.S. Department of Education			328,624,005	273,884,009	57,396,149	(144,938)	57,251,211	-	-	-

Program Title/Project Number/Subrecipient Name	Grant/Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2016	Adjustments and Transfers	Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2017	Current Year Cash Transferred to Subrecipient
U.S. Department of Agriculture -										
Passed through the Michigan Department of Education:										
Child Care Food Program:										
Food Program 1516	161920	10.558	$ 2,250,145	$ 2,250,145	$ 431,820	$ -	$ 431,820	$ -	$ -	$ -
Food Program 1516	162010	10.558	174,074	174,074	33,406	-	33,406	-	-	-
Total Child Care Food Program		10.558	2,424,219	2,424,219	465,226	-	465,226	-	-	-
Fresh Fruit and Vegetables Program -										
Fresh Fruit and Vegetables 1516	160950	10.582	1,833,470	1,833,470	108,398	-	108,398	-	-	-
Food Equipment Grant -										
Food Equipment Grant 1415	141991	10.579	175,367	175,367	175,367	-	175,367	-	-	-
Total noncluster U.S. Department of Agriculture			4,433,056	4,433,056	748,991	-	748,991	-	-	-
U.S. Department of Health and Human Services - Direct Award -										
HRRTEP - HRRTEP: 15/16	004171PS14	93.938	28,445	23,206	23,206	-	23,206	-	-	-
Total federal awards			$ 396,433,429	$ 339,473,140	$ 69,625,873	$ (659,424)	$ 68,966,449	$ -	$ -	$ -

See Notes to Schedule of Expenditures of Federal Awards.

Note 1 - Basis of Presentation

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

Detroit Public Schools Community District was established on July 1, 2016 as a result of Michigan legislature approving bills to restructure Detroit Public Schools and provide additional funding. The new bills, now known as Public Acts 192-197, split Detroit Public Schools into two entities. Detroit Public Schools will continue to exist for the purpose of collecting millages and other taxes in order to pay off existing debt. The new entity created by these Public Acts is Detroit Public Schools Community District (DPSCD). Detroit Public Schools Community District oversees the daily operations of the schools and student education. As the School District is no longer responsible for school operations or grants management, the Schedule presented does not contain any expenditures for the year ended June 30, 2017. The Schedule is being presented for informational purposes to show the final adjustments to and settlement of federal grant program accrued revenue that was collected during the year ended June 30, 2017.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The School District has elected not to use the 10 percent *de minimus* indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Grant Auditor Report

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Note 4 - Adjustments and Transfers

During the year ended June 30, 2017, there were transfers and adjustments related to prior year grant expenditures.

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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 Auditor's Report

To Management and the Board of Education
Detroit Public Schools

We have audited, 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, the financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Detroit Public Schools (the "School District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated January 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Detroit Public Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District'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 School District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2017-001, 2017-002, and 2017-003 to be material weaknesses.

To Management and the Board of Education
Detroit Public Schools

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Detroit Public Schools' 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-001.

Detroit Public Schools' Responses to Findings

Detroit Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Detroit Public Schools' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

January 31, 2018

Reference Number	Finding
2017-001	**Finding Type** - Material weakness and material noncompliance with laws and regulations

Criteria - Section 15 of the State of Michigan Uniform Budgeting and Accounting Act (MCL 141.435) states that total estimated expenditures in the General Fund budget, including an accrued deficit, shall not exceed estimated revenue. In addition, the recommended budget presented to the Board of Education shall include estimated expenditures and revenue of the School District, as well as an estimate of the amount of surplus or deficit expected in the fiscal year for which the budget is being adopted or amended.

Condition - The School District has been in a General Fund deficit fund balance position for several years and has adopted deficit budgets. In addition, material transactions were not reflected in the final amended budget for the fiscal year ended June 30, 2017. This condition existed during the School District's prior fiscal year; see Finding 2016-001 within the summary schedule of prior audit findings.

Context - The School District is not in compliance with the State of Michigan Uniform Budget and Accounting Act due to its General Fund deficit at June 30, 2017. In addition, the absence of material transactions from budget recommendations is a violation of the act.

Cause - The School District's cumulative expenditures are in excess of its cumulative revenue.

Effect - The General Fund continued to have a deficit at June 30, 2017.

Recommendation - The School District should continue to review budgeting policies and procedures to ensure compliance with the Michigan Uniform Budgeting and Accounting Act. Additionally, the School District should continue to enact changes to increase revenue and reduce expenditures in order to eliminate the deficit.

Views of Responsible Officials and Planned Corrective Actions - The School District agrees with this finding. The School District has an agreement with the State Treasury’s office to eliminate this deficit through a multi-year financing agreement which will be paid by 2027. The operating millage from the property taxes levied from the citizens of Detroit (which is 18 mills through tax year 2022) will be used to service the debt.

Reference Number	Finding
2017-002	**Finding Type** - Material weakness

Criteria - Per the Michigan Public School Accounting Manual (Bulletin 1022), a school district's financial record system should be adequate to provide financial and related operational information for all interested parties. The adequacy of the accounting systems depends on whether both current and historical information is available for decision making purposes. The accounting system should be designed for accuracy, maintain effective accounting procedures and internal controls, and allow for valid comparisons of monthly or yearly operations in different time periods. The School District has overall financial responsibility to properly record transactions and provide accurate interim financial reporting.

Condition - General ledger balances were inaccurate during the fiscal year and the School District's books were not closed and reconciled in a timely manner. This condition existed during the School District's prior fiscal year; see Finding 2016-004 within the summary schedule of prior audit findings.

Context - The general ledger balances were not accurate throughout the year due to transaction entries not being posted as necessary.

Cause - The School District did not have the necessary resources to properly record transaction entries throughout the year or during the year end closing process.

Effect - The need for a significant number of adjustments prevented a timely closing of the books and records at year end. Also, financial information provided to management and the Board of Education in internal, interim financial reports throughout the year may have been misstated.

Recommendation - General ledger accounts should be reconciled on a timely basis, and transactions should be recorded in a timely and accurate manner in order to minimize the risk of asset misappropriation and to avoid the need for significant adjustments during the year-end closing process.

Reference Number	Finding
2017-002 (Con't)	**Views of Responsible Officials and Planned Corrective Actions** - The School District concurs with this finding. The finance department staff was significantly reduced during emergency management and during the transition of operations from Detroit Public Schools to Detroit Public Schools Community District. With the selection of the new superintendent, the School District has begun to aggressively fill vacant positions and reassess the roles and responsibilities of current staff. The School District posted for and filled the chief financial officer, and plans to post for an executive director of budget who will oversee the state and federal programs. The new School District continues to evaluate staffing levels and the allocation of responsibilities, and has posted for numerous positions. While certain positions were filled during the year ended June 30, 2017, there is still work to be done to have the appropriate roles and responsibilities filled. The School District intends to actively work to fill open positions, invest in training and enhancements to their financial reporting software, and continue to evaluate the allocation of responsibilities amongst its team. The School District intends to have substantial progress made on these initiatives during the 2017-2018 fiscal year. The senior executive director of finance and the executive director of finance are the School District officials responsible for implementing the corrective action.

Reference Number	Finding
2017-003	**Finding Type** - Material weakness **Criteria** - The School District's internal control structure should ensure that accounting data is properly calculated and reported in accordance with generally accepted accounting principles. **Condition** - The School District's general ledger contained numerous significant errors related to several account cycles that were identified as part of the audit and corrected by management. This condition existed during the School District's prior fiscal year; see Finding 2016-005 within the summary schedule of prior audit findings. **Context** - Audit testing identified significant errors affecting nearly all account cycles and impacting both the government-wide and governmental fund financial statements. Adjustments were proposed to, reviewed by, accepted, and recorded by management to correct these errors. **Cause** - The School District did not have the necessary resources available to ensure that account balances were calculated and recorded in accordance with applicable accounting standards.

Reference Number	Finding
2017-003 (Con't)	**Effect** - Various account balances were not adequately reconciled or independently reviewed by the School District. As a result, several significant adjustments were proposed to, reviewed by, accepted, and recorded by management to adjust account balances.

Recommendation - We recommend the School District review its business office personnel and accounting procedures to make certain that it has allocated the necessary time and resources to ensure that all account balances are completely and accurately reconciled and reviewed prior to the commencement of the annual audit.

Views of Responsible Officials and Planned Corrective Actions - The School District concurs with this finding. The finance department staff was significantly reduced during emergency management and during the transition of operations from Detroit Public Schools to Detroit Public Schools Community District. With the selection of the new superintendent, the School District has begun to aggressively fill vacant positions and reassess the roles and responsibilities of current staff. The School District posted for and filled the chief financial officer, and plans to post for an executive director of budget who will oversee the state and federal programs. The new School District continues to evaluate staffing levels and the allocation of responsibilities, and has posted for numerous positions. While certain positions were filled during the year ended June 30, 2017, there is still work to be done to have the appropriate roles and responsibilities filled. The School District intends to actively work to fill open positions, invest in training and enhancements to its financial reporting software, and continue to evaluate the allocation of responsibilities amongst its team. The School District intends to have substantial progress made on these initiatives during the 2017-2018 fiscal year. The senior executive director of finance and the executive director of finance are the School District's officials responsible for implementing the corrective action.