

Lake Shore Public Schools

**Financial Report
with Supplemental Information
June 30, 2017**

Lake Shore Public Schools

Contents

Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-13
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	16-17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	18
Statement of Revenue, Expenditures, and Changes in Fund Balances	19-20
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Proprietary Fund - Internal Service Fund:	
Statement of Net Position	22
Statement of Revenue, Expenses, and Changes in Net Position	23
Statement of Cash Flows	24
Fiduciary Funds - Statement of Fiduciary Assets and Liabilities	25
Notes to Financial Statements	26-48
Required Supplemental Information	49
Budgetary Comparison Schedule - General Fund	50
Budgetary Comparison Schedule - Special Revenue Fund - Adult and Community Education Fund	51
Budgetary Comparison Schedule - Special Revenue Fund - International Program Fund	52
Schedule of Lake Shore Public Schools' Proportionate Share of the MPSPERS Net Pension Liability Determined as of the Plan Year Ended September 30	53
Schedule of Lake Shore Public Schools' Contributions to MPSPERS Determined as of the Year Ended June 30	54
Note to Pension Required Supplemental Information Schedules	55

Lake Shore Public Schools

Contents (Continued)

Other Supplemental Information	56
Nonmajor Governmental Funds:	
Combining Balance Sheet	57
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	58
Schedule of Bonded Indebtedness	59
Federal Awards Supplemental Information	Issued Under Separate Cover

Independent Auditor's Report

To the Board of Education
Lake Shore 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 Lake Shore 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 Lake Shore 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 an opinion 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 opinion.

To the Board of Education
Lake Shore 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 Lake Shore Public Schools as of June 30, 2017 and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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 schedules, the schedules of the School District's pension contributions and proportionate share of the net pension liability, and the notes to required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 Lake Shore 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.

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.

To the Board of Education
Lake Shore Public Schools

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017 on our consideration of Lake Shore 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 Lake Shore Public Schools' internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 23, 2017

Lake Shore Public Schools

Management's Discussion and Analysis

This section of Lake Shore 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 Lake Shore 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, Adult and Community Education Fund, International Program Fund, 2016 Capital Projects Fund, and Building and Site Fund - with all other funds presented in one column as nonmajor funds. The Internal Service Fund statement of net position, statement of revenue, expenses, and changes in net position, and statement of cash flows present financial information about activities for which the School District provides services to other funds. The remaining statement, the statement of fiduciary assets and liabilities, presents 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
Pension Plan Schedules

Other Supplemental Information

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

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/deferred outflows of resources and liabilities/deferred inflows of resources, 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 deferred outflows of resources and liabilities and deferred inflows of resources, as reported in the statement of net position - as one way to measure the School District's financial 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 condition 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 provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall condition of the School District. The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, athletics, adult and community education, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), state and federal grants, tuition, and fees finance most of these activities.

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

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

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

Governmental Funds - Most 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 also maintains a proprietary fund, which utilizes the full accrual basis of accounting. The proprietary fund maintained is the Internal Service Fund, which is used to account for the financing of risk management services provided to other funds on a cost-reimbursement basis.

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

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

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30:

Table I	Governmental Activities	
	June 30	
	2017	2016
	(in millions)	
Assets		
Current and other assets	\$ 38.7	\$ 44.5
Capital assets	<u>28.7</u>	<u>25.4</u>
Total assets	67.4	69.9
Deferred Outflows of Resources	<u>10.0</u>	<u>9.2</u>
Total assets and deferred outflows of resources	77.4	79.1
Liabilities		
Current liabilities	7.8	7.1
Long-term liabilities	46.6	48.6
Net pension liability	<u>67.5</u>	<u>66.7</u>
Total liabilities	121.9	122.4
Deferred Inflows of Resources	<u>3.0</u>	<u>2.4</u>
Total liabilities and deferred inflows of resources	<u>124.9</u>	<u>124.8</u>
Net Position		
Net investment in capital assets	5.7	6.0
Restricted	0.2	0.1
Unrestricted deficit	<u>(53.4)</u>	<u>(51.8)</u>
Total net position	<u>\$ (47.5)</u>	<u>\$ (45.7)</u>

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

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 \$47.5 million at June 30, 2017, an increase in the deficit of \$1.8 million over June 30, 2016. The deficit increased as a result of the pension and long-term liabilities increasing more than the assets increased. The net investment in capital assets of \$5.7 million compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remainder was an unrestricted net deficit of \$53.4 million.

As required by the Government Accounting Standards Board (GASB), the School District adopted GASB Statements No. 68 and No. 71 during 2015. These standards required the inclusion of the School District's proportionate share of the Michigan Public School Employees' Retirement System within the School District's financial statements, effective July 1, 2014. Since the adoption of the new standards, the net pension liability has increased to \$67.5 million at June 30, 2017. The net position is impacted by the pension-related deferred inflows and outflows of resources in the June 30, 2017 financial statements. All governments participating in the retirement plan were required to adopt these new standards.

The \$53.4 million in unrestricted net position (deficit) of governmental activities represents the accumulated results of all past years' operations and the impact from adoption of GASB Statement No. 68. Unrestricted net position, when available, would enable the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund and the change in the net pension liability will have significant impacts on the change in unrestricted net position (deficit) from year to year.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years 2016 and 2017.

Table 2

	Governmental Activities	
	Year Ended June 30	
	2017	2016
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 2.7	\$ 3.0
Operating grants	11.2	12.3
General revenue:		
Property taxes	5.5	5.3
State foundation allowance	26.9	24.6
Other	0.4	0.4
Total revenue	<u>46.7</u>	<u>45.6</u>
Functions/Program Expenses		
Instruction	27.2	26.1
Support services	15.2	14.3
Adult and community services	1.0	1.1
Food services	1.4	1.6
Athletics	0.6	0.5
Interest on long-term debt	1.1	0.6
Bond issuance costs	-	0.4
Depreciation (unallocated)	2.0	2.0
Total functions/program expenses	<u>48.5</u>	<u>46.6</u>
Change in Net Position	(1.8)	(1.0)
Net Position - Beginning of year	<u>(45.7)</u>	<u>(44.7)</u>
Net Position - End of year	<u><u>\$ (47.5)</u></u>	<u><u>\$ (45.7)</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$48.5 million, an increase of \$1.9 million. There was an increase of \$2.0 million in instruction and support services and \$0.4 million decrease in bond issuance costs. Certain activities were partially funded from those who benefited from the programs (\$2.7 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$11.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$5.5 million in taxes, \$26.9 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements).

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

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

The School District's Funds

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

As the School District completed the year, the governmental funds reported a combined fund balance of \$29.8 million. This includes the 2016 Capital Projects Fund portion of \$22.4 million. The General Fund showed a fund balance increase of approximately \$172,000.

The debt service funds showed a combined fund balance decrease of approximately \$234,000. Millage rates remained the same as the previous year at a rate of 7.0 mills. Millage rates are determined when appropriate to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. The debt service funds' fund balances are restricted since they can only be used to pay debt service obligations.

The School District's nonbonded capital projects fund is the Building and Site Fund. This fund balance decreased from the prior year by approximately \$78,000. The Building and Site Fund will continue to be in existence going forward and will be utilized to fund major capital needs, so that these expenditures are not a financial burden on the General Fund.

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 adopted 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 in these financial statements.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the School District had \$28.7 million invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, furniture, and equipment. This amount represents an increase of \$3.3 million from the previous year (including additions, disposals, and depreciation).

Capital assets consist of the following:

	2017	2016
	(in thousands)	
Land	\$ 308	\$ 308
Construction in progress	4,884	-
Building and building improvements	18,876	20,540
Site improvements	2,661	2,955
Buses and other vehicles	421	423
Furniture and equipment	1,571	1,156
Total capital assets - Net of accumulated depreciation	<u>\$ 28,721</u>	<u>\$ 25,382</u>

We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$43.34 million in general obligation bonds outstanding, versus \$45.85 million in the previous year.

The School District's general obligation bond rating continues to be AA- by Standard & Poor's. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," (i.e., debt backed by the State of Michigan), such obligations are not subject to this debt limit. All of the bonds issued by the School District are qualified.

Other obligations include accrued vacation pay, sick leave, termination benefits, and insurance benefits. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

Next Year's Budget Outlook for the General Fund

The operating results of the General Fund, the School District's principal operating fund, will have a significant impact on other funds and the change in unrestricted net position from year to year. The following budget outlook will focus on the General Fund.

Revenue Projection

Our elected officials and administration considered many factors when setting the School District's 2017-2018 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017-2018 fiscal year is based on 90 and 10 percent of the October 2017 and February 2017 student counts, respectively. The 2017-2018 budget, adopted in June 2017, was based on an estimate of students that will be enrolled in October 2017. The estimate calls for the enrollment to remain flat due in large part to increased advertising for schools of choice to offset the loss of the graduating senior class and resident students.

Approximately 74 percent of total General Fund revenue is from the foundation allowance. The 2017-2018 budget is based on an increase in the base foundation allowance of \$65,000 overall. This was a conservative projection as the budget was prepared prior to the House and Senate budget approval.

Under state law, the School District cannot assess additional property tax revenue for general operations. Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts. The State periodically holds revenue-estimating conferences, usually in January and May, to estimate annual revenue. As a result of the State's recent history of foundation allowance reductions in mid-year, once the final student count and related per pupil funding are validated, state law requires the School District to amend the budget if actual school district resources are not sufficient to fund original appropriations.

Expense Projection

Wages, taxes, and benefits comprise approximately 88 percent of all General Fund expenditures.

With regard to pension costs, which are the biggest benefit expense for employees, the state retirement system has been reformed by the State. The reform will artificially keep the contribution rate at a lower rate than actual and shift more retirement costs to employees.

The actual contribution rate schools will be paying for the 2017-2018 school year is 36.88 percent, a .24 percent increase. The state is helping schools pay for this increase by allocating additional funding to be used toward the retirement rate increase. With the additional funding, the retirement rate will be artificially reduced to approximately 25.56 percent.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

Each percentage increase in the retirement rate equates to an increase in retirement benefit expenses of approximately \$200,000.

2017-2018 Bottom Line

Lake Shore Public Schools maintains the position that it is the School District's goal to provide services to our students through prudent expenditures and strategic planning, not to generate profits. Services to the School District's students include, but are not limited to, instruction, support services, athletics, community education, food services, and the maintenance and safety of our school buildings.

In May 2016, voters agreed with the board's position and approved a bond proposal that will pay for improving and equipping school and athletic facilities as well as instructional technology. This project will continue for approximately three years.

Although there has been a wage freeze for a number of years, it is important to the board to retain and attract qualified staff, both instructional and noninstructional. To that end, the board authorized salary increases to acknowledge employees' hard work and dedication. We anticipate the use of fund equity to cover a portion of these costs.

Fund equity will play an important role in maintaining a strong fiscal position. The School District will reevaluate the appropriate amount of fund equity to ensure a level of cash flow needed during the period from August 21 to October 19. This is the time period when there is no state foundation revenue coming to the School District; however, the School District has payroll and operational expenses which must be paid. Based on these financial obligations, it is a best practice that a minimum of 10 percent fund balance be maintained.

Lake Shore Public Schools will continue to take action, as it has historically, so that its fiscal position remains strong.

Lake Shore Public Schools

Statement of Net Position June 30, 2017

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 6,214,434
Receivables (Note 5)	7,232,816
Inventories	11,435
Prepaid costs	729,604
Restricted assets (Note 1)	24,535,019
Capital assets - Net (Note 6)	<u>28,721,359</u>
Total assets	67,444,667
Deferred Outflows of Resources -	
Deferred outflows related to pensions (Note 10)	<u>9,971,884</u>
Total assets and deferred outflows of resources	77,416,551
Liabilities	
Accounts payable	2,212,733
Accrued payroll-related liabilities	3,528,371
Accrued interest	239,607
Due to other governmental units	285,458
Provision for uninsured losses and accrued insurance premiums	430,746
Unearned revenue (Note 5)	1,165,616
Long-term obligations (Note 8):	
Due within one year	3,092,903
Due in more than one year	43,460,732
Net pension liability (Note 10)	<u>67,453,741</u>
Total liabilities	121,869,907
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to measurement date	2,078,610
Deferred charges on bond refunding	265,157
Deferred inflows related to pensions (Note 10)	<u>733,858</u>
Total deferred inflows of resources	<u>3,077,625</u>
Total liabilities and deferred inflows of resources	<u>124,947,532</u>
Net Position	
Net investment in capital assets	5,717,361
Restricted - Capital projects	221,566
Unrestricted deficit	<u>(53,469,908)</u>
Total net position	<u>\$ (47,530,981)</u>

Lake Shore Public Schools

Statement of Activities Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 27,222,935	\$ 106,558	\$ 6,909,258	\$ (20,207,119)
Support services	15,155,974	74,509	3,720,370	(11,361,095)
Athletics	652,526	52,202	-	(600,324)
Food services	1,369,050	563,581	90,525	(714,944)
Adult and community services	1,040,075	1,859,371	528,960	1,348,256
Interest on long-term debt	1,124,609	-	-	(1,124,609)
Other debt costs	1,154	-	-	(1,154)
Depreciation expense (unallocated)	2,004,736	-	-	(2,004,736)
Total primary government	<u>\$ 48,571,059</u>	<u>\$ 2,656,221</u>	<u>\$ 11,249,113</u>	(34,665,725)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				2,002,185
Property taxes, levied for debt service				3,507,239
State aid not restricted to specific purposes				26,897,995
Interest and investment earnings				98,641
Loss on the sale of capital assets				(26,143)
Other				361,045
Total general revenue				<u>32,840,962</u>
Change in Net Position				(1,824,763)
Net Position - Beginning of year				<u>(45,706,218)</u>
Net Position - End of year				<u>\$ (47,530,981)</u>

Lake Shore Public Schools

	General Fund	Adult and Community Education Fund	Building and Site Fund	International Program Fund
Assets				
Cash and investments (Note 3)	\$ 1,441,218	\$ 9,285	\$ 2,189,894	\$ 1,009,876
Receivables (Note 5)	6,899,363	291,056	-	-
Due from other funds (Note 7)	178,305	-	-	-
Inventories	-	-	-	-
Prepaid costs	547,359	31,847	7,583	40,625
Restricted assets (Note 1)	-	-	-	-
Total assets	\$ 9,066,245	\$ 332,188	\$ 2,197,477	\$ 1,050,501
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 191,414	\$ 3,088	\$ -	\$ -
Accrued payroll-related liabilities	3,435,669	90,416	-	-
Due to other governmental units	285,458	-	-	-
Due to other funds (Note 7)	219,104	173,994	-	6,475
Unearned revenue (Note 5)	153,789	63,571	-	936,292
Total liabilities	4,285,434	331,069	-	942,767
Fund Balances				
Nonspendable:				
Inventories	-	-	-	-
Prepaid costs	547,359	31,847	7,583	40,625
Restricted:				
Capital projects	-	-	-	-
Debt service	-	-	-	-
Food services	-	-	-	-
Committed:				
Technology plan	-	-	104,358	-
Deferred maintenance plan	267,500	-	104,357	-
Vehicle replacement plan	-	-	180,000	-
Capital projects	-	-	1,801,179	-
International program operations	-	-	-	67,109
Assigned (Note 11)	1,783,541	-	-	-
Unassigned	2,182,411	(30,728)	-	-
Total fund balances	4,780,811	1,119	2,197,477	107,734
Total liabilities and fund balances	\$ 9,066,245	\$ 332,188	\$ 2,197,477	\$ 1,050,501

**Governmental Funds
Balance Sheet
June 30, 2017**

2016 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 137,596	\$ 4,787,869
-	42,397	7,232,816
-	3	178,308
-	11,435	11,435
-	-	627,414
<u>24,420,029</u>	<u>114,990</u>	<u>24,535,019</u>
<u>\$ 24,420,029</u>	<u>\$ 306,421</u>	<u>\$ 37,372,861</u>
\$ 1,995,535	\$ 22,696	\$ 2,212,733
-	2,286	3,528,371
-	-	285,458
-	11	399,584
<u>-</u>	<u>11,964</u>	<u>1,165,616</u>
1,995,535	36,957	7,591,762
-	11,435	11,435
-	-	627,414
22,424,494	-	22,424,494
-	115,054	115,054
-	142,975	142,975
-	-	104,358
-	-	371,857
-	-	180,000
-	-	1,801,179
-	-	67,109
-	-	1,783,541
<u>-</u>	<u>-</u>	<u>2,151,683</u>
<u>22,424,494</u>	<u>269,464</u>	<u>29,781,099</u>
<u>\$ 24,420,029</u>	<u>\$ 306,421</u>	<u>\$ 37,372,861</u>

Lake Shore Public Schools

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	\$	29,781,099
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of capital assets	\$ 71,400,474	
Accumulated depreciation	<u>(42,679,115)</u>	28,721,359
Deferred outflows related to pensions		4,666,635
Deferred outflows related to pension payments made subsequent to the measurement date		5,305,249
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds and School Bond Loan Revolving fund payable including unamortized premiums and discounts	(44,941,769)	
Compensated absences	(1,077,625)	
Long-term insurance benefits	<u>(300,000)</u>	(46,319,394)
Accrued interest payable is not included as a liability in governmental funds		(239,607)
Deferred charges on bond refunding are reported as deferred inflows of resources in the statement of net position		(265,157)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position		(2,078,610)
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position		1,085,044
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(67,453,741)
Deferred inflows related to pensions		<u>(733,858)</u>
Net Position of Governmental Activities	\$	<u>(47,530,981)</u>

Lake Shore Public Schools

	General Fund	Adult and Community Education Fund	Building and Site Fund	International Program Fund
Revenue				
Local sources	\$ 2,662,322	\$ 686,176	\$ 8,851	\$ 967,948
State sources	31,754,658	1,488,377	-	-
Federal sources	2,444,631	1,797,681	-	-
Interdistrict sources	125,000	13,535	-	-
Total revenue	36,986,611	3,985,769	8,851	967,948
Expenditures				
Current:				
Instruction	23,550,929	2,640,076	-	-
Support services	12,887,675	906,064	-	107,318
Athletics	639,311	-	-	-
Food services	-	-	-	-
Adult and community services	252,657	615,430	-	157,677
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Other	-	-	-	-
Capital outlay	96,554	898	86,465	6,664
Total expenditures	37,427,126	4,162,468	86,465	271,659
Excess of Revenue (Under) Over Expenditures	(440,515)	(176,699)	(77,614)	696,289
Other Financing Sources (Uses)				
Transfers in	800,000	176,200	-	-
Transfers out	(187,710)	-	-	(800,000)
School Loan Revolving Fund proceeds	-	-	-	-
Total other financing sources (uses)	612,290	176,200	-	(800,000)
Net Change in Fund Balances	171,775	(499)	(77,614)	(103,711)
Fund Balances - Beginning of year	4,609,036	1,618	2,275,091	211,445
Fund Balances - End of year	\$ 4,780,811	\$ 1,119	\$ 2,197,477	\$ 107,734

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

2016 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 221,566	\$ 4,078,468	\$ 8,625,331
-	89,012	33,332,047
-	683,113	4,925,425
-	-	138,535
221,566	4,850,593	47,021,338
-	-	26,191,005
301,539	-	14,202,596
-	-	639,311
-	1,335,215	1,335,215
-	-	1,025,764
-	2,510,000	2,510,000
-	1,377,053	1,377,053
-	1,154	1,154
6,032,775	-	6,223,356
6,334,314	5,223,422	53,505,454
(6,112,748)	(372,829)	(6,484,116)
-	11,510	987,710
-	-	(987,710)
-	102,630	102,630
-	114,140	102,630
(6,112,748)	(258,689)	(6,381,486)
28,537,242	528,153	36,162,585
\$ 22,424,494	\$ 269,464	\$ 29,781,099

Lake Shore Public Schools

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 \$ (6,381,486)

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (2,392,287)	
Capitalized capital outlay	<u>5,757,844</u>	3,365,557

Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of carrying value of the disposed assets (26,143)

Revenue in support of pension contributions made subsequent to the measurement date (248,899)

School Loan Revolving fund proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities (102,630)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 2,510,000

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 252,444

Change in accrued long-term insurance benefits (300,000)

Change in pension expense related to deferred items (431,558)

Compensated absences are recorded when earned in the statement of activities. In the current year, more was earned than paid out (87,464)

Internal Service Funds are included as part of governmental activities (374,584)

Change in Net Position of Governmental Activities **\$ (1,824,763)**

Lake Shore Public Schools

Proprietary Fund - Internal Service Fund Statement of Net Position June 30, 2017

Assets - Current assets	
Cash and investments (Note 3)	\$ 1,426,565
Due from other funds (Note 7)	221,276
Prepaid costs and other assets	<u>102,190</u>
Total assets	1,750,031
Liabilities	
Current liabilities:	
Provision for uninsured losses and accrued insurance premiums	430,746
Early retirement incentive - Due within one year (Note 8)	<u>78,080</u>
Total current liabilities	508,826
Noncurrent liabilities - Early retirement incentive - Due in more than one year (Note 8)	<u>156,161</u>
Total liabilities	<u>664,987</u>
Net Position - Unrestricted	<u>\$ 1,085,044</u>

Lake Shore Public Schools

Proprietary Fund - Internal Service Fund Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2017

Operating Revenue - Charges to other funds	\$ 431,812
Operating Expenses - Claims, reinsurance, premiums, and administrative fees	
Medical	1,980
Dental	306,753
Workers' compensation and other	268,662
Early retirement incentive	234,241
	<hr/>
Total operating expenses	811,636
	<hr/>
Operating Loss	(379,824)
Nonoperating Revenue - Interest and investment earnings	5,240
	<hr/>
Change in Net Position	(374,584)
Net Position - Beginning of year	1,459,628
	<hr/>
Net Position - End of year	\$ 1,085,044
	<hr/> <hr/>

Lake Shore Public Schools

Proprietary Fund - Internal Service Fund Statement of Cash Flows Year Ended June 30, 2017

Cash Flows from Operating Activities	
Receipts from other funds	\$ 731,077
Claims, prepayments, and premiums paid	<u>(577,627)</u>
Net cash provided by operating activities	153,450
Cash Flows from Investing Activities - Interest received on investments	<u>5,240</u>
Net Increase in Cash and Investments	158,690
Cash and Investments - Beginning of year	<u>1,267,875</u>
Cash and Investments - End of year	<u><u>\$ 1,426,565</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating loss	\$ (379,824)
Adjustments to reconcile operating loss to net cash provided by operating activities - Changes in assets and liabilities:	
Due from other funds	299,265
Prepaid costs	(9,896)
Accrued liabilities and provision for uninsured losses	237,744
Other long-term liabilities	<u>6,161</u>
Net cash provided by operating activities	<u><u>\$ 153,450</u></u>

Lake Shore Public Schools

Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2017

	<u>Agency Funds</u>
Assets - Cash and investments	<u>\$ 523,577</u>
Liabilities - Due to student activities	<u>\$ 523,577</u>

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of Lake Shore Public Schools (the "School District") 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

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) 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, proprietary 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.

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

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.

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 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.

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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

Proprietary fund and fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The proprietary fund maintained by the School District is the Internal Service Fund, which is used to account for the financing of risk management services provided to other funds on a cost-reimbursement basis. The Internal Service Fund includes transactions related to the School District's risk management programs for dental, optical, workers' compensation, and unemployment claims and other benefits. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

Adult and Community Education Fund - The Adult and Community Education Fund is a special revenue fund that is used to segregate, for administrative purposes, the transactions relating to the St. Clair Shores Adult and Community Education program. The main sources of revenue are state and federal grants. Any operating deficits of this fund are the responsibility of the General Fund.

Building and Site Fund - The Building and Site Fund is used to record revenue and the disbursement of invoices specifically designated for buildings, equipment, and for remodeling and repairs. The fund operates until the purpose for which it was created is accomplished.

International Program Fund - The purpose of this special revenue fund is to account for the activity of the School District's foreign exchange programs. The primary revenue source for this fund is fees charged to the participating families in the program. Any operating deficit of this fund is the responsibility of the General Fund.

2016 Capital Projects Fund - This fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for the voter-approved capital projects associated with the 2016 bond issue. The fund operates until the purpose for which it was created is accomplished.

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

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's nonmajor special revenue fund is the Cafeteria Fund. Any operating deficit generated by this activity is the responsibility of the General Fund. The purpose of this fund is to account for the activity of the School District's meal programs. The primary revenue sources are food sales to students and grants from the federal government.

Debt Service Funds - The 2016 Bond Issue, 2014 Refunding Bond, and 2009 Bond Issue Debt Service Funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the 2016 Bond Issue, 2014 Refunding Bonds, and the 2009 Bond Issue.

Internal Service Fund - The Internal Service Fund accounts for risk management services provided to other funds of the School District on a cost-reimbursement basis. The net position of the fund has been set aside by management for the purpose of funding any future potential claims.

Fiduciary Funds - Agency Funds - Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of operations. The School District's fiduciary funds consist of student activities (agency) funds that are used to record the transactions of students and other groups for schools and school-related purposes. The student activities funds are segregated and held in trust for the students and other groups.

Assets, Liabilities, and Net Position or Equity

Cash and Investments - Cash and investments 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 external investment pools which are valued at amortized cost. Investment income is recorded in the fund for which the investment 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."

Lake Shore Public Schools

Notes to Financial Statements June 30, 2017

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. Taxes are considered delinquent on February 15 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture commodities inventory received by the Cafeteria Fund is recorded as inventory and unearned revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Restricted Assets - Remaining cash from property tax collections in the debt service funds totaling \$114,990 is required to be set aside for future repayments of bonded indebtedness. The 2016 Capital Projects Fund also has \$24,420,029 in cash which is restricted for use on voter-approved capital expenditures.

Capital Assets - Capital assets, which include land, buildings and building improvements, site improvements, buses and other vehicles, and furniture and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

In the government-wide financial statements, capital assets are being depreciated over the following useful lives:

Buildings and building improvements	7-50 years
Site improvements	20 years
Buses and other vehicles	8-10 years
Furniture and equipment	5-20 years

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

Compensated Absences (Vacation, Sick Leave, and Early Termination Benefits) - The liability for compensated absences reported in the government-wide financial statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

The early termination benefits consist of early retirement incentive cash payments provided to certain employees over a three-year period. The cost of the obligation is reported as a noncurrent liability.

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 reports deferred outflows of resources, which represents consumptions of net position or fund balance that apply to future periods and will not be recognized as outflows of resources (expense/expenditure) until then. The School District reports deferred outflows related to pensions.

In addition to liabilities, the statement of net position reports deferred inflows of resources, which represents acquisitions of net position that apply to future periods and will not be recognized as inflows of resources (revenue) until then. The School District's deferred inflows of resources are related to deferred charges on prior refunding of bonds (\$265,157), funding received through state appropriations for contributions to the MPERS pension plan after the measurement date (\$2,078,610), and other amounts related to the pension plan (\$733,858).

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

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 provisions, 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 by resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education, or by the superintendent or assistant superintendent of finance and human resources, who are authorized by the Board of Education to make assignments
- **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.

Comparative Data - Comparative data is not included in the School District's financial statements except within the management's discussion and analysis.

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

Pension Plan - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS), and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

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 special revenue funds, with the following exceptions: (1) capital outlay is budgeted in other expenditure categories on a functional basis and (2) transfers into the General Fund are budgeted as interdistrict revenue. The School District also adopted annual budgets for its nonmajor special revenue funds, debt service funds, capital projects funds, and the Internal Service 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.

During the year, the School District incurred no significant unfavorable expenditure budget variances.

Capital Projects Fund Compliance - The 2016 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District will be in compliance with the applicable provisions of §1351a of the State of Michigan's School Code.

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 seven institutions for the deposit or investment of its funds.

There are no limitations or restrictions on participant withdrawals for the investment pools in the Michigan Liquid Asset Fund that are recorded at amortized cost, except that 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 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 of bank deposits 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 does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$21,066,564 included \$19,282,249 of bank deposits 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 of investments 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 does not have a policy for custodial credit risk. The School District does not hold investments with 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 be purchased within a 270-day maturity. At year end, the School District held no such investments.

Lake Shore Public Schools

Notes to Financial Statements June 30, 2017

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 (other than the U.S. government) are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund - MAX Class	\$ 1,557,088	N/A	AAAm	S&P
Michigan Liquid Asset Fund - Cash Mgmt Class	148	N/A	AAAm	S&P
Bank investment pooled funds - J Fund	110,690	N/A	A1/PI/FI	Other
U.S. Agency Note	2,154,365	9/8/2017	AA+	S&P
U.S. Agency Note	1,349,501	6/8/2018	AA+	S&P
U.S. Agency Note	1,492,770	7/27/2018	AA+	S&P
U.S. Agency Note	2,099,790	7/14/2017	AA+	S&P
Total investments	<u>\$ 8,764,352</u>			

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer. More than 5 percent of the School District's investments are in U.S. agency notes maturing on September 8, 2017 and July 14, 2017; these investments are 6.9 percent and 6.7 percent, respectively, of the School District's total investments.

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 - Fair Value Measurement

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The School District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Lake Shore Public Schools

Notes to Financial Statements June 30, 2017

Note 4 - Fair Value Measurement (Continued)

The fair value of U.S. federal agency debt securities of \$7,096,426 at June 30, 2017 was determined primarily based on Level 2 inputs. The School District estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Note 5 - Receivables and Unearned Revenue

Receivables as of June 30, 2017 for the School District's individual major funds and the nonmajor funds in the aggregate are as follows:

	General Fund	Adult and Community Education	Nonmajor Funds	Total
Receivables:				
Accounts receivable	\$ 14,672	\$ 8,452	\$ 1,882	\$ 25,006
Accrued interest receivable	-	-	64	64
Due from other governmental units	6,884,691	282,604	40,451	7,207,746
	<u>6,884,691</u>	<u>282,604</u>	<u>40,451</u>	<u>7,207,746</u>
Total receivables	<u>\$ 6,899,363</u>	<u>\$ 291,056</u>	<u>\$ 42,397</u>	<u>\$ 7,232,816</u>

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

Cafeteria Fund - Student food sales	\$ 11,964
General Fund - Categorical state aid At-Risk revenue received in excess of expenditures	148,494
International Program Fund - Prepaid participant fees	936,292
General Fund - Child care fees	2,305
Adult and Community Education Fund - Tuition	63,571
General Fund - Other	2,990
	<u>2,990</u>
Total	<u>\$ 1,165,616</u>

Lake Shore Public Schools

Notes to Financial Statements June 30, 2017

Note 6 - Capital Assets

Capital asset activity of the School District was as follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 307,684	\$ -	\$ -	\$ 307,684
Construction in progress	-	4,884,464	-	4,884,464
Subtotal	307,684	4,884,464	-	5,192,148
Capital assets being depreciated:				
Site improvements	6,524,870	-	-	6,524,870
Buildings and building improvements	53,498,849	-	-	53,498,849
Furniture and equipment	4,366,376	786,945	(216,803)	4,936,518
Buses and other vehicles	1,246,195	86,435	(84,541)	1,248,089
Subtotal	65,636,290	873,380	(301,344)	66,208,326
Accumulated depreciation:				
Site improvements	3,570,053	293,478	-	3,863,531
Buildings and building improvements	32,958,430	1,664,860	-	34,623,290
Furniture and equipment	3,209,983	354,737	(199,114)	3,365,606
Buses and other vehicles	823,563	79,212	(76,087)	826,688
Subtotal	40,562,029	2,392,287	(275,201)	42,679,115
Net capital assets being depreciated	25,074,261	(1,518,907)	(26,143)	23,529,211
Net capital assets	<u>\$ 25,381,945</u>	<u>\$ 3,365,557</u>	<u>\$ (26,143)</u>	<u>\$ 28,721,359</u>

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

Governmental activities:

Instruction	\$ 198,560
Support services	165,068
Food services	23,923
Unallocated	2,004,736
Total governmental activities	<u>\$ 2,392,287</u>

Unallocated depreciation expense was not charged to activities as the School District considers certain assets to impact multiple activities and allocation is not practical.

Construction Commitments - The School District has active construction projects at year end, which were recorded in the 2016 Capital Project bond issue. At year end, the School District's commitments on open contracts with contractors were as follows:

	Spent to Date	Remaining Commitments
2016 Capital Project Bond activity	<u>\$ 6,334,314</u>	<u>\$ 10,734,383</u>

Lake Shore Public Schools

Notes to Financial Statements June 30, 2017

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From				Total
	General Fund	Adult and Community Education Fund	International Program Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 171,819	\$ 6,475	\$ 11	\$ 178,305
Nonmajor governmental funds	-	3	-	-	3
Internal Service Fund	219,104	2,172	-	-	221,276
Total	\$ 219,104	\$ 173,994	\$ 6,475	\$ 11	\$ 399,584

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The International Program Fund transferred \$800,000 to the General Fund to fund certain compensation costs.

The General Fund transferred \$176,200 to the Adult and Community Education Fund to defray the operating deficit incurred during the 2016-2017 fiscal year.

The General Fund transferred \$11,510 to the Cafeteria Fund for costs related to at-risk students.

Note 8 - 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. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Qualified bonds are fully guaranteed by the State of Michigan. All of the School District's bonds outstanding at June 30, 2017 are qualified bonds. Other long-term obligations include compensated absences, termination benefits, certain risk liabilities, and School Loan Revolving Fund borrowings.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 45,850,000	\$ -	\$ 2,510,000	\$ 43,340,000	\$ 2,605,000
Issuance discounts	(5,874)	-	(839)	(5,035)	(839)
Issuance premiums	1,678,662	-	175,115	1,503,547	175,115
Total bonds payable	47,522,788	-	2,684,276	44,838,512	2,779,276
School Loan Revolving Fund	-	103,257	-	103,257	-
Other obligations	1,140,161	621,705	150,000	1,611,866	313,627
Total governmental activities	\$ 48,662,949	\$ 724,962	\$ 2,834,276	\$ 46,553,635	\$ 3,092,903

Lake Shore Public Schools

Notes to Financial Statements June 30, 2017

Note 8 - Long-term Debt (Continued)

At June 30, 2017, the School District had deferred inflows of \$265,157 related to deferred charges on bond refundings.

Annual debt service requirements to maturity for the above governmental bond obligations are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2018	\$ 2,605,000	\$ 1,437,638	\$ 4,042,638
2019	2,715,000	1,356,908	4,071,908
2020	2,865,000	1,233,715	4,098,715
2021	5,775,000	1,167,681	6,942,681
2022	3,040,000	956,890	3,996,890
2023-2027	10,045,000	3,797,540	13,842,540
2028-2032	9,645,000	1,827,225	11,472,225
2033-2037	4,850,000	519,500	5,369,500
2038-2042	1,000,000	217,125	1,217,125
2043-2046	800,000	58,500	858,500
Total	\$ 43,340,000	\$ 12,572,722	\$ 55,912,722

Governmental Activities

General obligation bonds consist of the following:

\$13,390,000 refunding bonds due in annual installments of \$2,060,000 to \$2,290,000 through May 1, 2020; interest at 2.00 percent to 4.00 percent	\$ 6,515,000
\$9,700,000 capital projects bonds due in annual installments of \$315,000 to \$2,560,000 through May 1, 2023; interest at 3.75 percent to 5.00 percent	9,015,000
\$27,810,000 capital projects bonds due in annual installments, commencing in 2021, of \$200,000 to \$3,440,000 through May 1, 2046; interest at 3.00 percent to 3.25 percent	<u>27,810,000</u>
Total bonded debt	<u>\$ 43,340,000</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 1,077,625
Long-term insurance benefits	300,000
Early retirement incentives	<u>234,241</u>
Total	<u>\$ 1,611,866</u>

Lake Shore Public Schools

Notes to Financial Statements June 30, 2017

Note 8 - Long-term Debt (Continued)

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. Interest has been assessed for the year ended June 30, 2017 at a rate of 3.13 percent. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7.0 mills. The School District is required to levy mills and repay to the State any excess of the amount levied over the bonded debt service requirements. The predetermined mandatory final loan repayment date is May 1, 2052. 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.

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical, dental, optical, and other benefits provided to employees. The School District has purchased commercial insurance for general liability, property/casualty, medical, and errors and omissions claims; the School District is self-insured for workers' compensation, dental, optical, and unemployment claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The School District estimates the liability for workers' compensation, dental, optical, and unemployment claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the government-wide statements and in the Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows in the table below.

	2017	2016
Estimated liability - Beginning of year	\$ 103,479	\$ 13,499
Estimated claims incurred - Including changes in estimates	577,395	429,530
Claim payments	(430,385)	(339,550)
Unpaid claims - End of year	<u>\$ 250,489</u>	<u>\$ 103,479</u>

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.

The School District's contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

School District

October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - June 30, 2017	15.27% - 19.03%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's required and actual contributions to the plan for the year ended June 30, 2017 were \$6,510,601, which includes the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual contributions include an allocation of \$2,078,610 of revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2017.

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

Benefits Provided - Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2017, the School District reported a liability of \$67,453,741 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, which used updated procedures to roll forward the estimated liability to September 30, 2016. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the School District's proportion was 0.270365 percent.

Lake Shore Public Schools

Notes to Financial Statements June 30, 2017

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

For the year ended June 30, 2017, the School District recognized pension expense of \$6,878,595, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 840,652	\$ 159,867
Changes in assumptions	1,054,586	-
Net difference between projected and actual earnings on pension plan assets	1,121,081	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	1,650,316	573,991
The School District's contributions subsequent to the measurement date	5,305,249	-
Total	<u>\$ 9,971,884</u>	<u>\$ 733,858</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2018	\$ 980,605
2019	892,471
2020	1,899,319
2021	160,382
Total	<u>\$ 3,932,777</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

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

Actuarial Assumptions - The total pension liability as of September 30, 2016 is based on the results of an actuarial valuation date of September 30, 2015 and rolled forward:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 - 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost-of-living pension adjustments	3 percent annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

Discount Rate - The discount rate used to measure the total pension liability was 7.00 - 8.00 percent depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Lake Shore Public Schools

Notes to Financial Statements June 30, 2017

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

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0 %	9.2 %
International equity pools	16.0 %	7.2 %
Fixed-income pools	10.5 %	0.9 %
Real estate and infrastructure pools	10.0 %	4.3 %
Real return, opportunistic, and absolute pools	15.5 %	6.0 %
Short-term investment pools	2.0 %	- %
Total	100.0 %	

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent. As a result, the actuarial computed employer contributions and the net pension liability will increase for the measurement period ended September 30, 2017.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the School District calculated using the discount rate of 7.0 - 8.0 percent, depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1.0 percentage point lower (6.0 - 7.0 percent) or 1.0 percentage point higher (8.0 - 9.0 percent) than the current rate:

1.0 Percent Decrease (6.0 - 7.0 Percent)	Current Discount Rate (7.0 - 8.0 Percent)	1.0 Percent Increase (8.0 - 9.0 Percent)
\$ 86,863,439	\$ 67,453,741	\$ 51,089,498

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

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan - At June 30, 2017, the School District reported a payable of \$1,015,210 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

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. The employer contribution rate ranged from 6.4 percent to 6.83 percent of covered payroll for the period from July 1, 2016 to September 30, 2016 and from 5.69 percent to 5.91 percent of covered payroll for the period from October 1, 2016 through June 30, 2017, dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403(b) account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were \$1,365,384, \$1,223,096, and \$785,000, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate is considered a contribution to the retiree healthcare plan.

Lake Shore Public Schools

Notes to Financial Statements June 30, 2017

Note 11 - Fund Balance Components

The details of the assigned component of fund balance in the General Fund are as follows:

Assigned:

Employee compensated absences - Long term	\$ 842,078
Tax tribunal refunds	75,000
Retiree severance payouts	30,000
SACC program	65,137
Budgeted use of fund balance in subsequent year	<u>771,326</u>
Total assigned	<u>\$ 1,783,541</u>

Note 12 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This standard will require the School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2018.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2020.

Note 12 - Upcoming Accounting Pronouncements (Continued)

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2021.

Required Supplemental Information

Lake Shore Public Schools

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

	Original Budget	Final Amended Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 2,840,083	\$ 2,634,768	\$ 2,662,322	\$ 27,554
State sources	32,187,763	31,744,246	31,754,658	10,412
Federal sources	1,752,609	2,467,466	2,444,631	(22,835)
Interdistrict sources	1,062,681	919,000	925,000	6,000
Total revenue	37,843,136	37,765,480	37,786,611	21,131
Expenditures - Current				
Instruction:				
Basic program	18,537,482	19,082,043	18,765,498	(316,545)
Added needs	4,172,128	4,810,861	4,842,502	31,641
Support services:				
Pupil	2,813,880	3,008,176	2,923,033	(85,143)
Instructional staff	905,462	799,020	745,658	(53,362)
General administration	853,736	839,737	830,241	(9,496)
School administration	2,261,512	2,087,211	2,074,962	(12,249)
Business services	522,663	634,528	646,149	11,621
Operations and maintenance	4,216,689	4,059,336	3,780,958	(278,378)
Transportation	995,257	881,610	856,414	(25,196)
Central	1,391,049	1,132,873	1,063,153	(69,720)
Athletics	475,527	654,150	645,901	(8,249)
Community services	283,185	262,252	252,657	(9,595)
Total expenditures	37,428,570	38,251,797	37,427,126	(824,671)
Other Financing Uses - Transfers out	-	(185,948)	(187,710)	(1,762)
Net Change in Fund Balance	414,566	(672,265)	171,775	844,040
Fund Balance - July 1, 2016	4,609,036	4,609,036	4,609,036	-
Fund Balance - June 30, 2017	<u>\$ 5,023,602</u>	<u>\$ 3,936,771</u>	<u>\$ 4,780,811</u>	<u>\$ 844,040</u>

Lake Shore Public Schools

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund Adult and Community Education Fund Year Ended June 30, 2017

	Original Budget	Final Amended Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	\$ 695,331	\$ 717,947	\$ 686,176	\$ (31,771)
State sources	1,072,032	901,790	1,488,377	586,587
Federal sources	3,277,646	2,434,436	1,797,681	(636,755)
Interdistrict sources	23,464	187,438	189,735	2,297
Total revenue	5,068,473	4,241,611	4,161,969	(79,642)
Expenditures - Current				
Instruction:				
Basic program	496,567	453,728	451,799	(1,929)
Adult/Continuing education	2,983,908	2,284,303	2,188,277	(96,026)
Support services:				
Pupil	107,483	122,201	120,763	(1,438)
Instructional staff	313,601	260,946	268,715	7,769
General administration	9,750	6,730	10,000	3,270
School administration	214,690	219,903	217,905	(1,998)
Fiscal	95,874	91,639	95,422	3,783
Operations and maintenance	-	23,081	24,199	1,118
Pupil transportation services	1,017	1,050	1,564	514
Central	234,053	178,015	168,394	(9,621)
Community services	608,930	599,017	615,430	16,413
Total expenditures	5,065,873	4,240,613	4,162,468	(78,145)
Other Financing Uses - Transfers out	(1,000)	(1,000)	-	1,000
Net Change in Fund Balance	1,600	(2)	(499)	(497)
Fund Balance - July 1, 2016	1,618	1,618	1,618	-
Fund Balance - June 30, 2017	<u>\$ 3,218</u>	<u>\$ 1,616</u>	<u>\$ 1,119</u>	<u>\$ (497)</u>

Lake Shore Public Schools

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund International Program Fund Year Ended June 30, 2017

	Original Budget	Final Amended Budget	Actual	Over (Under) Final Budget
Revenue - Local sources				
Investment earnings	\$ 2,000	\$ 1,013	\$ 1,235	\$ 222
Miscellaneous	-	505	505	-
Fees from participants	942,000	966,208	966,208	-
Total revenue	944,000	967,726	967,948	222
Expenditures - Current				
Salaries and benefits	21,000	26,594	26,594	-
Purchased services	250,000	211,533	201,310	(10,223)
Supplies, equipment, and other	20,000	37,122	37,091	(31)
Capital outlay	-	8,650	6,664	(1,986)
Total expenditures	291,000	283,899	271,659	(12,240)
Excess of Revenue Over Expenditures	653,000	683,827	696,289	12,462
Other Financing Uses - Transfers out	(800,000)	(800,000)	(800,000)	-
Net Change in Fund Balance	(147,000)	(116,173)	(103,711)	12,462
Fund Balance - July 1, 2016	211,445	211,445	211,445	-
Fund Balance - June 30, 2017	<u>\$ 64,445</u>	<u>\$ 95,272</u>	<u>\$ 107,734</u>	<u>\$ 12,462</u>

Lake Shore Public Schools

Required Supplemental Information Schedule of 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	0.27036 %	0.27320 %	0.26110 %
School District's proportionate share of the net pension liability	\$ 67,453,741	\$ 66,730,328	\$ 57,509,649
School District's covered employee payroll	23,434,185	22,710,905	21,535,853
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	287.84 %	293.83 %	267.00 %
Plan fiduciary net position as a percentage of the total pension liability	63.01 %	62.92 %	66.15 %

Lake Shore Public Schools

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 6,375,173	\$ 6,184,350	\$ 4,966,587
Contributions in relation to the statutorily required contribution	6,375,173	6,184,350	4,966,587
Contribution deficiency	-	-	-
School District's covered employee payroll	22,742,194	21,938,942	22,097,950
Contributions as a percentage of covered employee payroll	28.03 %	28.19 %	22.48 %

Lake Shore Public Schools

Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2017

Benefit Changes - There were no changes of benefit terms for the plan year ended September 30, 2016.

Changes in Assumptions - There were no changes of benefit assumptions for the plan year ended September 30, 2016.

Other Supplemental Information

Lake Shore Public Schools

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

	Special Revenue Fund	Debt Service Funds			Total Nonmajor Governmental Funds
	Cafeteria	2014 Refunding Issue	2009 Bond Issue	2016 Bond Issue	
Assets					
Cash and investments	\$ 137,596	\$ -	\$ -	\$ -	\$ 137,596
Receivables	42,333	37	17	10	42,397
Due from other funds	3	-	-	-	3
Inventories	11,435	-	-	-	11,435
Restricted assets	-	68,456	23,339	23,195	114,990
Total assets	\$ 191,367	\$ 68,493	\$ 23,356	\$ 23,205	\$ 306,421
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 22,696	\$ -	\$ -	\$ -	\$ 22,696
Accrued payroll-related liabilities	2,286	-	-	-	2,286
Due to other funds	11	-	-	-	11
Unearned revenue	11,964	-	-	-	11,964
Total liabilities	36,957	-	-	-	36,957
Fund Balances					
Nonspendable - Inventories	11,435	-	-	-	11,435
Restricted:					
Debt service	-	68,493	23,356	23,205	115,054
Food services	142,975	-	-	-	142,975
Total fund balances	154,410	68,493	23,356	23,205	269,464
Total liabilities and fund balances	\$ 191,367	\$ 68,493	\$ 23,356	\$ 23,205	\$ 306,421

Lake Shore Public Schools

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

	Special Revenue Fund	Debt Service Funds			Total Nonmajor Governmental Funds
	Cafeteria	2014 Refunding Issue	2009 Bond Issue	2016 Bond Issue	
Revenue					
Local sources	\$ 564,332	\$ 2,350,083	\$ 541,961	\$ 622,092	\$ 4,078,468
State sources	51,696	31,211	6,105	-	89,012
Federal sources	683,113	-	-	-	683,113
Total revenue	1,299,141	2,381,294	548,066	622,092	4,850,593
Expenditures					
Current - Food services	1,335,215	-	-	-	1,335,215
Debt service:					
Principal	-	2,335,000	175,000	-	2,510,000
Interest	-	249,175	426,862	701,016	1,377,053
Other	-	653	-	501	1,154
Total expenditures	1,335,215	2,584,828	601,862	701,517	5,223,422
Excess of Expenditures Over Revenue	(36,074)	(203,534)	(53,796)	(79,425)	(372,829)
Other Financing Sources					
Transfers in	11,510	-	-	-	11,510
School Loan Revolving Fund proceeds	-	-	-	102,630	102,630
Total other financing sources	11,510	-	-	102,630	114,140
Net Change in Fund Balances	(24,564)	(203,534)	(53,796)	23,205	(258,689)
Fund Balances - Beginning of year	178,974	272,027	77,152	-	528,153
Fund Balances - End of year	\$ 154,410	\$ 68,493	\$ 23,356	\$ 23,205	\$ 269,464

Lake Shore Public Schools

Other Supplemental Information Schedule of Bonded Indebtedness June 30, 2017

Years Ending June 30	2014 Refunding Bond	2009 Bond Issue	2016 Bond Issue	Total
	Principal	Principal	Principal	
2018	\$ 2,290,000	\$ 315,000	\$ -	\$ 2,605,000
2019	2,165,000	550,000	-	2,715,000
2020	2,060,000	805,000	-	2,865,000
2021	-	2,335,000	3,440,000	5,775,000
2022	-	2,450,000	590,000	3,040,000
2023	-	2,560,000	595,000	3,155,000
2024	-	-	1,670,000	1,670,000
2025	-	-	1,700,000	1,700,000
2026	-	-	1,740,000	1,740,000
2027	-	-	1,780,000	1,780,000
2028	-	-	1,825,000	1,825,000
2029	-	-	1,875,000	1,875,000
2030	-	-	1,925,000	1,925,000
2031	-	-	1,980,000	1,980,000
2032	-	-	2,040,000	2,040,000
2033	-	-	2,100,000	2,100,000
2034	-	-	2,150,000	2,150,000
2035	-	-	200,000	200,000
2036	-	-	200,000	200,000
2037	-	-	200,000	200,000
2038	-	-	200,000	200,000
2039	-	-	200,000	200,000
2040	-	-	200,000	200,000
2041	-	-	200,000	200,000
2042	-	-	200,000	200,000
2043	-	-	200,000	200,000
2044	-	-	200,000	200,000
2045	-	-	200,000	200,000
2046	-	-	200,000	200,000
Total	<u>\$ 6,515,000</u>	<u>\$ 9,015,000</u>	<u>\$ 27,810,000</u>	<u>\$ 43,340,000</u>
Principal payments due	May 1	May 1	May 1	
Interest payments due	May 1 and November 1	May 1 and November 1	May 1 and November 1	
Interest rate	2.00% to 4.00%	3.75% to 5.00%	3.00% to 3.25%	
Original issue	<u>\$ 13,390,000</u>	<u>\$ 9,700,000</u>	<u>\$ 27,810,000</u>	