

Lake Shore Public Schools

**Financial Report
with Supplemental Information
June 30, 2010**

Lake Shore Public Schools

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Independent Auditor's Report

To the Board of Education
Lake Shore Public Schools

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, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake Shore Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education
Lake Shore Public Schools

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 accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated October 11, 2010 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions 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* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 11, 2010

Lake Shore Public Schools

Management's Discussion and Analysis

This section of Lake Shore Public Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2010. 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, Building and Site Fund, and 2009 Capital Projects Fund - with all other funds presented in one column as nonmajor funds. The Internal Service Fund statement of net assets, statement of revenue, expenses, and changes in fund net assets, 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

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 assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial position. Over time, increases or decreases in the School District's net assets - 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 assets 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.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

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 Athletics 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:

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 assets and the statement of activities) and governmental funds in reconciliation.

The School District also maintains a proprietary fund, which utilizes the full accrual basis of accounting. The proprietary fund maintained is an Internal Service Fund used to account for the financing of risk management services provided to other funds on a cost-reimbursement basis and early retirement incentives.

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 assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30:

TABLE I

	Governmental Activities	
	2010	2009
	(in millions)	
Assets		
Current and other assets	\$ 19.7	\$ 28.3
Capital assets	<u>34.3</u>	<u>27.9</u>
Total assets	54.0	56.2
Liabilities		
Current liabilities	7.3	6.7
Long-term liabilities	<u>31.1</u>	<u>32.9</u>
Total liabilities	<u>38.4</u>	<u>39.6</u>
Net Assets		
Invested in capital assets - Net of related debt	3.5	2.3
Restricted - Debt service	1.1	1.5
Unrestricted	<u>11.0</u>	<u>12.8</u>
Total net assets	<u>\$ 15.6</u>	<u>\$ 16.6</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$15.6 million at June 30, 2010. Capital assets net of related debt, totaling \$3.5 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 assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$11 million) was unrestricted.

The \$11 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables 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 will have a significant impact on the change in unrestricted net assets 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 assets for fiscal years 2009 and 2010.

TABLE 2

	Governmental Activities	
	2010	2009
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.5	\$ 1.7
Operating grants	10.0	8.7
General revenue:		
Property taxes	5.1	5.0
State foundation allowance	23.2	22.9
Other	1.5	1.7
Total revenue	41.3	40.0
Functions/Program Expenses		
Instruction	23.4	22.5
Support services	13.1	14.0
Adult and community services	1.0	1.0
Food services	1.2	1.2
Athletics	0.4	0.5
Interest on long-term debt	1.5	1.2
Depreciation (unallocated)	1.7	1.5
Total functions/program expenses	42.3	41.9
Decrease in Net Assets	\$ (1.0)	\$ (1.9)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$42.3 million. Certain activities were partially funded from those who benefited from the programs (\$1.5 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10 million). We paid for the remaining "public benefit" portion of our governmental activities with \$5.1 million in taxes, \$23.2 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 School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

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

As the School District completed the year, the governmental funds reported a combined fund balance of \$12.5 million. The General Fund showed a fund balance decrease of approximately \$300,000 from the prior year.

The Debt Service Funds showed a combined fund balance decrease of \$415,000. Millage rates remained stable with the previous year at 3.95 mills, but continued to be much lower than the original levy of 4.60 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 reserved since they can only be used to pay debt service obligations.

The Capital Projects Funds are comprised of the 2009 Capital Projects Fund and the Building and Site Fund. These fund balances decreased from the prior year by \$7,124,000 and \$1,153,000, respectively. The decrease in the 2009 Capital Projects Fund represents the net expenditures for bond construction projects. The decrease in the Building and Site Fund was caused by the use of Durant funds and the elimination of the deferred maintenance transfer from the General Fund. Bond issue projects began in June 2009 and are scheduled to be substantially complete by December 2010. The Building and Site Fund will continue to be in existence going forward and will be utilized to fund major capital needs.

The Internal Service Fund's net assets decreased by \$136,000, primarily as a result of increased workers' compensation claims.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. 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. There were no significant changes from the original budget to the final budget, and there were no significant variances from budgeted to actual results.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2010, the School District had \$34.3 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 \$6.3 million over last year (including additions, disposals, and depreciation).

Capital assets consist of the following:

TABLE 3

	2010	2009
	(in thousands)	
Land	\$ 290	\$ 290
Construction in progress	3,795	1,176
Building and building improvements	24,086	21,942
Site improvements	4,049	2,308
Buses and other vehicles	457	456
Furniture and equipment	1,587	1,765
	<u>1,587</u>	<u>1,765</u>
Total capital assets - Net of accumulated depreciation	<u><u>\$ 34,264</u></u>	<u><u>\$ 27,937</u></u>

This year's construction in progress balance of \$3.8 million resulted from the 2009 bond issue being approved and construction beginning in June 2009.

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

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$30.8 million in general obligation bonds outstanding versus \$32.4 million in the previous year.

The School District's general obligation bond rating continues to be AAA by Standard and 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. The School District's outstanding unqualified general obligation debt of \$30.8 million is significantly below this \$100 million statutory limit.

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

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 change in unrestricted assets 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 2010-2011 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 2010-2011 fiscal year is expected to be 25 percent and 75 percent of the February 2010 and September 2010 student counts, respectively. The 2010-2011 budget, adopted in June 2010, is based on an estimate of students that will be enrolled in September 2010. 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 resident students.

Approximately 76 percent of total General Fund revenue is from the foundation allowance. Unfortunately, the Michigan economy continues to struggle, and funding for the state School Aid Fund continues to decline. The 2010-2011 budget is based on the continued reduction in the foundation allowance of \$154 per pupil. It is anticipated that significant reforms will not be made to the state School Aid Fund for 2011-2012, and the School District foundation allowance is expected to be reduced further.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

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 revenues to fund its appropriation to school districts. The State periodically holds revenue-estimating conferences, usually in January and May, to estimate revenues. As a result of the State's recent history of foundation allowance reductions in mid-year (often March, or July as was the case last fiscal 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 district resources are not sufficient to fund original appropriations.

Expense Projection

Wages, taxes, and benefits comprise over 86 percent of all General Fund expenditures. All employee labor contracts expired effective June 30, 2010. With the unlikelihood of the state School Aid Fund staying constant or increasing, all employee groups are being asked to take a wage and step freeze.

With regard to pension costs, the rate will increase from 16.94 percent to 19.41 percent, which will begin on October 1, 2010.

2010-2011 Bottom Line

Lake Shore Public Schools laid off four teaching staff in its beginning attempts to deal with the financial issues facing schools for the 2010-2011 school year and beyond. Although statewide, school districts are finding it more difficult to make ends meet, Lake Shore Public Schools will continue to take action, as it has historically, so that its fiscal position remains strong.

Fund equity will play an important role in maintaining a strong fiscal position. The School District 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 as commercial entities do. Services to the School District's students include, but are not limited to, instruction, support services, athletics, community education, food services, and the safety of the schools.

The School District determines what an appropriate amount of fund equity is by evaluating the level of cash flow needed during the period from August 21 to October 19, when there are no state foundation dollars coming to the School District. During this time period, the School District has financial obligations including four payrolls, as well as paying its monthly operating bills. Based on these financial obligations, it is indicated that an appropriate fund balance for the School District is approximately \$5,000,000 or 16 percent of the 2009-2010 operating budget. This level of appropriate fund balance will increase each year as expenditures increase.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

Fund balance is often stated as a percentage of expenditures and is sometimes published in the newspaper. Lake Shore Public Schools determines fund balance, as a percentage of expenditures, by including all expenditures of the School District. These expenditures include not only direct program costs, but also capital outlay, community services, and operating transfers. The Michigan Department of Education (MDE), however, does not include all expenditures of the School District when it computes fund balance as a percentage of expenditures. MDE specifically excludes capital outlay, community services, and operating transfers, leading to a result where the fund balance as a percentage of expenditures is higher. This computation can be misleading to readers of this information who are not familiar with School District operations and all of the expenditures incurred annually. Lake Shore Public Schools uses the total expenditures of the General Fund, cash flow needs, and other available information in order to determine an appropriate level of fund balance to ensure that the financial health of the School District remains strong.

Lake Shore Public Schools

Statement of Net Assets June 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash and investments (Note 3)	\$ 10,443,351
Receivables (Note 4)	6,541,494
Inventories	10,879
Prepaid costs	99,778
Restricted assets (Note 1)	2,674,702
Capital assets - Net (Note 5)	<u>34,264,743</u>
Total assets	54,034,947
Liabilities	
Accounts payable	1,769,980
Accrued payroll and other liabilities	3,331,339
Due to other governmental units	18,410
Provision for uninsured losses	39,179
Deferred revenue (Note 4)	91,700
Long-term liabilities (Note 7):	
Due within one year	2,107,444
Due in more than one year	<u>31,108,514</u>
Total liabilities	<u>38,466,566</u>
Net Assets	
Invested in capital assets - Net of related debt	3,492,823
Restricted - Debt service	1,074,982
Unrestricted	<u>11,000,576</u>
Total net assets	<u>\$ 15,568,381</u>

Lake Shore Public Schools

Statement of Activities Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 23,355,623	\$ 99,261	\$ 9,897,796	\$ (13,358,566)
Support services	13,124,977	33,600	-	(13,091,377)
Athletics	402,673	36,139	-	(366,534)
Food services	1,156,047	465,311	47,608	(643,128)
Adult and community services	975,089	888,500	-	(86,589)
Payments to other public schools (ISDs, LEAs)	18,410	-	-	(18,410)
Interest on long-term debt	1,485,605	-	-	(1,485,605)
Depreciation (unallocated)	1,657,454	-	-	(1,657,454)
Total governmental activities	<u>\$ 42,175,878</u>	<u>\$ 1,522,811</u>	<u>\$ 9,945,404</u>	(30,707,663)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				3,070,040
Property taxes, levied for debt service				1,980,042
State aid not restricted to specific purposes				23,237,733
Federal sources - Unrestricted				917,992
Interest and investment earnings				63,480
Loss on the sale of capital assets				(12,576)
Other				413,735
Total general revenue				<u>29,670,446</u>
Change in Net Assets				(1,037,217)
Net Assets - Beginning of year				<u>16,605,598</u>
Net Assets - End of year				<u>\$ 15,568,381</u>

Lake Shore Public Schools

	General Fund	Adult and Community Education Fund
Assets		
Cash and investments (Note 3)	\$ 4,462,414	\$ 699,672
Receivables (Note 4)	5,710,561	746,710
Due from other funds (Note 6)	194,305	2,065
Inventories	-	-
Prepaid costs	99,778	-
Restricted assets (Note 1)	-	-
	<u> </u>	<u> </u>
Total assets	<u>\$ 10,467,058</u>	<u>\$ 1,448,447</u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 652,689	\$ 27,602
Accrued payroll and other liabilities	2,803,380	279,901
Due to other governmental units	-	18,410
Due to other funds (Note 6)	2,136,272	277,991
Deferred revenue (Note 4)	67,084	19,557
	<u> </u>	<u> </u>
Total liabilities	5,659,425	623,461
Fund Balances		
Reserved for:		
Capital projects (bonded)	-	-
Debt service	-	-
Inventories	-	-
Prepaid costs	99,778	-
Other	-	-
Unreserved:		
Designated fund balance:		
Designated for technology	342,500	-
Designated for deferred maintenance plan	250,000	331,165
Designated for district safety and security plan	-	-
Designated for short-term obligations - Unused sick leave	308,715	-
Designated for long-term obligations - Unused sick leave	867,467	-
Designated for fixed asset replacement plan	250,000	-
Designated for tax tribunals	80,000	-
Designated for retiree severance pay	30,000	-
Designated for bus replacement	80,000	-
Designated for MPSERS credit for projected pension increase	505,000	-
Designated for budget/cash flow stabilization	858,623	-
Designated for employee benefit cost increases	350,000	-
Durant	-	-
Other	620,550	-
Undesignated, reported in:		
General Fund	165,000	-
Special Revenue Funds	-	493,821
	<u> </u>	<u> </u>
Total fund balances	4,807,633	824,986
	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 10,467,058</u>	<u>\$ 1,448,447</u>

**Governmental Funds
Balance Sheet
June 30, 2010**

Building and Site Fund	2009 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 4,589,606	\$ -	\$ 17,768	\$ 9,769,460
601	14,153	69,469	6,541,494
-	-	37,752	234,122
-	-	10,879	10,879
-	-	-	99,778
-	1,599,720	1,074,982	2,674,702
\$ 4,590,207	\$ 1,613,873	\$ 1,210,850	\$ 19,330,435
\$ 87,096	\$ 346,017	\$ 35,881	\$ 1,149,285
-	-	6,330	3,089,611
-	-	-	18,410
-	-	19,059	2,433,322
-	-	5,059	91,700
87,096	346,017	66,329	6,782,328
-	1,267,856	-	1,267,856
-	-	1,074,982	1,074,982
-	-	10,879	10,879
-	-	-	99,778
-	-	5,059	5,059
420,800	-	-	763,300
274,455	-	-	855,620
143,808	-	-	143,808
-	-	-	308,715
-	-	-	867,467
-	-	-	250,000
-	-	-	80,000
-	-	-	30,000
-	-	-	80,000
-	-	-	505,000
-	-	-	858,623
-	-	-	350,000
1,759,232	-	-	1,759,232
1,904,816	-	-	2,525,366
-	-	-	165,000
-	-	53,601	547,422
4,503,111	1,267,856	1,144,521	12,548,107
\$ 4,590,207	\$ 1,613,873	\$ 1,210,850	\$ 19,330,435

Lake Shore Public Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2010

Fund Balance - Total Governmental Funds \$ 12,548,107

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

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

Cost of capital assets	\$ 61,368,039	
Accumulated depreciation	<u>(27,103,296)</u>	34,264,743

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds payable including premium (discount)	(32,039,776)	
Compensated absences	<u>(1,176,182)</u>	(33,215,958)

Accrued interest payable is not included as a liability in governmental funds

(241,728)

Internal Service Fund is included as part of governmental activities

2,213,217

Net Assets - Governmental Activities

\$ 15,568,381

Lake Shore Public Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2010

	General Fund	Adult and Community Education Fund	Building and Site Fund	2009 Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue						
Local sources	\$ 2,824,036	\$ 778,008	\$ 20,384	\$ 20,418	\$ 3,282,371	\$ 6,925,217
State sources	24,278,044	1,034,166	-	-	60,656	25,372,866
Federal sources	2,619,251	4,353,383	-	-	574,561	7,547,195
Interdistrict sources	1,168,180	12,888	-	-	-	1,181,068
Total revenue	30,889,511	6,178,445	20,384	20,418	3,917,588	41,026,346
Expenditures						
Current:						
Instruction	18,722,233	4,389,016	-	-	-	23,111,249
Support services	11,824,666	993,851	-	-	-	12,818,517
Athletics	-	-	-	-	402,673	402,673
Food services	-	-	-	-	1,134,899	1,134,899
Adult and community services	273,821	701,268	-	-	-	975,089
Debt service:						
Principal	-	-	-	-	1,590,000	1,590,000
Interest	-	-	-	-	1,526,435	1,526,435
Other	-	-	-	-	425	425
Capital outlay	54,534	58,268	1,173,292	7,144,033	1,500	8,431,627
Payments to other public schools (ISDs, LEAs)	-	18,410	-	-	-	18,410
Total expenditures	30,875,254	6,160,813	1,173,292	7,144,033	4,655,932	50,009,324
Excess of Revenue Over (Under) Expenditures	14,257	17,632	(1,152,908)	(7,123,615)	(738,344)	(8,982,978)
Other Financing Sources (Uses)						
Transfers in (Note 6)	-	-	-	-	319,627	319,627
Transfers out (Note 6)	(319,627)	-	-	-	-	(319,627)
Net Change in Fund Balances	(305,370)	17,632	(1,152,908)	(7,123,615)	(418,717)	(8,982,978)
Fund Balances - Beginning of year	5,113,003	807,354	5,656,019	8,391,471	1,563,238	21,531,085
Fund Balances - End of year	\$ 4,807,633	\$ 824,986	\$ 4,503,111	\$ 1,267,856	\$ 1,144,521	\$ 12,548,107

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, 2010

Net Change in Fund Balances - Total governmental funds \$ (8,982,978)

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	\$ (1,977,869)	
Capitalized capital outlay	<u>8,318,127</u>	6,340,258

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 (12,576)

Underwriter's premium and discount originally reported in the funds in year of issuance and amortized in the statement of activities over the life of the corresponding bond issue 123,729

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 1,590,000

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 41,255

Compensated absences are recorded when earned in the statement of activities. In the current year, more was earned than was paid out (1,106)

Internal Service Funds are included as governmental activities (135,799)

Change in Net Assets of Governmental Activities **\$ (1,037,217)**

Lake Shore Public Schools

Proprietary Fund - Internal Service Fund Statement of Net Assets June 30, 2010

Assets

Cash and investments (Note 3)	\$ 673,891
Due from other funds (Note 6)	<u>2,199,200</u>
Total assets	2,873,091

Liabilities

Accounts payable (Note 8)	620,695
Provision for uninsured losses (Note 8)	<u>39,179</u>
Total liabilities	<u>659,874</u>

Net Assets - Unrestricted \$ 2,213,217

Lake Shore Public Schools

Proprietary Fund - Internal Service Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2010

Operating Revenue - Charges to other funds	\$ 3,905,455
Operating Expenses - Claims, reinsurance, and administrative fees	
Medical	3,179,253
Dental	273,110
Workers' compensation and other	<u>590,053</u>
Total operating expenses	<u>4,042,416</u>
Operating Loss	(136,961)
Nonoperating Revenue - Interest income	<u>1,162</u>
Change in Net Assets	(135,799)
Net Assets - Beginning of year	<u>2,349,016</u>
Net Assets - End of year	<u><u>\$ 2,213,217</u></u>

Lake Shore Public Schools

Proprietary Fund - Internal Service Fund Statement of Cash Flows Year Ended June 30, 2010

Cash Flows from Operating Activities	
Receipts from other funds	\$ 4,187,523
Claims paid	<u>(3,818,268)</u>
Net cash provided by operating activities	369,255
Cash Flows from Investment Activities - Interest received on investments	<u>1,162</u>
Net Increase in Cash and Investments	370,417
Cash and Investments - Beginning of year	<u>303,474</u>
Cash and Investments - End of year	<u><u>\$ 673,891</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (136,961)
Adjustments to reconcile operating loss to net cash from operating activities -	
Changes in assets and liabilities:	
Due from other funds	282,068
Prepaid costs	28,065
Accounts payable	194,567
Provision for uninsured losses	<u>1,516</u>
Net cash provided by operating activities	<u><u>\$ 369,255</u></u>

Lake Shore Public Schools

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2010

	<u>Agency Fund</u>
Assets - Cash and investments	<u>\$ 496,485</u>
Liabilities - Due to student groups and other	<u>\$ 496,485</u>

Lake Shore Public Schools

Notes to Financial Statements June 30, 2010

Note I - Summary of 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 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 assets and the statement of activities) report information on all of the nonfiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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 revenues. 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 revenues 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 - Summary of 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.

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. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Note I - Summary of Significant Accounting Policies (Continued)

Proprietary fund and fiduciary fund statements are also 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 medical, 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 used to segregate, for administrative purposes, the transactions relating to the St. Clair Shores Adult and Community Education program.

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.

2009 Capital Projects Fund - The 2009 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for remodeling, building reconstruction, and technology updates. The fund operates until the purpose for which it was created is accomplished.

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 Funds include the Cafeteria and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Note I - Summary of Significant Accounting Policies (Continued)

Debt Service Funds - The 2004 Refunding Bond Issue and the 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 2004 Refunding Bonds and the 2009 Bonds.

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.

Fiduciary Fund - Agency Fund - The Fiduciary Fund is 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 Fiduciary Fund consists of a Student Activities (Agency) Fund that is 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 Assets 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. 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."

All accounts and property taxes receivable 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 revenue when received. 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.

Note I - Summary of Significant Accounting Policies (Continued)

Restricted Assets - Remaining cash from property tax collections in the 2004 Bond Issue Debt Service Fund and the 2009 Bond Issue Debt Service Fund totaling \$1,074,982 is required to be set aside for future repayments of bonded indebtedness. Cash in the 2009 Capital Project Fund of \$1,599,720 is required to be used for capital projects that have been approved through the 2009 bond issue. These amounts have been classified as restricted assets at June 30, 2010.

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 estimated fair market 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.

Capital assets are depreciated using the straight-line method over the following useful lives:

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

Compensated Absences (Vacation and Sick Leave) - The liability for compensated absences reported in the government-wide 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 and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, 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 deferred charges and are amortized over the term of the related debt.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that may be subject to change.

Use of Estimates - The preparation of financial statements in conformity with GAAP 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 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with GAAP and state law for the General Fund and all Special Revenue Funds, except that capital outlay is budgeted in other expenditure categories, and in the Adult and Community Education Fund, payments to other districts have been budgeted as transfers out. The School District also adopted annual budgets for its Debt Service Fund, Capital Projects Funds, and Internal Service Fund. All annual appropriations lapse at fiscal year end. Significant budget deviations occurred in the Adult and Community Education Fund between the pupil and instructional staff budget lines as the result of a misclassification of an account included in the amended budget.

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 adopted and amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

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

Capital Projects Fund Compliance - The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied 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 two banks for the deposit of its funds.

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 \$7,886,264 included \$2,832,987 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk 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 have 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, 2010

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	Rating	Rating Organization
Michigan Liquid Asset Fund	\$ 4,311,913	AAAm	S&P
Bank Investment Pool	1,004,069	AAAm	S&P
Total investments	<u>\$ 5,315,982</u>		

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer.

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 - Receivables

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

	General Fund	Adult and Community Education Fund	Building and Site Fund	2009 Capital Projects Fund	Nonmajor Governmental Funds	Total
Receivables:						
Accounts	\$ 59,275	\$ 11,474	\$ -	\$ -	\$ 31,796	\$ 102,545
Interest and other	-	-	601	14,153	-	14,754
Intergovernmental	5,651,286	735,236	-	-	37,673	6,424,195
Total receivables	<u>\$ 5,710,561</u>	<u>\$ 746,710</u>	<u>\$ 601</u>	<u>\$ 14,153</u>	<u>\$ 69,469</u>	<u>\$ 6,541,494</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At June 30, 2010, the School District has \$91,700 of unearned deferred revenue related to grants received and tuition payments received but not yet earned.

Lake Shore Public Schools

Notes to Financial Statements June 30, 2010

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2009	Reclassifications	Additions	Disposals	Balance June 30, 2010
Capital assets not being depreciated:					
Land	\$ 289,604	\$ -	\$ -	\$ -	\$ 289,604
Construction in progress	1,176,208	(1,176,208)	3,795,418	-	3,795,418
Capital assets being depreciated:					
Site improvements	3,893,602	299,733	1,694,855	-	5,888,190
Buildings and building improvements	43,325,323	876,475	2,681,552	-	46,883,350
Furniture and equipment	3,097,199	-	46,372	-	3,143,571
Buses and other vehicles	1,393,737	-	99,930	125,761	1,367,906
Subtotal	51,709,861	1,176,208	4,522,709	125,761	57,283,017
Accumulated depreciation:					
Site improvements	1,585,844	-	252,851	-	1,838,695
Buildings and building improvements	21,382,584	-	1,414,715	-	22,797,299
Furniture and equipment	1,332,480	-	224,022	-	1,556,502
Buses and other vehicles	937,704	-	86,281	113,185	910,800
Subtotal	25,238,612	-	1,977,869	113,185	27,103,296
Net capital assets being depreciated	26,471,249	1,176,208	2,544,840	12,576	30,179,721
Net governmental capital assets	\$ 27,937,061	\$ -	\$ 6,340,258	\$ 12,576	\$ 34,264,743

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

Governmental activities:

Instruction	\$ 164,163
Support services	136,473
Food services and athletics	19,779
Unallocated	1,657,454
Total governmental activities	\$ 1,977,869

Construction Commitments - The School District has active construction projects at year end. The School District's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitments</u>
2009 Capital Projects Fund projects	\$ 8,461,276	\$ 1,267,856

Lake Shore Public Schools

Notes to Financial Statements June 30, 2010

Note 6 - 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	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 194,305	\$ -	\$ 194,305
Adult and Community Education Fund	2,065	-	-	2,065
Nonmajor governmental funds	37,752	-	-	37,752
Internal Service Fund	2,096,455	83,686	19,059	2,199,200
Total	\$ 2,136,272	\$ 277,991	\$ 19,059	\$ 2,433,322

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from investment accounts, as well as pooled investments held by the General Fund on behalf of other funds.

The General Fund transfer of \$319,627 represents a subsidy to the Athletics Fund.

Note 7 - Long-term Debt

The School District issues bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 32,395,000	\$ -	\$ 1,590,000	\$ 30,805,000	\$ 1,675,000
Issuance discounts	(11,747)	-	(839)	(10,908)	(6,154)
Issuance premiums	1,370,252	-	124,568	1,245,684	129,883
Total bonds payable	33,753,505	-	1,713,729	32,039,776	1,798,729
Other obligations - Compensated absences	1,175,076	8,924	7,818	1,176,182	308,715
Total governmental activities	\$ 34,928,581	\$ 8,924	\$ 1,721,547	\$ 33,215,958	\$ 2,107,444

Lake Shore Public Schools

Notes to Financial Statements June 30, 2010

Note 7 - Long-term Debt (Continued)

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2011	\$ 1,675,000	\$ 1,450,363	\$ 3,125,363
2012	1,785,000	1,400,113	3,185,113
2013	1,875,000	1,312,263	3,187,263
2014	2,035,000	1,219,563	3,254,563
2015	2,215,000	1,118,863	3,333,863
2016-2020	13,875,000	3,791,647	17,666,647
2021-2023	7,345,000	1,232,511	8,577,511
Total	<u>\$ 30,805,000</u>	<u>\$ 11,525,323</u>	<u>\$ 42,330,323</u>

Governmental Activities

General obligation bonds consist of the following:

\$25,795,000 refunding bonds due in annual installments of \$1,610,000 to \$2,450,000 through May 1, 2020; interest at 3.0 percent to 5.0 percent	\$ 21,185,000
\$9,700,000 capital projects bonds due in annual installments of \$65,000 to \$2,560,000 through May 1, 2023; interest at 3.0 percent to 5.0 percent	<u>9,620,000</u>
Total bonded debt	<u>\$ 30,805,000</u>

Other governmental activities long-term obligations include the following:

Compensated absences	\$ 1,176,182
Discount on bond issuance	(10,908)
Premium on bond issuance	<u>1,245,684</u>
Total other governmental debt	<u>\$ 2,410,958</u>

In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. Accordingly, the trust account's assets and the liability for the defeased bonds are not included in the basic financial statements. At June 30, 2010, \$21,185,000 of bonds outstanding are considered defeased.

Lake Shore Public Schools

Notes to Financial Statements June 30, 2010

Note 8 - 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, and errors and omissions claims; the School District is self-insured or partially self-insured for workers' compensation, health, 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, health, 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:

	2010	2009
Estimated liability - Beginning of year	\$ 463,791	\$ 448,182
Estimated claims incurred - Including changes in estimates	4,014,351	4,275,847
Claim payments	<u>(3,818,268)</u>	<u>(4,260,238)</u>
Unpaid claims - End of year	<u>\$ 659,874</u>	<u>\$ 463,791</u>

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a state-wide, 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. 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 at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909-7671.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 9.73 percent of covered payroll for the period from July 1, 2009 through September 30, 2009 and 10.13 percent for the period from October 1, 2009 through June 30, 2010. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. For member investment plan members hired after June 30, 2008, a graduated fixed contribution rate is used ranging from 3 percent to 6.4 percent of wages. The School District's required and actual contributions to the plan for the years ended June 30, 2010, 2009, and 2008 were \$2,753,000, \$2,678,000, and \$2,503,000, respectively.

Postemployment Benefits - 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 of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. For members who first work after June 30, 2008, a graded premium health insurance subsidy has been put in place. 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. Required contributions for postemployment healthcare benefits are included as part of the School District's total contribution to the MPSERS plan discussed above. The employer contribution rate was 6.81 percent of covered payroll for the period from July 1, 2009 through June 30, 2010. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2010, 2009, and 2008 were \$1,927,000, \$1,874,000, and \$1,612,000, respectively.

Lake Shore Public Schools

Notes to Financial Statements June 30, 2010

Note 10 - New Accounting Pronouncement

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund-type Definitions. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The School District will implement Statement No. 54 beginning with the fiscal year ending June 30, 2011.

Required Supplemental Information

Lake Shore Public Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2010

	Original Budget	Final Amended Budget	Actual
Revenue			
Local sources	\$ 2,839,337	\$ 2,809,200	\$ 2,824,036
State sources	24,597,693	24,200,954	24,278,044
Federal sources	2,310,022	2,844,596	2,619,251
Interdistrict sources	1,391,883	1,253,318	1,168,180
Total revenue	31,138,935	31,108,068	30,889,511
Expenditures			
Current:			
Instruction:			
Basic programs	14,832,274	15,100,037	14,907,504
Added needs	3,552,511	4,104,738	3,853,603
Support services:			
Pupil	2,348,506	2,303,727	2,345,680
Instructional staff	930,639	943,186	806,292
General administration	655,059	831,195	830,186
School administration	1,900,071	1,951,889	1,971,420
Business services	619,444	589,562	498,364
Operations and maintenance	3,962,016	3,903,306	3,887,829
Transportation	700,100	680,871	676,552
Central	742,432	820,566	824,003
Community services	307,349	282,490	273,821
Total expenditures	30,550,401	31,511,567	30,875,254
Excess of Revenue Over (Under) Expenditures	588,534	(403,499)	14,257
Other Financing Uses - Transfers out	(1,011,865)	(357,548)	(319,627)
Net Change in Fund Balance	(423,331)	(761,047)	(305,370)
Fund Balance - July 1, 2009	5,113,003	5,113,003	5,113,003
Fund Balance - June 30, 2010	\$ 4,689,672	\$ 4,351,956	\$ 4,807,633

Lake Shore Public Schools

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund Adult and Community Education Fund Year Ended June 30, 2010

	Original Budget	Final Amended Budget	Actual
Revenue			
Local sources	\$ 863,550	\$ 820,625	\$ 778,008
State sources	1,083,583	1,083,583	1,034,166
Federal sources	4,234,449	5,164,559	4,353,383
Interdistrict sources	7,954	7,954	12,888
Total revenue	6,189,536	7,076,721	6,178,445
Expenditures			
Instruction:			
Basic program	330,890	362,986	384,099
Adult/Continuing education	3,894,680	4,852,345	4,033,122
Total instruction	4,225,570	5,215,331	4,417,221
Support services:			
Pupil	33,000	478,294	25,882
Instructional staff	409,442	14,172	368,159
General administration	8,600	8,600	1,120
School administration	143,230	143,230	134,210
Business services	39,781	43,700	46,552
Operations and maintenance	179,500	182,500	185,505
Pupil transportation services	1,059	950	543
Central	313,929	301,669	261,943
Total support services	1,128,541	1,173,115	1,023,914
Community services	714,079	700,437	701,268
Total expenditures	6,068,190	7,088,883	6,142,403
Transfers Out	(25,000)	(25,000)	(18,410)
Net Change in Fund Balance	96,346	(37,162)	17,632
Fund Balance - July 1, 2009	807,354	807,354	807,354
Fund Balance - June 30, 2010	<u>\$ 903,700</u>	<u>\$ 770,192</u>	<u>\$ 824,986</u>

Other Supplemental Information

Lake Shore Public Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2010

	Special Revenue Funds		Debt Service Funds		Total
	Cafeteria	Athletics	2004 Bond Issue	2009 Bond Issue	
Assets					
Cash and investments	\$ 17,768	\$ -	\$ -	\$ -	\$ 17,768
Receivables	69,469	-	-	-	69,469
Due from other funds	37,752	-	-	-	37,752
Inventories	10,879	-	-	-	10,879
Restricted assets	-	-	915,244	159,738	1,074,982
Total assets	\$ 135,868	\$ -	\$ 915,244	\$ 159,738	\$ 1,210,850
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 35,881	\$ -	\$ -	\$ -	\$ 35,881
Accrued payroll and other liabilities	6,330	-	-	-	6,330
Due to other funds	19,059	-	-	-	19,059
Deferred revenue	5,059	-	-	-	5,059
Total liabilities	66,329	-	-	-	66,329
Fund Balances					
Reserved for:					
Debt service	-	-	915,244	159,738	1,074,982
Inventories	10,879	-	-	-	10,879
Other	5,059	-	-	-	5,059
Unreserved - Undesignated, reported in Special Revenue Funds	53,601	-	-	-	53,601
Total fund balances	69,539	-	915,244	159,738	1,144,521
Total liabilities and fund balances	\$ 135,868	\$ -	\$ 915,244	\$ 159,738	\$ 1,210,850

Lake Shore Public Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2010

	Special Revenue Funds		Debt Service Funds		Total
	Cafeteria	Athletics	2004 Bond Issue	2009 Bond Issue	
Revenue					
Local sources	\$ 495,867	\$ 84,546	\$ 1,989,603	\$ 712,355	\$ 3,282,371
State sources	60,656	-	-	-	60,656
Federal sources	574,561	-	-	-	574,561
Total revenue	1,131,084	84,546	1,989,603	712,355	3,917,588
Expenditures					
Current:					
Athletics	-	402,673	-	-	402,673
Food services	1,134,899	-	-	-	1,134,899
Debt service:					
Principal	-	-	1,510,000	80,000	1,590,000
Interest	-	-	1,053,988	472,447	1,526,435
Other	-	-	255	170	425
Capital outlay	-	1,500	-	-	1,500
Total expenditures	1,134,899	404,173	2,564,243	552,617	4,655,932
Excess of Revenue (Under) Over Expenditures	(3,815)	(319,627)	(574,640)	159,738	(738,344)
Other Financing Sources - Transfers in	-	319,627	-	-	319,627
Net Change in Fund Balances	(3,815)	-	(574,640)	159,738	(418,717)
Fund Balances - Beginning of year	73,354	-	1,489,884	-	1,563,238
Fund Balances - End of year	\$ 69,539	\$ -	\$ 915,244	\$ 159,738	\$ 1,144,521

Lake Shore Public Schools

Other Supplemental Information Schedule of Bonded Indebtedness June 30, 2010

Years Ending June 30	2004 Bond Refunding	2009 Bond Issue
	Principal	Principal
2011	\$ 1,610,000	\$ 65,000
2012	1,715,000	70,000
2013	1,805,000	70,000
2014	1,965,000	70,000
2015	2,140,000	75,000
2016	2,245,000	80,000
2017	2,360,000	175,000
2018	2,450,000	315,000
2019	2,450,000	550,000
2020	2,445,000	805,000
2021	-	2,335,000
2022	-	2,450,000
2023	-	2,560,000
Total	<u>\$ 21,185,000</u>	<u>\$ 9,620,000</u>
Principal payments due	May 1	May 1
Principal payments due	May 1 and November 1	May 1 and November 1
Interest rate	3.00% to 5.00%	3.00% to 5.00%
Original issue	<u>\$ 25,795,000</u>	<u>\$ 9,700,000</u>