

Lake Shore Public Schools

**Financial Report
with Supplemental Information
June 30, 2009**

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, 2009, 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, 2009 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 supplementary 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 supplementary 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 supplementary information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplementary information is presented for the purpose of additional analysis. The other supplementary 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 September 9, 2009 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

September 9, 2009

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, 2009. 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 Supplementary Information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

Required Supplementary Information -
Budgetary Information for Major Funds

Other Supplementary 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 revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall 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 a reconciliation.

The School District also maintains a proprietary fund, which utilizes the full accrual basis of accounting. The only 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	
	2009	2008
	(in millions)	
Assets		
Current and other assets	\$ 28.3	\$ 21.1
Capital assets	<u>27.9</u>	<u>28.3</u>
Total assets	56.2	49.4
Liabilities		
Current liabilities	6.7	6.0
Long-term liabilities	<u>32.9</u>	<u>24.9</u>
Total liabilities	<u>39.6</u>	<u>30.9</u>
Net Assets		
Invested in capital assets - Net of related debt	2.3	2.5
Restricted - Debt service	1.5	1.2
Unrestricted	<u>12.8</u>	<u>14.8</u>
Total net assets	<u>\$ 16.6</u>	<u>\$ 18.5</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 \$16.6 million at June 30, 2009. Capital assets net of related debt, totaling \$2.3 million, compare 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 (\$12.8 million) was unrestricted.

The \$12.8 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 2008 and 2009.

TABLE 2

	Governmental Activities	
	2009	2008
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.7	\$ 2.1
Operating grants	8.7	7.1
General revenue:		
Property taxes	5.0	5.9
State foundation allowance	22.9	24.3
Other	1.7	0.8
Total revenue	40.0	40.2
Functions/Program Expenses		
Instruction	22.5	17.7
Support services	14.0	11.6
Adult and community services	1.0	5.5
Food services	1.2	1.1
Athletics	0.5	0.5
Interest on long-term debt	1.2	1.1
Depreciation (unallocated)	1.5	1.5
Total functions/program expenses	41.9	39.0
(Decrease) Increase in Net Assets	\$ (1.9)	\$ 1.2

As reported in the statement of activities, the cost of all of our governmental activities this year was \$41.9 million. Certain activities were partially funded from those who benefited from the programs (\$1.7 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8.7 million). We paid for the remaining "public benefit" portion of our governmental activities with \$5.0 million in taxes, \$22.9 million in state foundation allowance, and with our other revenues, 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 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 \$21.5 million. The General Fund showed a fund balance decrease of approximately \$1,400,000 from the prior year. Our Adult and Community Education Fund showed a fund balance decrease of approximately \$292,000 from the prior year.

The Debt Service Fund showed a fund balance increase of \$260,000. Millage rates remained stable with the previous year at 3.95 percent, but continued to be much lower than the original levy of 4.60 percent. 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. Bond issue projects began in June 2009 and are scheduled to be completed by September 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 fund balance decreased primarily as a result of an increase in medical claims. Employee benefits increased approximately 5 percent for 2008-2009.

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 supplementary information in these financial statements. There were no significant changes from the original budget to the final budget except for \$1,200,000 that was originally budgeted as state revenue that was reclassified to federal revenue in the final budget. The reason for this change was a cut in state aid that was supplemented by the federal government. There were no significant variances from budgeted to actual results.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2009, the School District had \$27.9 million invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, furniture, and equipment. This amount represents \$1.3 million less than last year (including additions, disposals, and depreciation).

Capital assets consist of the following:

TABLE 3

	<u>2009</u>	<u>2008</u>
	(in thousands)	
Land	\$ 290	\$ 290
Construction in progress	1,176	-
Building and building improvements	21,942	23,221
Site improvements	2,308	2,483
Buses and other vehicles	456	404
Furniture and equipment	<u>1,765</u>	<u>1,849</u>
Total capital assets - Net of accumulated depreciation	<u>\$ 27,937</u>	<u>\$ 28,247</u>

This year's construction in progress additions of \$1.2 million result 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.

Debt

At the end of this year, the School District had \$32.4 million in bonds outstanding versus \$24.1 million in the previous year - a change of 34 percent consisting solely of general obligation bonds.

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 \$32.4 million is significantly below this \$100.4 million statutory limit.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

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 2009-2010 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 2009-2010 fiscal year is expected to be 25 percent and 75 percent of the February 2009 and September 2009 student counts, respectively. The 2009-2010 budget, adopted in June 2009, is based on an estimate of students that will be enrolled in September 2009. The estimate calls for an increase in students due in large part to increased advertising for schools of choice.

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. In July 2009, after the School District's fiscal year ended, the State reduced the per pupil foundation allowance for 2008-2009 by \$371. This reduction of \$1.2 million was subsidized by the federal ARRA funds, but these are one-time funds. It is anticipated that significant reforms will not be made to the state School Aid Fund for 2009-2010, and in addition to federal ARRA funds being used to fill funding shortfalls, the School District foundation allowance is expected to be reduced further by \$150 per pupil.

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, 2009. 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 for 2009-2010.

Lake Shore Public Schools

Management's Discussion and Analysis (Continued)

With regard to pension costs, the rate will increase from 16.54 percent to 16.94 percent, which will begin on October 1, 2009.

2009-2010 Bottom Line

Lake Shore Public Schools laid off 11 staff members across all bargaining units in its beginning attempts to deal with the financial issues facing schools for the 2009-2010 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 of 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 to be approximately \$5,300,000 or 17 percent of the 2008-2009 operating budget. This level of appropriate fund balance will increase each year as expenditures increase.

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, 2009

	<u>Governmental Activities</u>
Assets	
Cash and investments (Note 3)	\$ 20,645,261
Receivables (Note 4)	5,979,479
Inventories	13,178
Prepaid costs	119,809
Restricted assets (Note 1)	1,488,454
Capital assets - Net (Note 5)	<u>27,937,061</u>
Total assets	56,183,242
Liabilities	
Accounts payable	1,372,455
Accrued payroll and other liabilities	3,034,654
Due to other governmental units	14,080
Provision for uninsured losses	37,663
Deferred revenue (Note 4)	190,211
Long-term liabilities (Note 7):	
Due within one year	2,014,302
Due in more than one year	<u>32,914,279</u>
Total liabilities	<u>39,577,644</u>
Net Assets	
Invested in capital assets - Net of related debt	2,292,044
Restricted - Debt service	1,489,884
Unrestricted	<u>12,823,670</u>
Total net assets	<u>\$ 16,605,598</u>

Lake Shore Public Schools

Statement of Activities Year Ended June 30, 2009

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 22,491,031	\$ 114,030	\$ 8,615,582	\$ (13,761,419)
Support services	14,065,831	32,060	-	(14,033,771)
Athletics	472,407	37,858	-	(434,549)
Food services	1,185,739	575,872	59,302	(550,565)
Adult and community services	1,005,542	912,386	-	(93,156)
Interest on long-term debt	1,191,218	-	-	(1,191,218)
Depreciation (unallocated)	1,511,804	-	-	(1,511,804)
Total governmental activities	<u>\$ 41,923,572</u>	<u>\$ 1,672,206</u>	<u>\$ 8,674,884</u>	(31,576,482)
General revenues				
Taxes:				
Property taxes, levied for general purposes				2,260,379
Property taxes, levied for debt service				2,743,539
State aid not restricted to specific purposes				22,939,653
Federal sources - Unrestricted				1,217,364
Interest and investment earnings				245,080
Loss on the sale of capital assets				(7,289)
Other				322,636
Total general revenues				<u>29,721,362</u>
Change in Net Assets				(1,855,120)
Net Assets - Beginning of year				<u>18,460,718</u>
Net Assets - End of year				<u>\$ 16,605,598</u>

Lake Shore Public Schools

	General Fund	Adult and Community Education Fund
Assets		
Cash and investments (Note 3)	\$ 5,512,402	\$ 493,573
Receivables (Note 4)	5,048,628	866,023
Due from other funds (Note 6)	211,196	716
Inventories	-	-
Prepaid costs	84,335	7,409
Restricted assets (Note 1)	-	-
	<u>\$ 10,856,561</u>	<u>\$ 1,367,721</u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 176,812	\$ 15,222
Accrued payroll and other liabilities	2,505,152	246,366
Due to other governmental units	-	14,080
Due to other funds (Note 6)	2,905,738	255,114
Deferred revenue (Note 4)	155,856	29,585
	<u>5,743,558</u>	<u>560,367</u>
Fund Balances		
Reserved for:		
Capital projects (bonded)	-	-
Debt service	-	-
Inventories	-	-
Prepaid costs	84,335	7,409
Other	10,045	-
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	300,573	-
Designated for long-term obligations - Unused sick leave	874,503	-
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	1,170,497	-
Designated for employee benefit cost increases	350,000	-
Durant	-	-
Other	620,550	-
Undesignated, reported in:		
General Fund	165,000	-
Special Revenue Funds	-	468,780
	<u>5,113,003</u>	<u>807,354</u>
Total fund balances	<u>\$ 10,856,561</u>	<u>\$ 1,367,721</u>
Total liabilities and fund balances	<u>\$ 10,856,561</u>	<u>\$ 1,367,721</u>

**Governmental Funds
Balance Sheet
June 30, 2009**

Building and Site Fund	2009 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 5,255,181	\$ 9,012,081	\$ 68,550	\$ 20,341,787
1,229	38,867	24,732	5,979,479
460,649	-	30,443	703,004
-	-	13,178	13,178
-	-	-	91,744
-	-	1,488,454	1,488,454
\$ 5,717,059	\$ 9,050,948	\$ 1,625,357	\$ 28,617,646

\$ 61,040	\$ 659,477	\$ 33,776	\$ 946,327
-	-	153	2,751,671
-	-	-	14,080
-	-	23,420	3,184,272
-	-	4,770	190,211
61,040	659,477	62,119	7,086,561

-	8,391,471	-	8,391,471
-	-	1,489,884	1,489,884
-	-	13,178	13,178
-	-	-	91,744
-	-	4,770	14,815

420,800	-	-	763,300
274,455	-	-	855,620
143,808	-	-	143,808
-	-	-	300,573
-	-	-	874,503
-	-	-	250,000
-	-	-	80,000
-	-	-	30,000
-	-	-	80,000
-	-	-	505,000
-	-	-	1,170,497
-	-	-	350,000
2,564,640	-	-	2,564,640
2,252,316	-	-	2,872,866
-	-	-	165,000
-	-	55,406	524,186
5,656,019	8,391,471	1,563,238	21,531,085
\$ 5,717,059	\$ 9,050,948	\$ 1,625,357	\$ 28,617,646

Lake Shore Public Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2009

Fund Balance - Total Governmental Funds \$ 21,531,085

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	\$ 53,175,673	
Accumulated depreciation	<u>(25,238,612)</u>	27,937,061

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)	(33,753,505)	
Compensated absences	<u>(1,175,076)</u>	(34,928,581)

Accrued interest payable is not included as a liability in governmental funds (282,983)

Internal Service Fund is included as part of governmental activities 2,349,016

Net Assets - Governmental Activities **\$ 16,605,598**

Lake Shore Public Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2009

	General Fund	Adult and Community Education Fund	Building and Site Fund	2009 Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue						
Local sources	\$ 2,792,398	\$ 773,685	\$ 99,281	\$ 20,461	\$ 3,429,810	\$ 7,115,635
State sources	23,751,976	1,019,640	-	-	65,418	24,837,034
Federal sources	2,364,561	3,742,065	-	-	490,962	6,597,588
Interdistrict sources	1,387,885	9,394	-	-	-	1,397,279
Total revenue	30,296,820	5,544,784	99,281	20,461	3,986,190	39,947,536
Expenditures						
Current:						
Instruction	18,318,315	3,978,229	-	-	-	22,296,544
Support services	12,152,419	1,082,617	-	-	-	13,235,036
Athletics	-	-	-	-	472,407	472,407
Food services	-	-	-	-	1,167,428	1,167,428
Adult and community services	287,646	717,896	-	-	-	1,005,542
Debt service:						
Principal	-	-	-	-	1,425,000	1,425,000
Interest	-	-	-	-	1,089,613	1,089,613
Other	-	-	-	-	224	224
Capital outlay	117,458	26,321	723,175	1,317,243	-	2,184,197
Total expenditures	30,875,838	5,805,063	723,175	1,317,243	4,154,672	42,875,991
Excess of Expenditures Over Revenue	(579,018)	(260,279)	(623,894)	(1,296,782)	(168,482)	(2,928,455)
Other Financing Sources (Uses)						
Transfers in (Note 6)	33,418	2,098	460,649	-	394,899	891,064
Transfers out (Note 6)	(857,646)	(33,418)	-	-	-	(891,064)
Issuance of long-term debt (Note 7)	-	-	-	9,688,253	-	9,688,253
Total other financing sources (uses)	(824,228)	(31,320)	460,649	9,688,253	394,899	9,688,253
Net Change in Fund Balances	(1,403,246)	(291,599)	(163,245)	8,391,471	226,417	6,759,798
Fund Balances - Beginning of year	6,516,249	1,098,953	5,819,264	-	1,336,821	14,771,287
Fund Balances - End of year	\$ 5,113,003	\$ 807,354	\$ 5,656,019	\$ 8,391,471	\$ 1,563,238	\$ 21,531,085

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, 2009

Net Change in Fund Balances - Total governmental funds \$ 6,759,798

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	\$ (1,804,062)	
Capitalized capital outlay	<u>1,501,420</u>	(302,642)

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 (7,289)

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities (9,688,253)

Underwriter's premium originally reported as revenue in the funds in year of issuance and amortized in the statement of activities over the life of the corresponding bond issue 124,568

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 1,425,000

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (101,381)

Compensated absences are recorded when earned in the statement of activities. In the current year, more was earned than was paid out (41,559)

Internal Service Funds are included as governmental activities (23,362)

Change in Net Assets of Governmental Activities **\$ (1,855,120)**

Lake Shore Public Schools

Proprietary Fund - Internal Service Fund Statement of Net Assets June 30, 2009

Assets

Cash and cash equivalents (Note 3)	\$ 303,474
Due from other funds (Note 6)	2,481,268
Prepaid costs	<u>28,065</u>
Total assets	2,812,807

Liabilities

Accounts payable (Note 8)	426,128
Provision for uninsured losses (Note 8)	<u>37,663</u>
Total liabilities	<u>463,791</u>

Net Assets - Unrestricted

\$ 2,349,016

Lake Shore Public Schools

Proprietary Fund - Internal Service Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2009

Operating Revenue - Charges to other funds	\$ 3,814,713
Operating Expenses - Claims, reinsurance, and administrative fees	
Medical	3,204,134
Dental	260,856
Workers' compensation and other	<u>376,722</u>
Total operating expenses	<u>3,841,712</u>
Operating Loss	(26,999)
Nonoperating Revenue - Interest income	<u>3,637</u>
Change in Net Assets	(23,362)
Net Assets - Beginning of year	<u>2,372,378</u>
Net Assets - End of year	<u><u>\$ 2,349,016</u></u>

Lake Shore Public Schools

Proprietary Fund - Internal Service Fund Statement of Cash Flows Year Ended June 30, 2009

Cash Flows from Operating Activities	
Receipts from other funds	\$ 3,622,873
Claims paid	<u>(4,260,238)</u>
Net cash used in operating activities	(637,365)
Cash Flows from Investment Activities - Interest received on investments	<u>3,637</u>
Net Decrease in Cash and Cash Equivalents	(633,728)
Cash and Cash Equivalents - Beginning of year	<u>937,202</u>
Cash and Cash Equivalents - End of year	<u>\$ 303,474</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (26,999)
Adjustments to reconcile operating loss to net cash from operating activities -	
Changes in assets and liabilities:	
Due from other funds	(191,840)
Prepaid costs	3,365
Accounts payable	18,302
Early retirement incentives	(437,500)
Provision for uninsured losses	<u>(2,693)</u>
Net cash used in operating activities	<u>\$ (637,365)</u>

Lake Shore Public Schools

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2009

	<u>Agency Fund</u>
Assets - Cash and investments	<u>\$ 536,578</u>
Liabilities - Due to student groups and other	<u>\$ 536,578</u>

Lake Shore Public Schools

Notes to Financial Statements June 30, 2009

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 and early retirement incentives. The Internal Service Fund includes transactions related to the School District's risk management programs for medical, dental, optical, workers' compensation, and unemployment claims as well as voluntary retirement incentives 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 Fund - The 2004 Refunding Bond Issue Debt Service Fund is used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the 2004 Refunding Bonds.

Internal Service Funds - The Internal Service Funds account for risk management services provided to other funds of the School District on a cost-reimbursement basis and early retirement incentives.

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 totaling \$1,488,454 is required to be set aside for future repayments of bonded indebtedness. These amounts have been classified as restricted assets at June 30, 2009.

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 issuances 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 intergovernmental revenue of \$1,366,883 is budgeted as transfers into the General Fund. 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. There were no significant unfavorable budget variances at 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 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 three 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 \$9,807,345 included \$6,915,823 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, 2009

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	\$ 12,037,707	AAAm	S&P
Bank Investment Pool	1,002,238	AAAm	S&P
Total investments	<u>\$ 13,039,945</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	\$ 29,529	\$ 3,072	\$ -	\$ -	\$ 935	\$ 33,536
Interest and other	302	-	1,229	38,867	1,430	41,828
Intergovernmental	5,018,797	862,951	-	-	22,367	5,904,115
Total receivables	<u>\$ 5,048,628</u>	<u>\$ 866,023</u>	<u>\$ 1,229</u>	<u>\$ 38,867</u>	<u>\$ 24,732</u>	<u>\$ 5,979,479</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, 2009, the School District has \$190,211 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, 2009

Note 5 - Capital Assets

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

	Balance <u>July 1, 2008</u>	Additions	Disposals	Balance <u>June 30, 2009</u>
Capital assets not being depreciated:				
Land	\$ 289,604	\$ -	\$ -	\$ 289,604
Construction in progress	-	1,176,208	-	1,176,208
Capital assets being depreciated:				
Site improvements	3,893,602	-	-	3,893,602
Buildings and building improvements	43,299,347	25,976	-	43,325,323
Furniture and equipment	2,947,196	155,098	5,095	3,097,199
Buses and other vehicles	1,298,690	144,138	49,091	1,393,737
Subtotal	<u>51,438,835</u>	<u>325,212</u>	<u>54,186</u>	<u>51,709,861</u>
Accumulated depreciation:				
Site improvements	1,410,632	175,212	-	1,585,844
Buildings and building improvements	20,078,379	1,304,205	-	21,382,584
Furniture and equipment	1,098,068	237,127	2,715	1,332,480
Buses and other vehicles	894,368	87,518	44,182	937,704
Subtotal	<u>23,481,447</u>	<u>1,804,062</u>	<u>46,897</u>	<u>25,238,612</u>
Net capital assets being depreciated	<u>27,957,388</u>	<u>(1,478,850)</u>	<u>7,289</u>	<u>26,471,249</u>
Net governmental capital assets	<u>\$ 28,246,992</u>	<u>\$ (302,642)</u>	<u>\$ 7,289</u>	<u>\$ 27,937,061</u>

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

Governmental activities:

Instruction	\$ 149,737
Support services	124,480
Food services and athletics	18,041
Unallocated	<u>1,511,804</u>
Total governmental activities	<u>\$ 1,804,062</u>

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>
Transportation equipment	\$ -	\$ 85,147
Building and Site Fund general projects	-	1,254,533
2009 Capital Projects Fund projects	<u>1,317,243</u>	<u>2,577,899</u>
Total	<u>\$ 1,317,243</u>	<u>\$ 3,917,579</u>

Lake Shore Public Schools

Notes to Financial Statements June 30, 2009

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	\$ -	\$ 211,196	\$ -	\$ 211,196
Adult and Community Education Fund	716	-	-	716
Building and Site Fund	460,649	-	-	460,649
Nonmajor governmental funds	30,443	-	-	30,443
Internal Service Fund	2,413,930	43,918	23,420	2,481,268
Total	<u>\$ 2,905,738</u>	<u>\$ 255,114</u>	<u>\$ 23,420</u>	<u>\$ 3,184,272</u>

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.

Transfers In	Transfers Out		Total
	General Fund	Adult and Community Education Fund	
General Fund	\$ -	\$ 33,418	\$ 33,418
Adult and Community Education Fund	2,098	-	2,098
Building and Site Fund	460,649	-	460,649
Nonmajor governmental funds	394,899	-	394,899
Total	<u>\$ 857,646</u>	<u>\$ 33,418</u>	<u>\$ 891,064</u>

The General Fund transfers represent a subsidy to the Athletics Fund and the setting aside of monies for future capital needs.

Lake Shore Public Schools

Notes to Financial Statements June 30, 2009

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	\$ 24,120,000	\$ 9,700,000	\$ 1,425,000	\$ 32,395,000	\$ 1,590,000
Issuance discounts	-	(11,747)	-	(11,747)	(839)
Issuance premiums	1,494,820	-	124,568	1,370,252	124,568
Total bonds payable	25,614,820	9,688,253	1,549,568	33,753,505	1,713,729
Other obligations:					
Early retirement incentives	437,500	-	437,500	-	-
Compensated absences	1,133,517	41,559	-	1,175,076	300,573
Total governmental activities	<u>\$ 27,185,837</u>	<u>\$ 9,729,812</u>	<u>\$ 1,987,068</u>	<u>\$ 34,928,581</u>	<u>\$ 2,014,302</u>

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2010	\$ 1,590,000	\$ 1,526,434	\$ 3,116,434
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
2015-2019	12,840,000	4,447,109	17,287,109
2020-2023	10,595,000	1,695,912	12,290,912
Total	<u>\$ 32,395,000</u>	<u>\$ 13,051,757</u>	<u>\$ 45,446,757</u>

Lake Shore Public Schools

Notes to Financial Statements June 30, 2009

Note 7 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

\$25,795,000 refunding bonds due in annual installments of \$1,510,000 to \$2,450,000 through May 1, 2020; interest at 2.5 percent to 5.0 percent	\$ 22,695,000
\$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>9,700,000</u>
Total bonded debt	<u>\$ 32,395,000</u>

Other governmental activities long-term obligations include the following:

Compensated absences	\$ 1,175,076
Discount on bond issuance	(11,747)
Premium on bond issuance	<u>1,370,252</u>
Total other governmental debt	<u>\$ 2,533,581</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, 2009, \$22,695,000 of bonds outstanding are considered defeased.

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.

Lake Shore Public Schools

Notes to Financial Statements June 30, 2009

Note 8 - Risk Management (Continued)

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:

	<u>2009</u>	<u>2008</u>
Estimated liability - Beginning of year	\$ 448,182	\$ 1,174,122
Estimated claims incurred - Including changes in estimates	4,275,847	2,834,951
Claim payments	<u>(4,260,238)</u>	<u>(3,560,891)</u>
Unpaid claims - End of year	<u>\$ 463,791</u>	<u>\$ 448,182</u>

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), 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 supplementary 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 P.O. Box 30171, Lansing, MI 48909-7671.

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 10.17 percent of covered payroll for the period from July 1, 2008 through September 30, 2008 and 9.73 percent for the period from October 1, 2008 through June 30, 2009.

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. The School District's required and actual contributions to the plan for the years ended June 30, 2009, 2008, and 2007 were \$2,678,000, \$2,503,000, and \$2,520,000, respectively.

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

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. 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 was 6.55 percent of covered payroll for the period from July 1, 2008 through September 30, 2008 and 6.81 percent for the period from October 1, 2008 through June 30, 2009. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2009, 2008, and 2007 were \$1,874,000, \$1,612,000, and \$1,475,000, respectively.

Required Supplemental Information

Lake Shore Public Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2009

	Original Budget	Final Amended Budget	Actual
Revenue			
Local sources	\$ 2,777,533	\$ 2,710,073	\$ 2,792,398
State sources	25,450,468	24,263,891	23,751,976
Federal sources	1,182,566	2,131,213	2,364,561
Total revenue	29,410,567	29,105,177	28,908,935
Expenditures			
Current:			
Instruction:			
Basic programs	14,638,557	14,788,284	14,878,347 *
Added needs	3,276,292	3,584,254	3,507,328
Support services:			
Pupil	2,186,534	2,344,048	2,351,477 *
Instructional staff	917,866	921,940	819,667
General administration	726,814	752,275	745,739
School administration	1,834,904	1,929,851	1,936,878 *
Business services	624,099	577,875	580,972 *
Operations and maintenance	4,142,653	4,101,406	4,201,532 *
Transportation	712,952	723,189	680,121
Central	987,897	928,707	886,131
Community services	305,689	289,278	287,646
Total expenditures	30,354,257	30,941,107	30,875,838
Excess of Expenditures Over Revenue	(943,690)	(1,835,930)	(1,966,903)
Other Financing Sources (Uses)			
Transfers in	1,108,607	1,391,883	1,421,303
Transfers out	(882,014)	(851,480)	(857,646) *
Total other financing sources	226,593	540,403	563,657
Net Change in Fund Balance	(717,097)	(1,295,527)	(1,403,246)
Fund Balance - July 1, 2008	6,516,249	6,516,249	6,516,249
Fund Balance - June 30, 2009	\$ 5,799,152	\$ 5,220,722	\$ 5,113,003

*During the year, the School District incurred expenditures that were in excess of the amounts budgeted. The unfavorable budget variances were caused by unanticipated expenditures that became necessary during the year.

Lake Shore Public Schools

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund Adult and Community Education Fund Year Ended June 30, 2009

	Original Budget	Final Amended Budget	Actual
Revenue			
Local sources	\$ 858,565	\$ 811,042	\$ 773,685
State sources	1,054,994	1,014,300	1,019,640
Federal sources	3,521,981	4,025,809	3,742,065
Interdistrict sources	7,000	2,752	9,394
Total revenue	<u>5,442,540</u>	<u>5,853,903</u>	<u>5,544,784</u>
Expenditures			
Salaries and benefits	4,866,935	5,415,269	5,266,248
Purchased services	288,309	289,055	278,874
Supplies, materials, and other	222,219	234,209	233,620
Capital outlay	84,000	31,000	26,321
Total expenditures	<u>5,461,463</u>	<u>5,969,533</u>	<u>5,805,063</u>
Excess of Expenditures Over Revenue	(18,923)	(115,630)	(260,279)
Other Financing Sources (Uses)			
Transfers in	10,000	5,300	2,098
Transfers out	<u>(46,000)</u>	<u>(46,000)</u>	<u>(33,418)</u>
Total other financing uses	<u>(36,000)</u>	<u>(40,700)</u>	<u>(31,320)</u>
Net Change in Fund Balance	(54,923)	(156,330)	(291,599)
Fund Balance - July 1, 2008	<u>1,098,953</u>	<u>1,098,953</u>	<u>1,098,953</u>
Fund Balance - June 30, 2009	<u><u>\$ 1,044,030</u></u>	<u><u>\$ 942,623</u></u>	<u><u>\$ 807,354</u></u>

Other Supplemental Information

Lake Shore Public Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2009

	Special Revenue Funds		Debt Service Fund - 2004 Bond	
Assets	Cafeteria	Athletics	Issue	Total
Cash and investments	\$ 68,550	\$ -	\$ -	\$ 68,550
Receivables	23,302	-	1,430	24,732
Due from other funds	30,443	-	-	30,443
Inventories	13,178	-	-	13,178
Restricted assets	-	-	1,488,454	1,488,454
	\$ 135,473	\$ -	\$ 1,489,884	\$ 1,625,357
Total assets				
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 33,776	\$ -	\$ -	\$ 33,776
Salaries and other accrued liabilities	153	-	-	153
Due to other funds	23,420	-	-	23,420
Deferred revenue	4,770	-	-	4,770
	62,119	-	-	62,119
Total liabilities				
Fund Balances				
Reserved for:				
Debt service	-	-	1,489,884	1,489,884
Inventories	13,178	-	-	13,178
Other	4,770	-	-	4,770
Unreserved - Undesignated, reported in Special Revenue Funds	55,406	-	-	55,406
	73,354	-	1,489,884	1,563,238
Total fund balances				
Total liabilities and fund balances	\$ 135,473	\$ -	\$ 1,489,884	\$ 1,625,357

Lake Shore Public Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2009

	Special Revenue Funds		Debt Service Fund -	Total
	Cafeteria	Athletics	2004 Bond Issue	
Revenue				
Local	\$ 577,263	\$ 77,508	\$ 2,775,039	\$ 3,429,810
State	65,418	-	-	65,418
Federal	490,962	-	-	490,962
Total revenue	1,133,643	77,508	2,775,039	3,986,190
Expenditures				
Current:				
Athletics	-	472,407	-	472,407
Food services	1,167,428	-	-	1,167,428
Debt service:				
Principal	-	-	1,425,000	1,425,000
Interest	-	-	1,089,613	1,089,613
Other	-	-	224	224
Total expenditures	1,167,428	472,407	2,514,837	4,154,672
Excess of Revenue Over (Under) Expenditures	(33,785)	(394,899)	260,202	(168,482)
Other Financing Sources - Transfers in	-	394,899	-	394,899
Net Change in Fund Balances	(33,785)	-	260,202	226,417
Fund Balances - Beginning of year	107,139	-	1,229,682	1,336,821
Fund Balances - End of year	<u>\$ 73,354</u>	<u>\$ -</u>	<u>\$ 1,489,884</u>	<u>\$ 1,563,238</u>

Lake Shore Public Schools

Other Supplemental Information Schedule of Bonded Indebtedness June 30, 2009

Years Ending June 30	2004 Bond Refunding Principal	2009 Bond Issue Principal
2010	\$ 1,510,000	\$ 80,000
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>\$ 22,695,000</u>	<u>\$ 9,700,000</u>
Principal payments due	May 1	May 1
Principal payments due	May 1 and November 1	May 1 and November 1
Interest rate	2.50% to 5.00%	3.00% to 5.00%
Original issue	<u>\$ 25,795,000</u>	<u>\$ 9,700,000</u>