

# **Lake Shore Public Schools**

---

**Financial Report  
with Supplemental Information  
June 30, 2011**

# Lake Shore Public Schools

---

## Contents

<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-11
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	15
Statement of Revenue, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Fund - Internal Service Fund:	
Statement of Net Assets	18
Statement of Revenue, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20
Fiduciary Funds - Statement of Fiduciary Assets and Liabilities	21
Notes to Financial Statements	22-36
<b>Required Supplemental Information</b>	37
Budgetary Comparison Schedule - General Fund	38
Budgetary Comparison Schedule - Special Revenue Fund Adult and Community Education Fund	39
<b>Other Supplemental Information</b>	40
Nonmajor Governmental Funds:	
Combining Balance Sheet	41
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	42
Schedule of Bonded Indebtedness	43
<b>Federal Awards Supplemental Information</b>	Issued Under Separate Cover

## 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, 2011, 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, 2011 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.

During the year, the School District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 1. As a result of this implementation, the Athletics Fund, previously classified as a special revenue fund, is now reported as a part of the General Fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB Statement No. 54.

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 November 8, 2011 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*

November 4, 2011

# 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, 2011. 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 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 revenue 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.

### *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 Fund, for example) 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.

# Lake Shore Public Schools

## Management's Discussion and Analysis (Continued)

The School District also maintains a proprietary fund, which utilizes the full accrual basis of accounting. The proprietary fund maintained is the Internal Service Fund 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.

### 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	
	2011	2010
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 15.2	\$ 19.7
Capital assets	<u>34.5</u>	<u>34.3</u>
Total assets	49.7	54.0
<b>Liabilities</b>		
Current liabilities	6.5	7.3
Long-term liabilities	<u>29.1</u>	<u>31.1</u>
Total liabilities	<u>35.6</u>	<u>38.4</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	4.3	3.5
Restricted - Debt service	0.3	1.1
Unrestricted	<u>9.5</u>	<u>11.0</u>
Total net assets	<u>\$ 14.1</u>	<u>\$ 15.6</u>

# Lake Shore Public Schools

## Management's Discussion and Analysis (Continued)

The above analysis focuses on the net assets (see Table 1). 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 \$14.1 million at June 30, 2011. Capital assets, net of related debt, totaling \$4.3 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 (\$9.5 million) was unrestricted.

The \$9.5 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.

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 2010 and 2011.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2011	2010
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 1.6	\$ 1.5
Operating grants	10.0	10.0
General revenue:		
Property taxes	4.5	5.1
State foundation allowance	24.5	23.2
Other	1.3	1.5
Total revenue	41.9	41.3

# Lake Shore Public Schools

## Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities	
	Year Ended June 30	
	2011	2010
	(in millions)	
<b>Functions/Program Expenses</b>		
Instruction	\$ 23.8	\$ 23.4
Support services	13.7	13.1
Adult and community services	1.0	1.0
Food services	1.2	1.2
Athletics	0.4	0.4
Interest on long-term debt	1.4	1.5
Depreciation (unallocated)	1.8	1.7
Total functions/program expenses	43.3	42.3
<b>Decrease in Net Assets</b>	<b>\$ (1.4)</b>	<b>\$ (1.0)</b>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$43.3 million. Certain activities were partially funded from those who benefited from the programs (\$1.6 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 \$4.5 million in taxes, \$24.5 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements).

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 \$9.0 million. The General Fund showed a fund balance decrease of approximately \$183,000 from the prior year.

# Lake Shore Public Schools

## Management's Discussion and Analysis (Continued)

The debt service funds showed a combined fund balance decrease of \$775,000. 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. Fund balance was used during the 2010-2011 year to maintain the millage rate at 3.95 mills. Like other municipalities, the School District has seen its taxable value base decline. Over the last two years, the taxable value base for the School District has declined approximately 20 percent, and is estimated to decline another 10 percent for 2011-2012. Millage rates are determined when appropriate to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. The debt service funds' fund balances are restricted since they can only be used to pay debt service obligations.

The 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 \$1.3 million and \$1.5 million, respectively. The decrease in the 2009 Capital Projects Fund represents the completion of the bond construction projects. The Building and Site Fund was also used in conjunction with the Capital Projects Fund to complete additional construction projects.

The Building and Site Fund will continue to be in existence going forward and will be utilized to fund major capital needs.

### **General Fund Budgetary Highlights**

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

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

As of June 30, 2011, the School District had \$34.5 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 \$254,000 over last year (including additions, disposals, and depreciation).

# Lake Shore Public Schools

## Management's Discussion and Analysis (Continued)

Capital assets consist of the following:

TABLE 3

	2011	2010
	(in thousands)	
Land	\$ 290	\$ 290
Construction in progress	-	3,795
Building and building improvements	27,821	24,086
Site improvements	4,323	4,049
Buses and other vehicles	397	457
Furniture and equipment	1,687	1,587
	<u>          </u>	<u>          </u>
Total capital assets - Net of accumulated depreciation	<u><u>\$ 34,518</u></u>	<u><u>\$ 34,264</u></u>

This year's construction in progress balance was zero, which resulted from the 2009 bond issue projects being completed.

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 \$29.1 million in general obligation bonds outstanding versus \$30.8 million in the previous year.

The School District's general obligation bond rating continues to be AAA by Standard & Poor's. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$29.1 million is significantly below this \$81.1 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 the change in unrestricted assets from year to year. The following budget outlook will focus on the General Fund.

# Lake Shore Public Schools

## Management's Discussion and Analysis (Continued)

### *Revenue Projection*

Our elected officials and administration considered many factors when setting the School District's 2011-2012 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 2011-2012 fiscal year is expected to be 10 percent and 90 percent of the February 2011 and October 2011 student counts, respectively. This is a change from the prior year where the count was 25 percent and 75 percent of the February 2010 and September 2010 student counts, respectively. The 2011-2012 budget, adopted in June 2011, is based on an estimate of students that will be enrolled in October 2011. 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 2011-2012 budget is based on the continued reduction in the foundation allowance of \$470 per pupil. For the 2011-2012 school year only, the reduction will be offset by \$100 per pupil for best practices in public schools and by a further \$100 per pupil for a retirement credit. These offsets are a one-time-only offset, and will not be available in 2012-2013. It is anticipated that the foundation allowance will be impacted by the full \$470 per-pupil reduction for 2012-2013.

Under state law, the School District cannot assess additional property tax revenue for general operations. Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts. The State periodically holds revenue-estimating conferences, usually in January and May, to estimate revenue. As a result of the State's recent history of foundation allowance reductions in mid-year, once the final student count and related per-pupil funding are validated, state law requires the School District to amend the budget if actual 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 have been settled. With the unlikelihood of the State School Aid Fund staying constant or increasing, all employee groups are taking a wage and step freeze for 2011-2012.

With regard to pension costs, the rate will increase from 20.66 percent to 24.47 percent of payroll, which will begin on October 1, 2011. Each percentage increase equates to an approximate increase in payroll expenses of \$250,000.

# Lake Shore Public Schools

---

## Management's Discussion and Analysis (Continued)

### *2011-2012 Bottom Line*

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 is no state foundation dollars coming to the School District. During this time period, the School District has financial obligations including five 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 15 percent of the 2011-2012 operating budget.

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. The 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, 2011

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 9,022,766
Receivables (Note 4)	5,730,914
Inventories	7,283
Prepaid costs	165,233
Restricted assets (Note 1)	299,215
Capital assets - Net (Note 5)	<u>34,518,095</u>
Total assets	49,743,506
<b>Liabilities</b>	
Accounts payable	298,353
Accrued payroll and other liabilities	3,016,171
Accrued interest	233,353
Provision for uninsured losses (Note 8)	628,968
Deferred revenue (Note 4)	66,719
Noncurrent liabilities (Note 7):	
Due within one year	2,228,464
Due in more than one year	<u>29,139,301</u>
Total liabilities	<u>35,611,329</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	4,277,048
Restricted:	
Debt service	299,215
Food services	82,283
Adult and Community Education	905,568
Unrestricted	<u>8,568,063</u>
Total net assets	<u><u>\$ 14,132,177</u></u>

# Lake Shore Public Schools

## Statement of Activities Year Ended June 30, 2011

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	\$ 23,810,902	\$ 82,112	\$ 8,926,846	\$ (14,801,944)
Support services	13,702,704	48,495	-	(13,654,209)
Athletics	371,992	44,617	-	(327,375)
Food services	1,187,295	502,918	54,415	(629,962)
Adult and community services	953,979	873,320	1,047,575	966,916
Interest on long-term debt	1,443,399	-	-	(1,443,399)
Depreciation (unallocated)	1,841,781	-	-	(1,841,781)
Total governmental activities	<u>\$ 43,312,052</u>	<u>\$ 1,551,462</u>	<u>\$ 10,028,836</u>	(31,731,754)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				2,195,273
Property taxes, levied for debt service				2,346,140
State aid not restricted to specific purposes				24,493,527
Federal sources - Unrestricted				923,669
Interest and investment earnings				20,450
Loss on the sale of capital assets				(52,582)
Other				369,073
Total general revenue				<u>30,295,550</u>
<b>Change in Net Assets</b>				(1,436,204)
<b>Net Assets - Beginning of year</b>				<u>15,568,381</u>
<b>Net Assets - End of year</b>				<u>\$ 14,132,177</u>

# Lake Shore Public Schools

## Governmental Funds Balance Sheet June 30, 2011

	General Fund	Adult and Community Education Fund	Building and Site Fund	2009 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments (Note 3)	\$ 4,516,266	\$ 886,516	\$ 3,093,743	\$ -	\$ 123,039	\$ 8,619,564
Receivables (Note 4)	5,243,539	458,177	-	-	29,198	5,730,914
Due from other funds (Note 6)	86,679	-	-	-	5	86,684
Inventories	-	-	-	-	7,283	7,283
Prepaid costs and other assets	95,200	47,935	-	-	-	143,135
Restricted assets (Note 1)	-	-	-	-	299,215	299,215
<b>Total assets</b>	<b>\$ 9,941,684</b>	<b>\$ 1,392,628</b>	<b>\$ 3,093,743</b>	<b>\$ -</b>	<b>\$ 458,740</b>	<b>\$ 14,886,795</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 230,519	\$ 40,677	\$ -	\$ -	\$ 28,119	\$ 299,315
Accrued payroll and other liabilities	2,730,923	284,778	-	-	470	3,016,171
Due to other funds (Note 6)	2,218,689	138,025	46,654	-	40,530	2,443,898
Deferred revenue (Note 4)	136,968	23,580	-	-	8,123	168,671
<b>Total liabilities</b>	<b>5,317,099</b>	<b>487,060</b>	<b>46,654</b>	<b>-</b>	<b>77,242</b>	<b>5,928,055</b>
<b>Fund Balances</b>						
Nonspendable:						
Inventories	-	-	-	-	7,283	7,283
Prepaid costs	95,200	47,935	-	-	-	143,135
Restricted:						
Debt service	-	-	-	-	299,215	299,215
Adult and Community Education	-	857,633	-	-	-	857,633
Food services	-	-	-	-	75,000	75,000
Assigned (Note 10)	2,857,962	-	3,047,089	-	-	5,905,051
Unassigned	1,671,423	-	-	-	-	1,671,423
<b>Total fund balances</b>	<b>4,624,585</b>	<b>905,568</b>	<b>3,047,089</b>	<b>-</b>	<b>381,498</b>	<b>8,958,740</b>
<b>Total liabilities and fund balances</b>	<b>\$ 9,941,684</b>	<b>\$ 1,392,628</b>	<b>\$ 3,093,743</b>	<b>\$ -</b>	<b>\$ 458,740</b>	<b>\$ 14,886,795</b>

# Lake Shore Public Schools

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2011

**Fund Balance Reported in Governmental Funds** \$ 8,958,740

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 funds:

Cost of capital assets	\$ 63,651,596	
Accumulated depreciation	<u>(29,133,501)</u>	34,518,095

Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds		101,952
---	--	---------

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

Bonds payable including premium and deferred charges	(30,241,047)	
Compensated absences	<u>(1,126,718)</u>	(31,367,765)

Accrued interest payable is not included as a liability in governmental funds		(233,353)
---	--	-----------

Internal Service Fund is included as part of governmental activities		<u>2,154,508</u>
--	--	------------------

**Net Assets of Governmental Activities** **\$ 14,132,177**

# Lake Shore Public Schools

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2011

	General Fund	Adult and Community Education Fund	Building and Site Fund	2009 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>						
Local sources	\$ 2,753,192	\$ 740,562	\$ 9,760	\$ 528	\$ 2,854,627	\$ 6,358,669
State sources	25,478,008	2,112,708	-	-	56,026	27,646,742
Federal sources	3,120,907	3,369,378	-	-	617,804	7,108,089
Interdistrict sources	569,650	19,599	-	-	-	589,249
Total revenue	31,921,757	6,242,247	9,760	528	3,528,457	41,702,749
<b>Expenditures</b>						
Current:						
Instruction	19,210,603	4,463,472	-	-	-	23,674,075
Support services	12,212,743	971,378	-	-	-	13,184,121
Athletics	363,672	-	-	-	-	363,672
Food services	-	-	-	-	1,161,049	1,161,049
Adult and community services	253,111	700,868	-	-	-	953,979
Debt service:						
Principal	-	-	-	-	1,675,000	1,675,000
Interest	-	-	-	-	1,450,363	1,450,363
Other	-	-	-	-	1,411	1,411
Capital outlay	64,676	25,947	1,465,782	1,268,361	3,680	2,828,446
Total expenditures	32,104,805	6,161,665	1,465,782	1,268,361	4,291,503	45,292,116
<b>Excess of Revenue (Under) Over Expenditures</b>	(183,048)	80,582	(1,456,022)	(1,267,833)	(763,046)	(3,589,367)
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	-	-	-	23	23
Transfers out	-	-	-	(23)	-	(23)
Total other financing (uses) sources	-	-	-	(23)	23	-
<b>Net Change in Fund Balances</b>	(183,048)	80,582	(1,456,022)	(1,267,856)	(763,023)	(3,589,367)
<b>Fund Balances - Beginning of year</b>	4,807,633	824,986	4,503,111	1,267,856	1,144,521	12,548,107
<b>Fund Balances - End of year</b>	<u>\$ 4,624,585</u>	<u>\$ 905,568</u>	<u>\$ 3,047,089</u>	<u>\$ -</u>	<u>\$ 381,498</u>	<u>\$ 8,958,740</u>

# 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, 2011

**Net Change in Fund Balances - Total Governmental Funds** \$ (3,589,367)

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

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

Depreciation expense	\$ (2,197,829)	
Capitalized capital outlay	<u>2,503,763</u>	305,934

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 (52,582)

Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end 101,952

Underwriter's discount/premium reported as expenditures/revenue in the funds and amortized in the statement of activities 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) 1,675,000

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 8,375

Compensated absences, as well as self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than was earned 49,464

Internal service funds are included as part of governmental activities (58,709)

**Change in Net Assets of Governmental Activities** **\$ (1,436,204)**

# Lake Shore Public Schools

---

## Proprietary Fund - Internal Service Fund Statement of Net Assets June 30, 2011

<b>Assets</b>	
Cash and investments (Note 3)	\$ 403,202
Due from other funds (Note 6)	2,358,176
Prepaid costs and other assets	<u>22,098</u>
Total assets	2,783,476
<b>Liabilities</b> - Provision for uninsured losses (Note 8)	<u>628,968</u>
<b>Net Assets</b> - Unrestricted	<u><u>\$ 2,154,508</u></u>

## Lake Shore Public Schools

---

### Proprietary Fund - Internal Service Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2011

<b>Operating Revenue</b> - Charges to other funds	\$ 3,843,245
<b>Operating Expenses</b> - Claims, reinsurance, and administrative fees	
Medical	3,194,281
Dental	281,085
Workers' compensation and other	<u>426,588</u>
Total operating expenses	<u>3,901,954</u>
<b>Change in Net Assets</b>	(58,709)
<b>Net Assets</b> - Beginning of year	<u>2,213,217</u>
<b>Net Assets</b> - End of year	<u><u>\$ 2,154,508</u></u>

# Lake Shore Public Schools

## Proprietary Fund - Internal Service Fund Statement of Cash Flows Year Ended June 30, 2011

<b>Cash Flows from Operating Activities</b>	
Receipts from other funds	\$ 3,684,269
Claims paid	<u>(3,954,958)</u>
<b>Net Decrease in Cash and Investments</b>	(270,689)
<b>Cash and Investments - Beginning of year</b>	<u>673,891</u>
<b>Cash and Investments - End of year</b>	<u><b>\$ 403,202</b></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (58,709)
Adjustments to reconcile operating loss to net cash from operating activities -	
Changes in assets and liabilities:	
Due from other funds	(158,976)
Prepaid costs	(22,098)
Accounts payable	(27,212)
Provision for uninsured losses	<u>(3,694)</u>
Net cash used in operating activities	<u><b>\$ (270,689)</b></u>

# Lake Shore Public Schools

---

## Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2011

	<u>Agency Funds</u>
<b>Assets - Cash and investments</b>	<b><u>\$ 880,596</u></b>
<b>Liabilities</b>	
Due to student activities	\$ 879,634
Due to other funds	<u>962</u>
Total liabilities	<b><u>\$ 880,596</u></b>

# Lake Shore Public Schools

---

## Notes to Financial Statements June 30, 2011

### 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

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

### Note I - 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.

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

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

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

### Note I - 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 fund is the Cafeteria Fund. Any operating deficit generated by this activity is the responsibility of the General Fund. The purpose of this fund is to account for the activity of the School District's meal programs. The primary revenue sources are food sales to students and grants from the federal government.

**Debt Service Funds** - The 2004 Bond Issue and 2009 Bond Issue Debt Service Funds are used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on the 2004 Refunding Bonds and the 2009 Bonds.

### Note I - Summary of Significant Accounting Policies (Continued)

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

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

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

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Cafeteria Fund is recorded as inventory and 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.

**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 \$299,215 is required to be set aside for future repayments of bonded indebtedness. These amounts have been classified as restricted assets at June 30, 2011.

### Note I - Summary of Significant Accounting Policies (Continued)

**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 improvements	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 they come 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. 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.

### Note I - Summary of Significant Accounting Policies (Continued)

**Fund Balance** - 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 on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The School District implemented GASB Statement No. 54 during the year.

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

- Nonspendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- Committed - Amounts that have been formally set aside by the Board of Education for use for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- Assigned - Intent to spend resources on specific purposes expressed by the Board of Education, superintendent, or the assistant superintendent of finance and human resources, who is authorized by resolution approved by the Board of Education to make assignments
- Unassigned - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**Use of Estimates** - The preparation of financial statements in conformity with 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.

### Note 1 - Summary of Significant Accounting Policies (Continued)

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

**Accounting Change** - Effective July 1, 2010, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 54. In addition to the changes to fund balance discussed above, the School District changed its presentation of athletics activity in the governmental funds. Previously, the athletics function was reported in a special revenue fund. With the adoption of GASB Statement No. 54, the activity no longer met the criteria to be classified as a special revenue fund, and the activity is now reported in the General Fund. The Athletics Fund did not have a fund balance as of July 1, 2010.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and special revenue funds, 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 and approximately \$1 million of revenue was budgeted for as federal revenue but was ultimately received as revenue from the State. The School District also adopted annual budgets for its debt service funds, capital projects funds, and the Internal Service Fund. All annual appropriations lapse at fiscal year end.

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

**Capital Projects Fund Compliance** - The capital projects funds include 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.

Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2009 Capital Projects Fund. The project for which the 2009 School Building and Site Bonds were issued was considered complete by June 30, 2011 and the cumulative expenditures recognized for the construction period were \$9,729,637.

### 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 \$5,733,118 included \$2,087,734 of bank deposits held entirely within checking 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 hold investments with custodial credit risk.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can be purchased within a 270-day maturity. At year end, the School District held no such investments.

**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.

# Lake Shore Public Schools

## Notes to Financial Statements June 30, 2011

### Note 3 - Deposits and Investments (Continued)

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	\$ 3,009,305	AAAm	S&P
Bank investment pool	<u>1,004,868</u>	AAAm	S&P
Total investments	<u>\$ 4,014,173</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 and Deferred Revenue

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	Other Nonmajor Governmental Funds	Total
Receivables:				
Accounts	\$ 20,578	\$ 17,434	\$ 1,927	\$ 39,939
Intergovernmental	<u>5,222,961</u>	<u>440,743</u>	<u>27,271</u>	<u>5,690,975</u>
Total receivables	<u>\$ 5,243,539</u>	<u>\$ 458,177</u>	<u>\$ 29,198</u>	<u>\$ 5,730,914</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, 2011, the School District has \$66,719 of unearned deferred revenue related to grants received and tuition payments received but not yet earned as well as \$101,952 earned but unavailable deferred revenue related to grant receivable collections which will not be collected within the School District's period of availability.

# Lake Shore Public Schools

## Notes to Financial Statements June 30, 2011

### Note 5 - Capital Assets

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

<b>Governmental Activities</b>	Balance July 1, 2010	Reclassifications	Additions	Disposals	Balance June 30, 2011
Capital assets not being depreciated:					
Land	\$ 289,604	\$ -	\$ -	\$ -	\$ 289,604
Construction in progress	3,795,418	(3,795,418)	-	-	-
Subtotal	4,085,022	(3,795,418)	-	-	289,604
Capital assets being depreciated:					
Site improvements	5,888,190	70,090	508,901	19,806	6,447,375
Buildings and building improvements	46,883,350	3,725,328	1,659,515	40,818	52,227,375
Buses and other vehicles	1,367,906	-	26,169	101,921	1,292,154
Furniture and equipment	3,143,571	-	309,178	57,661	3,395,088
Subtotal	57,283,017	3,795,418	2,503,763	220,206	63,361,992
Accumulated depreciation:					
Site improvements	1,838,695	-	285,609	-	2,124,304
Buildings and building improvements	22,797,299	-	1,631,306	22,879	24,405,726
Furniture and equipment	1,556,502	-	204,928	53,016	1,708,414
Buses and other vehicles	910,800	-	75,986	91,729	895,057
Subtotal	27,103,296	-	2,197,829	167,624	29,133,501
Net capital assets being depreciated	30,179,721	3,795,418	305,934	52,582	34,228,491
Net capital assets	\$ 34,264,743	\$ -	\$ 305,934	\$ 52,582	\$ 34,518,095

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

Governmental activities:

Instruction	\$ 182,420
Support services	151,650
Food services	21,978
Unallocated	1,841,781
<b>Total governmental activities</b>	<b>\$ 2,197,829</b>

# Lake Shore Public Schools

## Notes to Financial Statements June 30, 2011

### 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	Building and Site Fund	Nonmajor Governmental Funds	Fiduciary Fund	
General Fund	\$ -	\$ 39,063	\$ 46,654	\$ -	\$ 962	\$ 86,679
Nonmajor governmental funds	5	-	-	-	-	5
Internal Service Fund	2,218,684	98,962	-	40,530	-	2,358,176
<b>Total</b>	<b>\$ 2,218,689</b>	<b>\$ 138,025</b>	<b>\$ 46,654</b>	<b>\$ 40,530</b>	<b>\$ 962</b>	<b>\$ 2,444,860</b>

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.

### 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
<b>Governmental Activities</b>					
Bonds	\$ 30,805,000	\$ -	\$ 1,675,000	\$ 29,130,000	\$ 1,785,000
Issuance discounts	(10,908)	-	(839)	(10,069)	(839)
Issuance premiums	1,245,684	-	124,568	1,121,116	124,568
Total bonds payable	32,039,776	-	1,798,729	30,241,047	1,908,729
Other obligations - Compensated absences	1,176,182	17,740	67,204	1,126,718	319,735
Total governmental activities	<b>\$ 33,215,958</b>	<b>\$ 17,740</b>	<b>\$ 1,865,933</b>	<b>\$ 31,367,765</b>	<b>\$ 2,228,464</b>

# Lake Shore Public Schools

## Notes to Financial Statements June 30, 2011

### 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
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	2,325,000	1,009,050	3,334,050
2017-2021	13,885,000	3,129,853	17,014,853
2022-2023	5,010,000	885,255	5,895,255
Total	<u>\$ 29,130,000</u>	<u>\$ 10,074,960</u>	<u>\$ 39,204,960</u>

#### Governmental Activities

General obligation bonds consist of the following:

\$25,795,000 refunding bonds due in annual installments of \$1,715,000 to \$2,450,000 through May 1, 2020; interest at 4.75 percent to 5.00 percent	\$ 19,575,000
\$9,700,000 capital projects bonds due in annual installments of \$70,000 to \$2,560,000 through May 1, 2023; interest at 3.00 percent to 5.00 percent	<u>9,555,000</u>
Total bonded debt	<u>\$ 29,130,000</u>

Other governmental activities long-term obligations include the following:

Compensated absences	\$ 1,126,718
Discount on bond issuance	(10,069)
Premium on bond issuance	<u>1,121,116</u>
Total other governmental debt	<u>\$ 2,237,765</u>

# Lake Shore Public Schools

## Notes to Financial Statements June 30, 2011

### 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:

	2011	2010
Estimated liability - Beginning of year	\$ 659,874	\$ 463,791
Estimated claims incurred - Including changes in estimates	3,924,052	4,014,351
Claim payments	<u>(3,954,958)</u>	<u>(3,818,268)</u>
Unpaid claims - End of year	<u>\$ 628,968</u>	<u>\$ 659,874</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 statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. 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.

### **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 for basic plan members was 10.13 percent of covered payroll for the period from July 1, 2010 through September 30, 2010 and 12.16 percent for the period from October 1, 2010 through June 30, 2011. The employer contribution rate for pension plus plan members was 10.66 percent for the period from October 1, 2010 through June 30, 2011. 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, or up to 6.4 percent of gross wages for members entering the MIP Plus plan on or after July 1, 2008. The School District's required and actual contributions to the plan for the years ended June 30, 2011, 2010, and 2009 were \$3,675,000, \$2,753,000, and \$2,678,000, 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. 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 6.81 percent of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25 percent for the period from October 1, 2010 through October 31, 2010, and 8.50 percent for the period from November 1, 2010 through June 30, 2011. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2011, 2010, and 2009 were \$2,470,000, \$1,927,000, and \$1,874,000, respectively.

# Lake Shore Public Schools

## Notes to Financial Statements June 30, 2011

### Note 10 - Fund Balance Components

The detail of the assigned component of fund balance is as follows:

	General Fund	Building and Site Fund	Total
Assigned:			
Employee compensated absences - Short term	\$ 319,735	\$ -	\$ 319,735
Employee compensated absences - Long term	806,983	-	806,983
Fixed asset replacements	250,000	-	250,000
Tax tribunal refunds	80,000	-	80,000
Retiree severance payouts	30,000	-	30,000
Anticipated MPSERS increases	348,744	-	348,744
Employee benefit costs increase	350,000	-	350,000
Technology replacement plan	342,500	250,000	592,500
Deferred maintenance plan	250,000	250,000	500,000
Vehicle replacement plan	80,000	100,000	180,000
Capital projects	-	2,447,089	2,447,089
Total assigned	<u>\$ 2,857,962</u>	<u>\$ 3,047,089</u>	<u>\$ 5,905,051</u>

### Note 11 - Upcoming Accounting Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the School District's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

## **Required Supplemental Information**

---

# Lake Shore Public Schools

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
<b>Revenue</b>			
Local sources	\$ 2,854,460	\$ 2,736,970	\$ 2,753,192
State sources	24,872,528	25,492,931	25,478,008
Federal sources	1,912,900	3,329,717	3,120,907
Interdistrict sources	<u>1,253,320</u>	<u>569,650</u>	<u>569,650</u>
Total revenue	30,893,208	32,129,268	31,921,757
<b>Expenditures - Current</b>			
Instruction:			
Basic program	14,702,650	15,314,098	15,294,664
Added needs	4,100,750	4,206,623	3,937,951
Support services:			
Pupil	2,325,700	2,655,076	2,488,985
Instructional staff	948,550	956,049	847,229
General administration	783,150	851,559	801,534
School administration	1,965,700	2,132,344	2,064,355
Business services	589,400	540,770	448,228
Operations and maintenance	3,910,350	4,138,670	3,934,694
Transportation	690,950	747,148	766,437
Central	796,600	954,700	894,125
Athletics	381,400	394,325	373,492
Community services	<u>267,300</u>	<u>275,500</u>	<u>253,111</u>
Total expenditures	31,462,500	33,166,862	32,104,805
<b>Other Financing Uses - Transfers out</b>	<u>(58,000)</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	(627,292)	(1,037,594)	(183,048)
<b>Fund Balance - July 1, 2010</b>	<u>4,807,633</u>	<u>4,807,633</u>	<u>4,807,633</u>
<b>Fund Balance - June 30, 2011</b>	<u><b>\$ 4,180,341</b></u>	<u><b>\$ 3,770,039</b></u>	<u><b>\$ 4,624,585</b></u>

# Lake Shore Public Schools

## Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund Adult and Community Education Fund Year Ended June 30, 2011

	Original Budget	Final Amended Budget	Actual
<b>Revenue</b>			
Local sources	\$ 820,625	\$ 792,100	\$ 740,562
State sources	994,350	1,002,620	2,112,708
Federal sources	5,164,559	4,962,785	3,369,378
Interdistrict sources	7,954	13,000	19,599
Total revenue	6,987,488	6,770,505	6,242,247
<b>Expenditures - Current</b>			
Instruction:			
Basic program	370,600	343,872	410,867
Adult/Continuing education	4,915,850	4,688,175	4,052,654
Total instruction	5,286,450	5,032,047	4,463,521
Support services:			
Pupil	40,600	28,750	26,763
Instructional staff	435,550	402,385	415,053
General administration	8,600	5,600	4,481
School administration	143,230	133,400	150,601
Business services	43,700	50,000	35,488
Operations and maintenance	182,500	169,900	180,081
Pupil transportation services	950	500	365
Central	303,900	294,083	184,444
Total support services	1,159,030	1,084,618	997,276
Community services	704,200	743,363	700,868
Total expenditures	7,149,680	6,860,028	6,161,665
<b>Transfers Out</b>	(25,000)	(25,000)	-
<b>Net Change in Fund Balance</b>	(187,192)	(114,523)	80,582
<b>Fund Balance - July 1, 2010</b>	824,986	824,986	824,986
<b>Fund Balance - June 30, 2011</b>	<b>\$ 637,794</b>	<b>\$ 710,463</b>	<b>\$ 905,568</b>

## **Other Supplemental Information**

---

# Lake Shore Public Schools

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2011

	Special Revenue Fund	Debt Service Funds		Total Nonmajor Governmental Funds
	Cafeteria	2004 Bond Issue	2009 Bond Issue	
<b>Assets</b>				
Cash and investments	\$ 123,039	\$ -	\$ -	\$ 123,039
Receivables	29,198	-	-	29,198
Due from other funds	5	-	-	5
Inventories	7,283	-	-	7,283
Restricted assets	-	268,635	30,580	299,215
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<b><u>\$ 159,525</u></b>	<b><u>\$ 268,635</u></b>	<b><u>\$ 30,580</u></b>	<b><u>\$ 458,740</u></b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 28,119	\$ -	\$ -	\$ 28,119
Accrued payroll and other liabilities	470	-	-	470
Due to other funds	40,530	-	-	40,530
Deferred revenue	8,123	-	-	8,123
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	77,242	-	-	77,242
<b>Fund Balances</b>				
Nonspendable - Inventories	7,283	-	-	7,283
Restricted:				
Debt service	-	268,635	30,580	299,215
Food services	75,000	-	-	75,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	82,283	268,635	30,580	381,498
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<b><u>\$ 159,525</u></b>	<b><u>\$ 268,635</u></b>	<b><u>\$ 30,580</u></b>	<b><u>\$ 458,740</u></b>

# Lake Shore Public Schools

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2011

	Special Revenue Fund	Debt Service Funds		Total Nonmajor Governmental Funds
	Cafeteria	2004 Bond Issue	2009 Bond Issue	
<b>Revenue</b>				
Local sources	\$ 503,643	\$ 1,973,163	\$ 377,821	\$ 2,854,627
State sources	56,026	-	-	56,026
Federal sources	617,804	-	-	617,804
Total revenue	<u>1,177,473</u>	<u>1,973,163</u>	<u>377,821</u>	<u>3,528,457</u>
<b>Expenditures</b>				
Current - Food services	1,161,049	-	-	1,161,049
Debt service:				
Principal	-	1,610,000	65,000	1,675,000
Interest	-	1,008,688	441,675	1,450,363
Other	-	1,084	327	1,411
Capital outlay	3,680	-	-	3,680
Total expenditures	<u>1,164,729</u>	<u>2,619,772</u>	<u>507,002</u>	<u>4,291,503</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	12,744	(646,609)	(129,181)	(763,046)
<b>Other Financing Sources -</b>				
Transfers in	-	-	23	23
<b>Net Change in Fund Balances</b>	12,744	(646,609)	(129,158)	(763,023)
<b>Fund Balances - Beginning of year</b>	<u>69,539</u>	<u>915,244</u>	<u>159,738</u>	<u>1,144,521</u>
<b>Fund Balances - End of year</b>	<u><u>\$ 82,283</u></u>	<u><u>\$ 268,635</u></u>	<u><u>\$ 30,580</u></u>	<u><u>\$ 381,498</u></u>

# Lake Shore Public Schools

## Other Supplemental Information Schedule of Bonded Indebtedness June 30, 2011

Years Ending June 30	2004 Bond Refunding	2009 Bond Issue
	Principal	Principal
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	<b><u>\$ 19,575,000</u></b>	<b><u>\$ 9,555,000</u></b>
Principal payments due	May I	May I
Principal payments due	May I and November I	May I and November I
Interest rate	4.75% to 5.00%	3.00% to 5.00%
Original issue	<b><u>\$ 25,795,000</u></b>	<b><u>\$ 9,700,000</u></b>