

LAKEVIEW PUBLIC SCHOOLS
St. Clair Shores, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED
JUNE 30, 2017



LAKEVIEW PUBLIC SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Lakeview Public Schools
St. Clair Shores, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lakeview Public Schools (the "District") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017 on our consideration of Lakeview Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lakeview Public Schools' internal control over financial reporting and compliance.



Certified Public Accountants

October 12, 2017

This section of Lakeview Public Schools' (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2017. Please read it in conjunction with the 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 Lakeview Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's operations in more detail than the district-wide financial statements for each of the District's funds. The Internal Service Fund and Fiduciary Fund statements present financial information about activities for which the District provides services to other funds and for which it acts solely as an agent or fiduciary for the benefit of students and parents, respectively.

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

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

Required Supplemental Information

Budgetary Information for Major Funds

Pension System Schedules

Reporting the District as a Whole - District-wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the District's financial documents, report information on the District as a whole and its activities in a way that helps the reader answer this question. These statements are prepared to include all assets and deferred outflows of resources and liabilities and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Further, these two statements report the District's net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, as reported in the Statement of Net Position - as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's purpose is to provide services to students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided, expansion of programs or offerings, success of graduates, and the safety of the schools, to assess the overall health of the District.

The Statement of Net Position and the Statement of Activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Report the District's Most Significant Funds - Fund Financial Statements

The District's fund financial statements provide detailed information about each of the District's funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, the District establishes other funds to help it control and manage money for particular purposes (the Food Service Fund), 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 funds of the District use the following accounting approach:

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 District and the services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds are described in reconciliations on pages 12 and 14.

Proprietary Fund - Proprietary fund reporting focuses on economic resources measurement and an accounting method called full accrual accounting. The proprietary fund statements present a long-term view of operations and the services it provides to other funds.

The District established a proprietary fund, specifically an Internal Service Fund, to finance specific services provided to other funds of the District on a cost reimbursement basis. The specific services represent sick leave, accrued vacation benefits, and vision, dental, prescription benefits, and health benefits.

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and governmental and fiduciary fund financial statements. The notes to the financial statements can be found on pages 18-37 of this report.

The District as a Whole (District-wide Financial Analysis)

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table I provides a summary of the District's net assets as of June 30, 2017 and 2016:

Table I

| | Governmental Activities (in millions) | |
|--|--|------------------|
| | 2017 | 2016 |
| Assets | | |
| Current and other assets | \$ 12.3 | \$ 11.2 |
| Capital assets | <u>38.3</u> | <u>40.6</u> |
| Total assets | <u>50.6</u> | <u>51.8</u> |
| Deferred Outflows of Resources | | |
| Deferred charges on bond refunding | 1.3 | 1.5 |
| Related to the pension plan | <u>9.7</u> | <u>9.0</u> |
| Total deferred outflows of resources | <u>11.0</u> | <u>10.5</u> |
| Liabilities | | |
| Current liabilities | 9.6 | 9.0 |
| Non-current liabilities | <u>88.9</u> | <u>92.2</u> |
| Total liabilities | <u>98.5</u> | <u>101.2</u> |
| Deferred Inflow of Resources | | |
| Related to the pension plan | <u>2.9</u> | <u>1.8</u> |
| Net Position | | |
| Invested in property and equipment - Net of related debt | 10.5 | 9.6 |
| Restricted | 0.4 | 0.8 |
| Unrestricted | (<u>50.7</u>) | (<u>51.1</u>) |
| Total Net Position | <u>\$(39.8)</u> | <u>\$(40.7)</u> |

The above analysis focuses on the net position (see Table I). The change in net position (see Table II) of the District's governmental activities is discussed below. The District's net position was \$(39,769,738) at June 30, 2017, which includes the inclusion of GASB Statement No. 68, whereby school districts must record the District's portion of the net pension liability of the State operated pension plan. Capital assets, net of related debt totaling \$10,527,821, compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of \$422,349 is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations.

The \$50,719,908 deficit in unrestricted net position of governmental activities represents the accumulated results of all past years' operations, including the District's portion of the net pension liability of the State's MPSERS pension plan.

The results of this year's operations for the District as a whole are reported in the Statement of Activities (see Table II), which shows the changes in net assets for fiscal years 2017 and 2016:

Table II

| | Governmental Activities (in millions) | |
|---|--|-----------------|
| | 2017 | 2016 |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 2.1 | \$ 2.1 |
| Federal grants and entitlements | 1.7 | 1.6 |
| State and local operating grants | 6.3 | 4.8 |
| General revenue: | | |
| Property taxes | 5.8 | 6.2 |
| State foundation allowance/grants | 30.7 | 29.4 |
| Total revenue | <u>46.6</u> | <u>44.1</u> |
| Functions/Program Expenses | | |
| Instruction | 27.4 | 26.1 |
| Support services | 12.9 | 12.7 |
| Community services | 0.9 | 0.8 |
| Food services | 1.1 | 1.1 |
| Interest and fiscal charges on long-term debt | 1.1 | 1.1 |
| Issuance costs on refunding | - | 0.1 |
| Depreciation (unallocated) | 2.3 | 2.4 |
| Total functions/program expenses | <u>45.7</u> | <u>44.3</u> |
| Change in Net Position | <u>\$ 0.9</u> | <u>\$(0.2)</u> |

As reported in the statement of activities, the cost of all of our governmental activities this year was \$45,760,423. Certain activities were partially funded from those who benefited from the programs totaling \$2,117,151 or by other governments and organizations that subsidized certain programs with grants and contributions totaling \$8,003,746. The District paid for the remaining "public benefit" portion of our governmental activities with \$5,803,388 in local property taxes, \$30,704,409 in State foundation allowance and other unrestricted grants, and \$12,204 in investment earnings.

The District experienced an increase in net position of \$880,475. The increase in net position differs from the change in fund balance. A reconciliation appears on page 12.

As discussed above, the net cost shows the financial responsibility that was placed on the State and the District's taxpayers by each of these functions. Of these unrestricted general revenues, approximately 84% was from State Aid and 16% from property taxes. The Board of Education and Administration must annually evaluate the needs of the District and balance those needs with State-prescribed available unrestricted resources.

The District's Funds

As we noted earlier, the District uses a fund accounting structure to help it control and manage money for particular purposes. Looking at each Fund helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for future spending.

As the District completed this 2017 fiscal year, the governmental funds reported a combined fund balance of \$2,219,163, which is an increase of \$409,045 from last year.

The General Fund ended 2017 with an increase of \$731,061, resulting in a total fund balance of \$1,556,613, of which \$217,853 was non-spendable, with the remaining amount of \$1,338,760 classified as unassigned.

The Food Service Fund had a net increase in fund balance of \$4,652, closing the year with a total fund balance of \$204,148.

The Debt Service Bond Fund had a net decrease of \$325,827 as a result of debt payments in excess of tax collections, closing the year with a total fund balance of \$422,349.

The Capital Projects Fund had a decrease in fund balance of \$841, closing the year with a total fund balance of \$36,053. The Capital Projects Fund resources are primarily Board-approved transfers from the General Fund.

General Fund Budgetary Highlights

Over the course of the year, the 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 available funds to appropriate. The final amendment to the **Budget** was adopted slightly before year-end. A schedule showing the District's General Fund and Food Service Fund original and final budgeted amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Compared to 2016, overall revenue in 2017 increased by approximately \$1.5 Million (up 3.7%), providing funds to hire additional teachers and staff to accommodate larger than projected increases in student enrollment (funded FTE up 135 students or 3.3% compared to 2016). Overall, compared to 2016, staffing and health care expenses within the instructional and pupil support functions demonstrated an upward trend (increasing approximately \$1.2 Million in 2017 compared to 2016). Even though revenue increased substantially, the District took strong action early in the fiscal year to reduce discretionary spending, particularly in the area of support services such as operations, maintenance and transportation (decreased by \$400,000). Overall expenses in 2017, including transfers, increased approximately \$800,000 (up 1.9%) compared to 2016. Coupled together, the revenue increase, staffing and medical benefit expense increases, and discretionary expense decreases yielded growth to the General Fund balance, increased by \$731,000 (up 88%), ending 2017 with \$1.56 Million in balance going forward.

To address the known changes during the year, there were revisions between the original and final 2016-17 **General Fund Budget**. Budgeted revenues increased slightly by \$200,000 from original to final budget for 2016-17. As described above, budgeted expenditures (excluding transfers) increased by approximately \$1.1 million compared to original budget, primarily due to the increases in medical costs and additional teacher and paraprofessional staffing. Initially, medical, dental, vision and RX costs were budgeted at \$4.1 million, The District is self-insured for health/medical costs; claims data for 2016-17 indicated significant increases over previous projections. The amended budget in 2016-17 for medical costs was budgeted conservatively, with an increase of \$900,000 based on early 2016-17 experience during the year; however, due to actual claims coming in better than expected after the close of the fiscal year, at \$4.4 million, the District ended with positive variances to our budget of \$500,000 for these costs.

The transfer to the Capital Projects Fund from the General Fund in the original and final amended **Budget** decreased from \$300,000 to \$20,000. This decision was a conscious effort to assist growing the General Fund balance instead of completing discretionary facility or site improvements

Capital Assets and Debt Administration

Capital Assets

At June 30, 2017, the District had \$38,335,552 in capital assets (net of accumulated depreciation), representing a decrease of \$2,279,595. The current-year additions totaled \$1,518, offset by current-year depreciation expenses of \$2,281,113.

Additional information on the District's capital assets can be found in Note 4 to the financial statements.

Long-term Liabilities

At June 30, 2017, the District had \$29,547,903 in long-term liabilities, versus \$32,946,977 in the previous year. The activity associated with long-term liabilities in 2017 was principal payments associated with existing bonds and installment contracts.

Other obligations include accrued vacation pay and sick leave.

Additional information on the District's long-term liabilities can be found in Note 6 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Board of Education and Administration consider many factors when adopting the District's fiscal year **Budget**. One of the most important factors affecting the budget process is our student count and projected State revenue per pupil. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017-18 fiscal year is 10 percent of the February 2017 and 90 percent of the October 2017 student count. The **2017-18 Budget** was adopted in May 2017 based on an estimate of students projected to be enrolled in September 2017. Approximately 85 percent of total General Fund revenue is from the foundation allowance and other forms of State Aid (known as "categorical" grants). Under State law, the District cannot assess additional property tax revenue for general operations (with limited exceptions). As a result, District funding is heavily dependent on the State's ability to fund local school operations. Various industries in the State of Michigan have benefitted from an improved economic environment, particularly the auto industry. A stronger State economic base has provided for improved State tax collections for schools (income, sales, and some property taxes); this also provided for small increases in the Student Foundation Allowance. Based on early enrollment data at the start of the 2017-18 school year, Administration anticipates that the fall student count will be higher than the estimates used in developing the **2017-18 Budget**; this is a positive financial indicator going forward. Additionally, increases in State revenue per pupil that are expected were larger (at \$90 per pupil) than when the budget was developed (assuming \$50 per pupil); this is another positive financial indicator going forward. Total revenues projected initially for the 2017-18 General Fund was \$42.7 million, a projected increase of \$500,000 over actual 2016-17 revenues of \$42.2 million.

On the expense side of the Budget for 2017-2018, total expenses projected initially for the 2017-18 General Fund was \$42.4 million, a projected increase of \$900,000 over actual 2016-17 expenses of \$41.5 million. The projected 2017-18 increase is due to conservative estimates of an additional \$500,000 for Health/medical costs and an increase to the discretionary transfer to the Capital projects fund of \$100,000. Capital Project Fund dollars are allocated to planned building and site improvements such as roof replacement, concrete replacement, furniture acquisition and routine maintenance to existing structures. Labor costs were budgeted overall flat compared to 2016-17, with a slight decrease resulting from attrition and due to staff reassignments to other District positions. Finally, the District has budgeted to grow General Fund balance again in 2017-18 by approximately \$320,000.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Department, 27575 Harper Ave., St. Clair Shores, MI 48081.

BASIC FINANCIAL STATEMENTS

LAKEVIEW PUBLIC SCHOOLS

STATEMENT OF NET POSITION

JUNE 30, 2017

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 4,843,866 |
| Receivables (net of allowance) - | |
| Accounts | 128,515 |
| Taxes | 20,405 |
| Due from other governmental units - | |
| State | 6,667,172 |
| Local | 364,274 |
| Inventories | 6,724 |
| Prepaid expenses | 229,853 |
| Capital Assets (net of accumulated depreciation) | |
| Assets not being depreciated | 115,900 |
| Assets being depreciated | <u>38,219,652</u> |
| Total Assets | <u>50,596,361</u> |
| Deferred Outflows of Resources: | |
| Deferred charges on bond refinancing | 1,358,763 |
| Related to the pension plan | <u>9,690,519</u> |
| Total Deferred Outflows of Resources | <u>11,049,282</u> |
| Liabilities: | |
| Accounts payable | 270,298 |
| Accrued payroll and fringes | 5,317,528 |
| Accrued interest | 203,286 |
| Unearned revenues | 23,503 |
| State aid note | 3,827,802 |
| Non-current liabilities- | |
| Bonds/contracts payable due within one year | 3,652,485 |
| Other obligations due within one year | 25,712 |
| Bonds payable/contracts due more than one year | 25,514,009 |
| Other obligations due more than one year | 355,697 |
| Net pension liability | <u>59,328,436</u> |
| Total Liabilities | <u>98,518,756</u> |
| Deferred Inflow of Resources: | |
| Related to the pension plan | <u>2,896,625</u> |
| Net Position: | |
| Net investment in capital assets | 10,527,821 |
| Restricted - Debt service | 422,349 |
| Unrestricted | <u>(50,719,908)</u> |
| Total Net Position | <u><u>\$(39,769,738)</u></u> |

The accompanying notes are an integral part of these financial statements.

LAKEVIEW PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

| | | Program Revenue | | |
|---|----------------------|----------------------------|--|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Net (Expense) Revenue and Change in Net Position |
| Governmental Activities: | | | | |
| Instruction | \$ 27,386,139 | \$ 640,022 | \$ 6,547,505 | \$(20,198,612) |
| Support Services | 12,938,098 | 254,634 | 748,707 | (11,934,757) |
| Community Services | 946,391 | 778,363 | - | (168,028) |
| Food Services | 1,108,113 | 444,132 | 687,799 | 23,818 |
| Interest and fiscal charges on long-term debt | 1,124,443 | - | 19,735 | (1,104,708) |
| Depreciation (unallocated) | 2,257,239 | - | - | (2,257,239) |
| | <u>\$ 45,760,423</u> | <u>\$ 2,117,151</u> | <u>\$ 8,003,746</u> | <u>\$(35,639,526)</u> |
| General Revenues: | | | | |
| Property taxes - | | | | |
| Levied for general purposes | | | | 2,278,838 |
| Levied for debt services | | | | 3,524,550 |
| State aid, unrestricted | | | | 30,704,409 |
| Interest earnings | | | | 12,204 |
| Total general revenues | | | | <u>36,520,001</u> |
| Change in Net Position | | | | 880,475 |
| Net Position at beginning of year | | | | (40,650,213) |
| Net Position at end of year | | | | <u>\$(39,769,738)</u> |

The accompanying notes are an integral part of these financial statements.

LAKEVIEW PUBLIC SCHOOLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

| | General Fund | Food Service Fund | Debt Service Bond Fund | Capital Projects Fund | Total |
|--|----------------------|----------------------|---------------------------|--------------------------|----------------------|
| Assets: | | | | | |
| Cash and cash equivalents | \$ 3,517,441 | \$ 744,905 | \$ 422,349 | \$ 36,053 | \$ 4,720,748 |
| Receivables (net of allowance) - | | | | | |
| Accounts | 111,998 | 20 | - | - | 112,018 |
| Taxes | 6,842 | - | 13,563 | - | 20,405 |
| Due from other governmental units - | | | | | |
| State | 6,622,260 | 44,912 | - | - | 6,667,172 |
| Local | 364,274 | - | - | - | 364,274 |
| Due from other funds | 56,866 | - | - | - | 56,866 |
| Inventory | - | 6,724 | - | - | 6,724 |
| Prepaid expenditures | 217,853 | - | - | - | 217,853 |
| | \$ 10,897,534 | \$ 796,561 | \$ 435,912 | \$ 36,053 | \$ 12,166,060 |
| Liabilities: | | | | | |
| Accounts payable | \$ 248,828 | \$ 21,470 | \$ - | \$ - | \$ 270,298 |
| Accrued payroll and fringes | 4,311,145 | - | - | - | 4,311,145 |
| Due to other funds | 922,801 | 570,943 | - | - | 1,493,744 |
| Unearned revenue | 23,503 | - | - | - | 23,503 |
| State aid note | 3,827,802 | - | - | - | 3,827,802 |
| Total Liabilities | 9,334,079 | 592,413 | - | - | 9,926,492 |
| Deferred Inflows of Resources: | | | | | |
| Unavailable resources - delinquent personal property taxes | 6,842 | - | 13,563 | - | 20,405 |
| Fund Balances: | | | | | |
| Nonspendable - | | | | | |
| Prepaid expenditures | 217,853 | - | - | - | 217,853 |
| Inventory | - | 6,724 | - | - | 6,724 |
| Restricted for - | | | | | |
| Food service | - | 197,424 | - | - | 197,424 |
| Debt service | - | - | 422,349 | - | 422,349 |
| Committed for - | | | | | |
| Capital items | - | - | - | 36,053 | 36,053 |
| Unassigned | 1,338,760 | - | - | - | 1,338,760 |
| Total Fund Balances | 1,556,613 | 204,148 | 422,349 | 36,053 | 2,219,163 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 10,897,534 | \$ 796,561 | \$ 435,912 | \$ 36,053 | \$ 12,166,060 |

The accompanying notes are an integral part of these financial statements.

LAKEVIEW PUBLIC SCHOOLS

**RECONCILIATION OF THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2017**

| | |
|---|--------------------------------|
| Fund Balances - total governmental funds | \$ 2,219,163 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. | |
| Capital assets | 71,123,298 |
| Accumulated depreciation | (32,787,746) |
| Other long term assets are not available to pay for current period expenditures, and therefore, are not reported as revenues in the funds. | |
| | 20,405 |
| Certain pension contributions and changes in pension plan liabilities are reported as deferred outflows (inflows) of resources in the statement of net position. | |
| Deferred outflows of resources | 9,690,519 |
| Deferred inflows of resources | (2,896,625) |
| Internal Service Fund used by management to charge costs of self-insured dental, vision, and prescription claims. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. | |
| | 200,701 |
| Premiums on bonds are reported as other financing sources in the governmental funds, whereas they are capitalized and amortized from net position (netted against bonds payable). | |
| | (2,778,494) |
| Deferred charges on refunding are expensed in the governmental funds, whereas they are reported as deferred outflows of resources in the district-wide statements. | |
| | 1,358,763 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds. | |
| Bonds payable | (22,480,000) |
| Installment contracts | (3,908,000) |
| Accrued interest on bonds payable | (203,286) |
| Net pension liability | (59,328,436) |
| Net Position of governmental activities | <u><u>\$ (39,769,738)</u></u> |

The accompanying notes are an integral part of these financial statements.

LAKEVIEW PUBLIC SCHOOLS

GOVERNMENTAL FUNDS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

| | General Fund | Food Service Fund | Debt Service Bond Fund | Capital Projects Fund | Total |
|---|---------------------|----------------------|---------------------------|--------------------------|---------------------|
| Revenues: | | | | | |
| Local sources | \$ 3,314,646 | \$ 446,895 | \$ 3,532,701 | \$ 4 | \$ 7,294,246 |
| State sources | 36,135,756 | 57,374 | 19,735 | - | 36,212,865 |
| Federal sources | 1,020,344 | 630,425 | - | - | 1,650,769 |
| Interdistrict sources | 1,682,022 | - | - | - | 1,682,022 |
| Total Revenues | <u>42,152,768</u> | <u>1,134,694</u> | <u>3,552,436</u> | <u>4</u> | <u>46,839,902</u> |
| Expenditures: | | | | | |
| Instruction | 27,202,312 | - | - | - | 27,202,312 |
| Support services | 12,855,577 | - | - | - | 12,855,577 |
| Community services | 940,143 | - | - | - | 940,143 |
| Food service | - | 1,081,452 | - | - | 1,081,452 |
| Capital outlay | - | - | - | 20,845 | 20,845 |
| Debt service | 452,265 | - | 3,878,263 | - | 4,330,528 |
| Total Expenditures | <u>41,450,297</u> | <u>1,081,452</u> | <u>3,878,263</u> | <u>20,845</u> | <u>46,430,857</u> |
| Revenue over (under) expenditures | <u>702,471</u> | <u>53,242</u> | <u>(325,827)</u> | <u>(20,841)</u> | <u>409,045</u> |
| Other Financing Sources (Uses): | | | | | |
| Transfer In | 48,590 | - | - | 20,000 | 68,590 |
| Transfer Out | (20,000) | (48,590) | - | - | (68,590) |
| Total Other Financing Sources (Uses) | <u>28,590</u> | <u>(48,590)</u> | <u>-</u> | <u>20,000</u> | <u>-</u> |
| Net Change in Fund Balances | 731,061 | 4,652 | (325,827) | (841) | 409,045 |
| Fund Balances at beginning of year, as restated | <u>825,552</u> | <u>199,496</u> | <u>748,176</u> | <u>36,894</u> | <u>1,810,118</u> |
| Fund Balances at end of year | <u>\$ 1,556,613</u> | <u>\$ 204,148</u> | <u>\$ 422,349</u> | <u>\$ 36,053</u> | <u>\$ 2,219,163</u> |

The accompanying notes are an integral part of these financial statements.

LAKEVIEW PUBLIC SCHOOLS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

| | | |
|---|----|-----------------------|
| Net change in fund balances - total governmental funds | \$ | 409,045 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | | |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p> | | |
| Capital outlay | | 1,518 |
| Depreciation expense | (| 2,281,113) |
| <p>Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds.</p> | | |
| | (| 155) |
| <p>Internal service fund used by management to charge costs of self-insured dental, vision, and prescription claims. The net revenues (expenses) attributed to those funds are reported with governmental activities.</p> | | |
| | (| 1,370) |
| <p>The issuance of long-term debt (e.g. bonds and contracts) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net position.</p> | | |
| Principal payments on bonds | | 2,745,000 |
| Principal payment on installment contracts | | 337,000 |
| Amortization of bond premium | | 306,486 |
| Amortization of deferred charges on bond refunding | (| 186,726) |
| <p>Change in pension contributions made subsequent to the measurement date.</p> | | |
| | | 335,801 |
| <p>Revenue in support of pension contributions made subsequent to the measurement date.</p> | | |
| | (| 197,479) |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the funds.</p> | | |
| Increase in pension liability | (| 60,022) |
| Change in pension expense related to deferred items related to the pension plan | (| 531,835) |
| Decrease in accrued interest | | 4,325 |
| | | <u>4,325</u> |
| Change in net position of governmental activities | \$ | <u><u>880,475</u></u> |

The accompanying notes are an integral part of these financial statements.

LAKEVIEW PUBLIC SCHOOLS

**PROPRIETARY FUND - INTERNAL SERVICE FUND
STATEMENT OF NET POSITION
JUNE 30, 2017**

| | Governmental Activities |
|------------------------------------|----------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 123,118 |
| Accounts receivable | 6,500 |
| Due from other funds | 1,446,875 |
| Prepaid expenses | 12,000 |
| Total Assets | 1,588,493 |
| Liabilities: | |
| Current Liabilities | |
| Accrued employee benefits | 1,006,383 |
| Accrued compensated absences | 25,712 |
| Total Current Liabilities | 1,032,095 |
| Noncurrent Liabilities | |
| Accrued compensated absences | 355,697 |
| Total Liabilities | 1,387,792 |
| Net Position - Unrestricted | \$ 200,701 |

**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

| | |
|--|---------------------|
| Operating Revenues - Charges for Services | \$ 4,485,997 |
| Operating Expenses | |
| Workers' compensation claims | 53,742 |
| Other employee benefits | 4,433,625 |
| | 4,487,367 |
| Change in Net Position | (1,370) |
| Net Position at beginning of year | 202,071 |
| Net Position at end of year | \$ 200,701 |

The accompanying notes are an integral part of these financial statements.

LAKEVIEW PUBLIC SCHOOLS

**PROPRIETARY FUND - INTERNAL SERVICE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

| | Governmental Activities |
|--|----------------------------|
| Cash Flows from Operating Activities | |
| Claims paid | \$(4,273,518) |
| Collections from other funds | 4,273,549 |
| | 31 |
| Cash and Cash Equivalents at Beginning of Year | 123,087 |
| Cash and Cash Equivalents at End of Year | \$ 123,118 |
| Reconciliation of Operating Loss to Net Provided by Operating Activities | |
| Operating Income | \$(1,370) |
| Adjustments to reconcile operating loss to net cash provided by operating activities - Changes in assets and liabilities: | |
| Accounts receivable | (6,500) |
| Due from other funds | (212,448) |
| Prepaid expenses | 29,640 |
| Accounts payable | (686) |
| Accrued employee benefits | 201,983 |
| Accrued compensated absences | (10,588) |
| | \$ 31 |

The accompanying notes are an integral part of these financial statements.

LAKEVIEW PUBLIC SCHOOLS

**FIDUCIARY FUND - AGENCY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2017**

Assets:

| | | |
|---------------------------|----|----------------|
| Cash and cash equivalents | \$ | 257,784 |
| Receivables | | 1,460 |
| | | <hr/> |
| Total Assets | \$ | <u>259,244</u> |

Liabilities:

| | | |
|-----------------------|----|----------------|
| Accounts payable | \$ | 16 |
| Due to other funds | | 9,997 |
| Due to student groups | | 249,231 |
| | | <hr/> |
| Total Liabilities | \$ | <u>259,244</u> |

The accompanying notes are an integral part of these financial statements.

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by Lakeview Public Schools (the “District”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the District.

A. Reporting Entity -

The District, located in St. Clair Shores, was established under the Constitution and statutes of the State of Michigan. Lakeview Public Schools is one of twenty-one (21) school districts located in Macomb County, Michigan, each of which is a separate governmental entity. The District operates under an elected School Board (seven members) and provides educational services to its students in many areas, including basic education, special education, vocational education, athletics, and food services.

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 District’s reporting entity, and which organizations are legally separate component units of the District. Based on these criteria, the District has no component units.

B. District-wide and Fund Financial Statements -

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 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, unrestricted state aid, and other items not properly included among program revenues are reported instead as *general revenues*.

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

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation -

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as is the proprietary fund. (The Agency fund, a type of fiduciary fund, is unlike all other funds, reporting only assets and liabilities. Agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables). Revenues are 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 revenues in the year 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 judgements, 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 therefore have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The proprietary fund is 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 operation. The principal revenue in the proprietary fund relates to charges to other funds for services. Operating expenses for the proprietary fund includes the costs of services. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The District reports the following major governmental funds:

Governmental Fund Types -

General Fund - is the District's primary operating fund. It accounts for all activities of the District not reported in other funds.

Food Service Fund - is used to account for all specific revenue sources that are restricted or committed for expenditures of the Food Service Program.

Debt Service Bond Fund - is used to account for the accumulation of resources for the payment of principal and interest on long term debt.

Capital Projects Fund - is used to record transactions related to the expenditures for the renovation and expansion of the District buildings.

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Additionally, the District reports the following fund types:

Proprietary Fund Type -

Internal Service Fund - is used to account for risk management services provided to other funds/departments of the District on a cost-reimbursement basis. This fund also accounts for earned but unused accumulated vacation and sick leave benefits as well as vision, dental, and prescription benefits and self-insured health benefits.

Fiduciary Fund Type -

Agency Fund - is used to account for assets held by the District as an agent for student clubs and other activities.

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance -

Deposits and Investments -

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition, money markets, and investment trust funds, which are recorded at cost, which approximates fair value. The investment trust funds have the general characteristics of demand deposit accounts in that the District may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Receivables and Payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All property taxes and trade receivables are shown net of an allowance for uncollectible amounts.

The allowances for doubtful accounts are \$20,405 for taxes and \$24,927 for other receivables at June 30, 2017.

Inventories -

Inventory in the Special Revenue (Food Service) Fund represents purchased food supplies which are reported at the lower of cost or market, determined by the first-in, first-out (FIFO) method, and federal commodities distributed to the District through the State which are reported at costs determined by the Federal Government. Inventories in the General Fund are recorded as expenditures when purchased.

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Prepaid Items -

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide financial statements and in the fund financial statements.

Property Tax Calendar -

Property taxes are levied as of July 1 and December 1 by the various municipalities within the District based on the assessed value the preceding December 31. Taxes are due on September 14 or February 14, respectively, with the final collection date of February 28, after which the delinquent real property taxes are added to the County rolls.

In connection, Macomb County has established a Delinquent Tax Revolving Fund whereby all local units of government, including the District, are paid for the delinquent real property taxes each year. The County will charge back to the local units of government any real property taxes not collected at the end of four years. Past experience has indicated that such chargebacks should not be material.

Capital Assets -

Capital assets, which include property, buildings, equipment and vehicles, are reported in the district-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of \$5,000 or more, except if purchased with bond proceeds which are capitalized regardless of cost, and an estimated 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 maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The District does not have infrastructure type assets.

Capital assets of the District are depreciated using the straight-line method over the estimated useful lives:

| | |
|---------------------------|-------------|
| Land improvements | 20 years |
| Building and improvements | 25-50 years |
| Buses and other vehicles | 7-15 years |
| Furniture and equipment | 7-20 years |

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and compensatory leave under formulas and conditions specified in the contracts. The District transfers assets to the internal service fund as benefits are earned at the maximum possible payout amount. The liability in the internal service fund is recorded when the benefits vest at the expected payout.

LAKEVIEW PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Long-term Obligations -

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, if significant, 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 expensed when incurred.

In the fund financial statements, governmental fund types report the face amount of debt issued 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, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources -

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The District has the following items that qualify for reporting in this category: pension payments made subsequent to the measurement date, pension related changes in assumptions, pension related proportionate share, the net difference between expected and actual pension plan investment earnings, difference between expected and actual experience, and deferred charges on bond refunding, which are all reported on the district-wide statement of net position. Pension payments made subsequent to the measurement date will be recognized in the next plan year and the other pension related deferred outflows of resources are amortized over the expected remaining service lives of the participants, with the exception of the net difference between expected and actual plan investment earnings which is amortized over five (5) years. The deferred charges on refunding result from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that would qualify for reporting in this category: differences between expected and actual experience, pension related proportionate share, and revenue in support of pension contributions made subsequent to the measurement date (147c). These deferred inflows are amortized over the expected remaining service lives of the participants, except for the 147c deferral that will be recognized in the next plan year.

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Fund Balance -

In the fund financial statements, governmental funds presented fund balances in one or more of the following classifications:

Nonspendable fund balance – the portion of fund balance that is not in spendable form.

Restricted fund balance – the portion of the fund balance that has limitations imposed on use by external sources.

Committed fund balance – the portion of fund balance that is set aside for specific purposes pursuant to constraints imposed by formal action via board resolution (e.g., to establish, modify or rescind), of the highest level of decision-making authority (Board of Education).

Assigned fund balance – the portion of fund balance that reflects the District's intended use of resources. Such intent currently must be determined by the Board of Education. Also, the amount in excess of nonspendable, restricted and committed fund balance in funds other than the General Fund is reported as assigned.

Unassigned fund balance – the portion of fund balance in the General Fund that cannot be classified into one of the four categories above.

When different classifications of fund balance are present, it is the District's policy that expenditures are to be spent from restricted fund balance first, if appropriate, followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Federal Programs -

Federal Programs are accounted for in the General and Special Revenue Funds of the District. The District has not integrated its Single Audit Reports and Schedule of Expenditures of Federal Awards as part of the Annual Financial Report. The Single Audit is issued under separate cover as supplementary information to the Annual Financial Report.

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Upcoming Accounting Pronouncements -

The Governmental Accounting Standards Board (GASB) issued the following statements that may have an impact on the District's financial statements when adopted. The District is currently evaluating the implications of the pronouncements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plan Other Than Pension Plans*, was issued in June 2015 and will become effective for the District's June 30, 2018 fiscal year. The statement requires governments providing defined benefit plans to report the net OPEB liability in their statement of net position. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets accumulated in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. This statement requires cost-sharing employers to record a liability and expenses equal to their proportionate share of the collective net OPEB liability of the cost-sharing plan (e.g. MPSERS). The plan will also improve the comparability and consistency of how governments calculate the OPEB liabilities and expenses.

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017, which will become effective for the District's June 30, 2020 fiscal year. The statement re-establishes criteria for reporting fiduciary activities in the governmental financial statements where certain activities previously recorded as agency funds may be reclassified. The District is currently evaluating the implications of the pronouncement.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Compliance -

The General and Special Revenue Funds budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are on the same modified accrual basis used to reflect actual results.

The departments in conjunction with the District's Administrators and Superintendent prepare and submit their proposed operating budgets for the fiscal year commencing July 1. The budgets include proposed expenditures and resources to finance them.

Prior to June 30, the proposed budget is presented to the Board of Education. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Board of Education Resolution. After the budget is adopted, all amendments must be approved by the Board of Education.

The District's approved budgets were adopted at the function level for the General Fund and object level for the Special Revenue Fund. These are the legal enacted levels under the State of Michigan Uniform Budgeting and Accounting Act and the level of budgetary control adopted by the Board of Education (the level at which expenditures may not legally exceed appropriations). The General Fund budget was maintained at the account level for control purposes.

The District does not employ encumbrance accounting as an extension of budgetary integration. All amounts appropriated lapse at year-end.

LAKEVIEW PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - (cont'd):

Budget amounts are reported as the original adopted and the final amended by the Board of Education during the year.

Expenditures at these legally adopted levels in excess of the amounts budgeted are a violation of the Budgetary Act. For the year ended June 30, 2017, the District's expenditures at legally adopted levels did not have any significant budget overages.

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2017, the carrying amounts of the deposits and investments are as follows:

| | Governmental Activities | Fiduciary Funds | Total |
|--|----------------------------|--------------------|--------------|
| Cash on Hand - Petty Cash | \$ 1,021 | \$ - | \$ 1,021 |
| Deposits with Financial Institutions - Checking | 4,211,253 | 257,784 | 4,469,037 |
| Savings | 502,423 | - | 502,423 |
| Total Deposits | 4,713,676 | 257,784 | 4,971,460 |
| Investments - Investment Trust Funds | 129,169 | - | 129,169 |
| Grand Total | \$ 4,843,866 | \$ 257,784 | \$ 5,101,650 |

Custodial Credit Risk - Deposits -

Custodial Credit Risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan.

As of June 30, 2017, the carrying amount of the District deposits is \$4,971,460 and the bank balance is \$5,326,598. Of the bank balance, \$500,000 is covered by depository insurance, with the remaining \$4,826,598 exposed to credit risk since it is uninsured and uncollateralized.

Investments -

The District has an investment policy specifying the type of authorized investments and one that addresses the concentration of credit risk, investment rate risk and foreign currency risk. The policy authorizes the District to invest surplus funds in the following types of investments:

- a) Certificates of deposit issued by financial institutions organized and authorized to operate in this State. A maximum of 100% of available funds may be invested in non-negotiable interest-bearing time certificates of deposit.

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

- b) Investment pools, as authorized by the Surplus Funds Investment Pool Act, 1982 PA 367 MCL129.111 to 129.118, composed entirely of instruments that are legal for direct investment by a school district.

- c) Public Financial Management/MILAF

Credit Risk - Investments - is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

The District utilized the MILAF, a comprehensive cash management service program developed exclusively for Michigan school districts and municipalities. MILAF is not subject to regulatory oversight and is not registered within the SEC, however, does issue a separate financial statement which can be obtained at www.milaf.org. MILAF is rated AAAM by Standard & Poors. The portfolio is managed to maintain a dollar-weighted average portfolio maturity of 60 days or less and seeks to maintain a constant share value of \$1.00. MILAF invests primarily in U.S. governmental securities, commercial paper, and repurchase agreements. MILAF is considered a money market fund, as defined by GASB, and as such is recorded at amortized cost, which approximates fair value. The fair value of the District's investment is the same as the value of the pool shares. This fund is not subject to the fair value disclosure. As of June 30, 2017, the District has \$129,169 (fair value) in the external investment pool with an average of one day to mature.

Custodial Credit Risk - Investments - is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in possession of another party.

The securities of the investment pool are kept safe with a third party selected by the counterparty. However, the pool's securities are held in trust for the participants of the fund that are not available to the counterparty if the counterparty should happen to fail. We believe this arrangement satisfies the District's investment policy safekeeping requirement.

Concentration of Credit Risk - Investments - is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District attempts to minimize risk by diversifying its investment portfolios so that the impact of potential losses from any one type of security or issuer will be minimized.

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 - CAPITAL ASSETS:

Capital assets activity of the District for the year ended June 30, 2017 was as follows:

| | Balance July 1, 2016 | Additions | Adjustments/ Deletions | Balance June 30, 2017 |
|--|----------------------------|-----------------------|---------------------------|-----------------------------|
| Assets, not being depreciated: | | | | |
| Land | \$ 115,900 | \$ - | \$ - | \$ 115,900 |
| Construction in progress | <u>16,779</u> | <u>-</u> | <u>16,779</u> | <u>-</u> |
| Total assets, not being depreciated | <u>132,679</u> | <u>-</u> | <u>16,779</u> | <u>115,900</u> |
| Capital assets, being depreciated: | | | | |
| Building and improvements | 57,940,439 | 16,779 | 7,495 | 57,949,723 |
| Site improvements | 5,900,416 | - | - | 5,900,416 |
| Vehicles | 49,143 | - | - | 49,143 |
| Furniture and equipment | <u>7,099,103</u> | <u>1,518</u> | <u>(7,495)</u> | <u>7,108,116</u> |
| Total capital assets, being depreciated | <u>70,989,101</u> | <u>18,297</u> | <u>-</u> | <u>71,007,398</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | 21,939,078 | 1,608,304 | - | 23,547,382 |
| Site improvements | 2,987,379 | 288,093 | - | 3,275,472 |
| Vehicles | 47,411 | - | - | 47,411 |
| Furniture and equipment | <u>5,532,765</u> | <u>384,716</u> | <u>-</u> | <u>5,917,481</u> |
| Total accumulated depreciation | <u>30,506,633</u> | <u>2,281,113</u> | <u>-</u> | <u>32,787,746</u> |
| Total capital assets, being depreciated, net | <u>40,482,468</u> | <u>(2,262,816)</u> | <u>-</u> | <u>38,219,652</u> |
| Total capital assets, net | <u>\$ 40,615,147</u> | <u>\$(2,262,816)</u> | <u>\$ 16,779</u> | <u>\$ 38,335,552</u> |

Depreciation expense was charged as follows:

| | |
|--------------|---------------------|
| Food Service | \$ 23,874 |
| Unallocated | <u>2,257,239</u> |
| | <u>\$ 2,281,113</u> |

Depreciation expense was not charged to athletics, support activities, or instructional activities as the District considers its assets to impact multiple activities and allocation is not practical.

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances of the District at June 30, 2017 was as follows:

Due To/From Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|---------------------|
| General Fund | Food Service Fund | \$ 46,869 (1) |
| | Agency Fund | 9,997 (1) |
| Internal Service Fund | General Fund | 922,801 (2) |
| Internal Service Fund | Food Service Fund | <u>524,074 (2)</u> |
| | | <u>\$ 1,503,741</u> |

Interfund Transfers:

| <u>Transfers In</u> | <u>Transfers Out</u> | <u>Amount</u> |
|-----------------------|----------------------|-------------------|
| General Fund | Food Service Fund | \$ 48,590 (4) |
| Capital Projects Fund | General Fund | <u>20,000 (3)</u> |
| | | <u>\$ 68,590</u> |

- (1) Reimbursement of expenses
(2) Interfund charges for services

- (3) Provides resources for capital projects
(4) Charge for indirect costs incurred

NOTE 6 - LONG-TERM LIABILITIES:

The following is a summary of changes in the long-term debt (including current portions) for the year ended June 30, 2017:

| | <u>Balance July 1, 2016</u> | <u>Addition</u> | <u>Reductions</u> | <u>Balance June 30, 2017</u> | <u>Due Within One Year</u> |
|--|-------------------------------------|-----------------|---------------------|--------------------------------------|--------------------------------|
| <u>Governmental Funds:</u> | | | | | |
| Building and Site Bonds - | | | | | |
| 2007 Refunding Series | \$ 7,125,000 | \$ - | \$ 2,325,000 | \$ 4,800,000 | \$ 2,445,000 |
| 2008 Series | 975,000 | - | 420,000 | 555,000 | 555,000 |
| 2016 Refunding Series | 17,125,000 | - | - | 17,125,000 | - |
| Installment Contracts - | | | | | |
| 2012 | 1,894,000 | - | 150,000 | 1,744,000 | 154,000 |
| 2013 A | 1,054,000 | - | 84,000 | 970,000 | 86,000 |
| 2013 B | 778,000 | - | 62,000 | 716,000 | 63,000 |
| 2013 C | 304,000 | - | 24,000 | 280,000 | 25,000 |
| 2013 D | 215,000 | - | 17,000 | 198,000 | 18,000 |
| Deferred amounts for - | | | | | |
| Issuance premium | <u>3,084,980</u> | - | <u>306,486</u> | <u>2,778,494</u> | <u>306,485</u> |
| | 32,554,980 | - | 3,388,486 | 29,166,494 | 3,652,485 |
| <u>Internal Service Fund:</u> | | | | | |
| Other Obligations - | | | | | |
| Accrued employee compensated absences | <u>391,997</u> | - | <u>10,588</u> | <u>381,409</u> | <u>25,712</u> |
| | <u>\$ 32,946,977</u> | <u>\$ -</u> | <u>\$ 3,399,074</u> | <u>\$ 29,547,903</u> | <u>\$ 3,678,197</u> |

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 - LONG-TERM LIABILITIES - (cont'd):

BUILDING AND SITE

Bonds Payable -

Lakeview Public Schools has issued Building and Site Bonds for the purposes of erecting or remodeling, furnishing and equipping a school and for site purposes. The bonds are all being paid for from ad-valorem taxes levied without limitation as to rate or amount as provided by the Michigan Constitution. The bonds payable at June 30, 2017, per respective issue, are as follows:

2007 Refunding Bonds of \$13,715,000 were issued for the purpose of refunding a portion of the District's 2001 School Building and Site Bonds. The bonds are dated February 13, 2007 due in annual installments of \$2,355,000 to \$2,445,000 through May 1, 2019 with interest of 4.0 percent, payable semi-annually. \$ 4,800,000

2008 Building and Site Bonds are for the purpose of furnishing and refurbishing and equipping and reequipping the elementary schools, middle school, and high school; furnishing and equipping an addition to the high school for a cafeteria and auxiliary gymnasium; and improving outdoor athletic/physical education facilities and play fields. The bonds, dated May 1, 2008, original issue \$14,800,000 were partially advance refunded on February 17, 2016 in the amount of \$13,100,000. The balance is in a final installment of \$555,000 due May 1, 2018 with interest of 4.0 percent. 555,000

The 2016 Refunding Bonds, dated February 17, 2016, were issued in the amount of \$17,125,000 to partially refund the 2006 Refunding Bonds and partially advance refund a portion of the 2008 Building and Site Bonds. The Bonds require annual installments ranging from \$760,000 to \$3,360,000 beginning May 1, 2019 with interest ranging from 4.0 to 5.0 percent payable semi-annually which began May 1, 2016. 17,125,000
\$ 22,480,000

Installment Contracts -

2012 – The District entered into an installment contract dated December 17, 2012 to finance the Wheat Educational Campus building purchase. Payments are due in annual installments ranging from \$154,000 to \$196,000 through May 1, 2027 with interest of 2.743 percent paid annually. \$ 1,744,000

2013 A – The District entered into an installment contract dated January 30, 2013 to finance school buildings renovations. Payments are due in annual installments ranging from \$86,000 to \$109,000 through May 1, 2027 with interest of 2.693 percent paid annually. 970,000

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 - LONG-TERM LIABILITIES - (cont'd):

| | |
|---|----------------------------|
| 2013 B – The District entered into an installment contract dated January 30, 2013 to finance school buildings renovations. Payments are due in annual installments ranging from \$63,000 to \$81,000 through May 1, 2027 with interest of 2.693 percent paid annually. | \$ 716,000 |
| 2013 C – The District entered into an installment contract dated January 30, 2013 to finance school buildings renovations. Payments are due in annual installments ranging from \$25,000 to \$31,000 through May 1, 2027 with interest of 2.693 percent paid annually. | 280,000 |
| 2013 D – The District entered into an installment contract dated January 30, 2013, to finance school buildings renovations. Payments are due in annual installments ranging from \$18,000 to \$22,000 through May 1, 2027 with interest of 2.693 percent paid annually. | <u>198,000</u> |
| | <u><u>\$ 3,908,000</u></u> |

OTHER OBLIGATIONS

Accrued Employee Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the District, individual employees have vested rights upon termination of employment to receive payments for unused vacation and compensatory leave under formulas and conditions specified in the contracts. This liability is reflected on the statement of net position of the Internal Service Fund.

\$ 381,409

Annual Debt Requirements -

The annual requirements to pay the bond debt and installment contracts outstanding at June 30, 2017 (excluding compensated absences) are as follows:

| | Bonds | | Installment Contracts | |
|-----------|-----------------------------|----------------------------|----------------------------|--------------------------|
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 3,000,000 | \$ 997,350 | \$ 346,000 | \$ 106,114 |
| 2019 | 3,115,000 | 877,350 | 354,000 | 96,719 |
| 2020 | 3,235,000 | 752,750 | 365,000 | 87,108 |
| 2021 | 3,360,000 | 623,350 | 375,000 | 77,198 |
| 2022 | 1,665,000 | 455,350 | 385,000 | 67,014 |
| 2023-2027 | <u>8,105,000</u> | <u>1,194,750</u> | <u>2,083,000</u> | <u>172,722</u> |
| | <u><u>\$ 22,480,000</u></u> | <u><u>\$ 4,900,900</u></u> | <u><u>\$ 3,908,000</u></u> | <u><u>\$ 606,875</u></u> |

The debt service funds have \$422,349 available at June 30, 2017 to service the Building and Site Bonds.

LAKEVIEW PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - STATE AID NOTES:

The following is a summary of changes in the short-term debt of the District for the year ended June 30, 2017:

| | Balance July 1, 2016 | Additions | Reductions | Balance June 30, 2017 |
|----------------------------|-------------------------|---------------------|---------------------|--------------------------|
| Michigan Finance Authority | | | | |
| Revenue Notes - | | | | |
| Series 2015 C-1 | \$ 194,163 | \$ - | \$ 194,163 | \$ - |
| Series 2015 C-2 | 856,862 | - | 856,862 | - |
| Series 2015 C-3 | 1,143,138 | - | 1,143,138 | - |
| Series 2015 C-4 | 91,551 | - | 91,551 | - |
| Series 2016 C-1 | - | 799,509 | 685,293 | 114,216 |
| Series 2016 C-2 | - | 1,200,491 | 1,028,992 | 171,499 |
| Series 2016 C-3 | - | 3,500,000 | - | 3,500,000 |
| | <u>\$ 2,285,714</u> | <u>\$ 5,500,000</u> | <u>\$ 3,999,999</u> | <u>\$ 3,785,715</u> |

On August 22, 2016, the District issued Revenue Notes 2016 C-1, C-2, and C-3 through the Michigan Finance Authority in the amount of \$5,500,000 between three notes: one for \$799,509 with interest of 1.00%, one for \$1,200,491 with interest of 0.76%, and one for \$3,500,000 with interest of 1.20%. The final payment on the notes was due August 21, 2017. The principal outstanding balance at June 30, 2017 of \$3,785,715 and accrued interest of \$42,087 was paid subsequently to year-end.

NOTE 8 - PENSION PLANS AND POSTEMPLOYMENT BENEFITS:

Plan Description -

The District participates in Michigan Public School Employees' Retirement System (MPSERS), a state-wide, cost-sharing, multiple employer, defined benefit public employee retirement plan governed by the State originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes the board's authority to promulgate or amend the provisions of MPSERS. MPSERS provides pension and postemployment healthcare benefits to retirees and beneficiaries. The Board consists of twelve members - eleven appointed by the Governor plus the State Superintendent of Instruction, who serves as an ex-officio member.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS in their Comprehensive Annual Financial Report. The report may be obtained online at www.michigan.gov/orsschools. MPSERS' financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of MPSERS. Plan investments are reported at fair value or estimated fair value.

Benefits Provided -

Benefit provisions of the defined benefit (DB) pension plan (the "Plan") are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the DB Plan. Retirement benefits for DB Plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. MPSERS also provides disability and survivor benefits to DB Plan members.

LAKEVIEW PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 8 - PENSION PLANS AND POSTEMPLOYMENT BENEFITS - (cont'd):

A DB member or Pension Plus Plan member who leaves Michigan public school employment may request a refund of his or her member contributions from the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Depending on the Plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25%-1.5%. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.5% for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

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

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

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

Member and Employer Contributions -

Under Public Act 300 of 1980, as amended, the District is required to contribute amounts necessary to finance the coverage of pension benefits of members and retirees. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to MPSERS are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the Plan's 2016 fiscal year. Employer contributions ranged from 14.56% to 18.95% for the period July 1 through September 30, 2016 and 15.27% to 19.03% for the period October 1, 2016 through June 30, 2017. In addition, the State contributes stabilization revenues to all school districts to use exclusively for retirement benefits, which was 7.31% for the period July 1 through September 30, 2016 and approximately 8.53% for the period October 1, 2016 through June 30, 2017. The District's contributions amounted to approximately \$5,728,000, of which approximately \$3,915,000 was district funded and \$1,813,000 was State funded.

Depending on the Plan selected by the participant, member contributions range from 0.00% to 7.00% of wages.

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 - PENSION PLANS AND POSTEMPLOYMENT BENEFITS - (cont'd):

Proportionate Share Net Pension Liability -

At June 30, 2017, the District reported net pension liability of \$59,328,436 for its proportionate share of MPSERS' net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all of the District's statutorily required contributions for the measurement period. At September 30, 2016, the District's proportionate share percent was .23779712 percent and .24265445 percent as of September 30, 2015.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions -

For the year ended June 30, 2017, the recognized total pension expense in the district-wide financial statements was \$5,932,500. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Changes of assumptions | \$ 927,554 | \$ - |
| Net difference between projected and actual earnings on Plan investments | 986,038 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 1,461,531 | - |
| Difference between expected and actual experience | 739,389 | 140,610 |
| Change in proportion and difference between employee contributions and proportionate share of contributions | - | <u>943,145</u> |
| | <u>4,114,512</u> | <u>1,083,755</u> |
| Contributions made subsequent to the measurement date | 5,576,007 | - |
| 147c Pension revenue related to contributions made subsequent to the measurement date | - | <u>1,812,870</u> |
| Total | <u>\$ 9,690,519</u> | <u>\$ 2,896,625</u> |

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 - PENSION PLANS AND POSTEMPLOYMENT BENEFITS - (cont'd):

Amounts reported as deferred outflows or inflows of resources related to pensions resulting from contributions made subsequent to the measurement date and the related State contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30, | |
|------------------------|---------------------|
| 2018 | \$ 744,967 |
| 2019 | 667,564 |
| 2020 | 1,552,721 |
| 2021 | <u>65,505</u> |
| | <u>\$ 3,030,757</u> |

Actuarial Valuations and Assumptions -

The total pension liability was determined by an actuarial valuation as of September 30, 2015 using updated procedures to roll forward the liability to September 30, 2016. The valuation was based on the most recent study of Plan experience covering the period of October 1, 2007 through September 30, 2012. Significant assumptions used in the latest valuation were:

| | |
|------------------------------------|---|
| Actuarial Cost Method | Entry Age, Normal |
| Investment Rate of Return | |
| - MIP and Basic Plans (Non-Hybrid) | 8.0% |
| - Pension Plus Plan (Hybrid) | 7.0% |
| Projected Salary Increases | 3.5 - 12.3%, including wage inflation at 3.5% |
| Cost-of-Living Pension Adjustments | 3.0% Annual Non-Compounded for MIP Members |
| Mortality | RP-2000 Male and Female Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females. |

LAKEVIEW PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 - PENSION PLANS AND POSTEMPLOYMENT BENEFITS - (cont'd):

Long-term Expected Return on Plan Assets -

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return*</u> |
|--------------------------------------|--------------------------|--|
| Domestic Equity Pools | 28.0 % | 5.9 % |
| Private Equity Pools | 18.0 | 9.2 |
| International Equity Pools | 16.0 | 7.2 |
| Fixed Income Pools | 10.5 | 0.9 |
| Real Estate and Infrastructure Pools | 10.0 | 4.3 |
| Absolute Return Pools | 15.5 | 6.0 |
| Short Term Investment Pools | <u>2.0</u> | 0.0 |
| TOTAL | <u>100.0 %</u> | |

* Long-term expected real rate of return does not include 2.1% inflation and administrative expenses.

Discount Rate -

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus Plan, a hybrid plan). This discount rate was based on the long term expected rate of return on Plan investments of 8.0% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine this discount rate assumed that Plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

LAKEVIEW PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 - PENSION PLANS AND POSTEMPLOYMENT BENEFITS - (cont'd):

Sensitivity of the Net Pension Liability to Changes in the Discount Rate -

The following presents the District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the reporting unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

| 1% Decrease (7.0%/6.0%) | Current Rate (8.0%/7.0%) | 1% Increase (9.0%/8.0%) |
|----------------------------|-----------------------------|----------------------------|
| \$ 76,400,092 | \$ 59,328,436 | \$ 44,935,388 |

Payable to the Plan -

At June 30, 2017, the District reported a payable of \$1,182,247 to the Plan for pension benefits required for the remaining pays related to the year ended June 30, 2017 and State section 147c revenues.

Postemployment Benefits -

Under the Michigan Public School Employees' Retirement Act, all retirees have the option of continuing health, dental and vision coverage. Current and future retirees having these benefits contribute 20% of premium costs, except that retirees who are Medicare-eligible as of January 1, 2013 will pay 10%. For members who first work after June 30, 2008, a graded premium health insurance subsidy defined benefit has been put in place. Beginning September 4, 2012, for new employees entering the plan retiree health benefits have been eliminated and replaced with a defined contribution cash benefit or Personal Healthcare Fund. Effective February 1, 2013, members had the option to choose to contribute 3% of their compensation to the Retiree Healthcare Fund and keep this premium subsidy benefit or elect not to pay the 3% contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement.

Members electing the Personal Healthcare Fund will be automatically enrolled to provide a 2% employee contribution into their 457 account as of their transition date and create an obligation for the District to provide a 2% employer match into the employee's 403(b) account. For the year ended June 30, 2017, the District's contributions were approximately \$36,000.

The MPSERS Board annually sets the employer contribution rate, which participatory employees are required to contribute. Employer contributions range from 6.40% to 6.83% for the period July 1 through September 30, 2016 and 5.69% to 5.91% for the period October 1, 2016 through June 30, 2017. In addition, the State contributed revenues to the District to use exclusively for retirement benefits, which was approximately 3.22% for the period July 1 through September 30, 2016 and 3.17% for the period October 1, 2016 through June 30, 2017.

The District's funded contributions amounted to approximately \$699,000, \$582,000, and \$436,000; and the State funded contributions amounted to approximately \$675,000, \$711,000, and \$1,671,000 for the years ended June 30, 2017, 2016, and 2015, respectively.

LAKEVIEW PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 - RISK MANAGEMENT:

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and workers' compensation, as well as medical benefits provided to employees. The District participates in the SET-SEG risk pool (the "Pool") for property loss, general liability, fleet coverage, and errors and omissions. The Pool, organized under Public Act 138, is composed of Districts throughout the State of Michigan, who pay annual premiums based on the level of coverage, experience, deductible levels, etc. The Pool retains the first \$500,000 coverage for each individual claim with reinsurance for amounts in excess of that amount. In years when premiums exceed the claims and other costs, refunds are given based on a number of criteria, including those mentioned above. Should the plan need additional funding, they could also assess the members' additional charges.

The District purchased commercial insurance for risk of loss related to health benefit claims to partially self-insure for the health benefits, dental, vision, and prescription. Under the plan, the District's maximum loss is limited to \$65,000 specific stop loss and 120% aggregate stop loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The District is no longer self-insured for workers' compensation claims.

Changes in the balance of claims liability as reported in the Internal Service Fund are as follows:

| | W/C | Health, Dental, & Vision | Prescriptions | Total |
|------------------------|-----------|-----------------------------|---------------|--------------|
| Accrued at 6/30/16 | \$ 3,000 | \$ 591,000 | \$ 210,400 | \$ 804,400 |
| CY Payments | (56,742) | (3,394,636) | (834,006) | (4,285,384) |
| CY Incurred/Recognized | 53,742 | 3,643,555 | 790,070 | 4,487,367 |
| Accrued at 6/30/17 | \$ - | \$ 839,919 | \$ 166,464 | \$ 1,006,383 |

NOTE 10 - SUBSEQUENT EVENT:

In August 2017, the District issued State Aid Notes in the amounts of \$2,000,000 and \$2,900,000 with interest of 1.27% and 1.49%, respectively, to assist with operating cash flow. The State Aid Note in the amount of \$2,000,000 is payable in seven installments commencing January through July 2018. The State Aid Note in the amount of \$2,900,000 is due and payable with interest on August 20, 2018.

NOTE 11 - FUND BALANCE RESTATEMENT:

During the year, the Michigan Department of Education required the District to adjust the indirect cost between the Food Service Fund and the General Fund for the 2015-16 year. As a result, the July 1, 2016 General Fund balance was decreased and the Food Service Fund balance was increased by \$1,726.

REQUIRED SUPPLEMENTARY INFORMATION

LAKEVIEW PUBLIC SCHOOLS

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

| | Budget | | Actual | Variance with |
|--|---------------------|-------------------|---------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Local sources | \$ 3,118,843 | \$ 3,379,702 | \$ 3,314,646 | \$(65,056) |
| State sources | 36,205,931 | 36,152,243 | 36,135,756 | (16,487) |
| Federal sources | 963,341 | 1,031,649 | 1,020,344 | (11,305) |
| Interdistrict sources | 1,726,549 | 1,611,857 | 1,682,022 | 70,165 |
| Total Revenues | <u>42,014,664</u> | <u>42,175,451</u> | <u>42,152,768</u> | <u>(22,683)</u> |
| Expenditures: | | | | |
| Instruction - | | | | |
| Basic programs | 22,094,761 | 23,085,017 | 22,536,939 | 548,078 |
| Added needs | 4,654,431 | 4,692,584 | 4,665,373 | 27,211 |
| Support Services - | | | | |
| Pupil | 3,111,026 | 3,392,237 | 3,342,128 | 50,109 |
| Instructional staff | 1,424,719 | 1,413,494 | 1,380,791 | 32,703 |
| General administration | 718,959 | 749,669 | 748,645 | 1,024 |
| School administration | 2,387,773 | 2,377,645 | 2,361,863 | 15,782 |
| Business services | 547,999 | 530,515 | 520,648 | 9,867 |
| Operation and maintenance | 3,014,359 | 3,005,187 | 2,941,916 | 63,271 |
| Security services | 136,510 | - | - | - |
| Pupil transportation services | 451,200 | 451,290 | 339,115 | 112,175 |
| Staff/personnel services | 224,536 | 426,612 | 407,710 | 18,902 |
| Planning/research/development | 1,000 | - | - | - |
| Data processing services | 228,591 | - | - | - |
| Athletics | 895,839 | 818,803 | 812,761 | 6,042 |
| Community Services - | | | | |
| Community recreation | 87,933 | 63,828 | 58,104 | 5,724 |
| Custody and care of children | 848,645 | 883,090 | 882,039 | 1,051 |
| Debt Service | 452,265 | 452,265 | 452,265 | - |
| Total Expenditures | <u>41,280,546</u> | <u>42,342,236</u> | <u>41,450,297</u> | <u>891,939</u> |
| Revenues over (under) expenditures | <u>734,118</u> | <u>(166,785)</u> | <u>702,471</u> | <u>869,256</u> |
| Other Financing Sources (Uses): | | | | |
| Transfer In | 38,000 | 49,000 | 48,590 | (410) |
| Transfers Out | <u>(300,000)</u> | <u>(20,000)</u> | <u>(20,000)</u> | <u>-</u> |
| | <u>(262,000)</u> | <u>29,000</u> | <u>28,590</u> | <u>(410)</u> |
| Net Change in Fund Balance | 472,118 | (137,785) | 731,061 | 868,846 |
| Fund Balance at beginning of year, as restated | <u>825,552</u> | <u>825,552</u> | <u>825,552</u> | <u>-</u> |
| Fund Balance at end of year | <u>\$ 1,297,670</u> | <u>\$ 687,767</u> | <u>\$ 1,556,613</u> | <u>\$ 868,846</u> |

LAKEVIEW PUBLIC SCHOOLS

FOOD SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | Variance with |
|--|------------|------------|------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Local sources - | | | | |
| Sales | \$ 409,235 | \$ 424,621 | \$ 444,132 | \$ 19,511 |
| Interest | - | - | 2,763 | 2,763 |
| State sources - | | | | |
| Grants | 60,978 | 56,295 | 57,374 | 1,079 |
| Federal sources - | | | | |
| Grants | 641,207 | 623,800 | 581,329 | (42,471) |
| Commodities | - | - | 49,096 | 49,096 |
| Total Revenues | 1,111,420 | 1,104,716 | 1,134,694 | 29,978 |
| Expenditures: | | | | |
| Food Service | | | | |
| Salaries | 238,000 | 228,259 | 234,083 | (5,824) |
| Employee benefits | 156,153 | 178,421 | 175,870 | 2,551 |
| Purchased services | 59,500 | 35,030 | 34,151 | 879 |
| Supplies and materials | 626,507 | 594,250 | 606,743 | (12,493) |
| Capital outlay | 8,000 | 7,000 | 6,939 | 61 |
| Other expenses | 24,500 | 22,700 | 23,666 | (966) |
| Total Expenditures | 1,112,660 | 1,065,660 | 1,081,452 | (15,792) |
| Revenues over (under) expenditures | (1,240) | 39,056 | 53,242 | 14,186 |
| Other Financing Uses: | | | | |
| Transfer Out | (38,000) | (49,000) | (48,590) | 410 |
| Net Change in Fund Balances | (39,240) | (9,944) | 4,652 | 14,596 |
| Fund Balance at beginning of year, as restated | 199,496 | 199,496 | 199,496 | - |
| Fund Balance at end of year | \$ 160,256 | \$ 189,552 | \$ 204,148 | \$ 14,596 |

LAKEVIEW PUBLIC SCHOOLS

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN FISCAL YEARS
(PLAN YEAR END)**

| | For the Year Ended September 30, | | | |
|---|----------------------------------|---------------|---------------|------------|
| | 2016 | 2015 | 2014 | 2013-2006* |
| Proportion of net pension liability | 0.23780% | 0.24265% | 0.23194% | 0.00% |
| Proportionate share of net pension liability | \$ 59,328,436 | \$ 59,268,414 | \$ 51,088,419 | \$ - |
| Covered Payroll | 19,891,443 | 20,234,493 | \$ 20,426,380 | \$ - |
| Proportionate share of net pension liability as a percentage of covered payroll | 298.26% | 292.91% | 250.11% | 0.00% |
| Plan fiduciary net position as a percentage of total pension liability | 63.27% | 63.17% | 66.20% | 0.00% |

* GASB No. 68 was implemented for fiscal year ended June 30, 2015; the District did not elect retroactive implementation.

LAKEVIEW PUBLIC SCHOOLS

**SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS**

| | 2017 | For the Year Ended June 30, | | 2014-2007* |
|--|---------------|-----------------------------|---------------|------------|
| | | 2016 | 2015 | |
| Statutorily required contributions | \$ 5,728,343 | \$ 5,491,422 | \$ 4,560,933 | \$ - |
| Contributions in relation to statutorily required contribution | 5,728,343 | 5,491,422 | 4,560,933 | - |
| Contribution Deficiency | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 21,304,353 | \$ 20,465,790 | \$ 20,522,824 | \$ - |
| Contributions as a Percentage of Covered Employee Payroll | 26.89% | 26.83% | 22.22% | - |

* GASB No. 68 was implemented for fiscal year ended June 30, 2015; the District did not elect retroactive implementation.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

There have been no changes in the benefit terms or assumptions used to determine the above contributions.