

**SOUTH LAKE SCHOOLS**  
St. Clair Shores, Michigan

**ANNUAL FINANCIAL REPORT**  
with Supplementary Information

**FOR THE YEAR ENDED**  
**JUNE 30, 2017**



# SOUTH LAKE SCHOOLS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
South Lake 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 South Lake Schools (the "School District") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the School 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 South Lake Schools as of June 30, 2017 and the respective changes in financial position 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, the budgetary comparison schedules, and 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Lake Schools' basic financial statements. The combining and individual nonmajor statements and schedules (supplementary information), as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017 on our consideration of South Lake 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 South Lake Schools' internal control over financial reporting and compliance.



Certified Public Accountants

October 16, 2017

This section of South Lake Schools’ (the “School District”) annual financial report presents our discussion and analysis of the School District’s financial performance during the year ended June 30, 2017. Please read it in conjunction with the School District’s financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand South Lake Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District’s finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. These statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District’s operations in more detail than the district-wide financial statements by providing information about the School District’s most significant funds, the General Fund and the 2017 Construction Fund, with all other funds presented in one column as non-major funds. The remaining Statement of Fiduciary Assets and Liabilities presents financial information about student activities for which the School District acts solely as an agent for the benefit of students/parents.

*Management’s Discussion and Analysis (MD&A)  
(Required Supplementary Information)*

*Basic Financial Statements*

District-wide Financial Statements      Fund Financial Statements

Notes to the Financial Statements

*Required Supplementary Information*

Budgetary Comparison Schedules      Pension System Schedules

*Other Supplementary Information*

**Reporting the School District as a Whole – District-wide Financial Statements**

One of the most important questions asked about the School District is, “As a whole, what is the School District’s financial condition as a result of the year’s activities?” The statement of net position and the statement of activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District’s net position – the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, as reported in the statement of net position – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. The School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and statement of activities report the governmental activities for the School District which encompass all of the School District’s services, including instruction, supporting services, community services, latchkey, food services, and capital projects. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

**Reporting the School District’s Most Significant Funds – Fund Financial Statements**

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

**Governmental funds** – All of the School District’s services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District’s programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliations on pages 12 and 14.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

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

**The School District as a Whole**

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

TABLE I

	Governmental Activities	
	2017	2016
<b>Assets</b>		
Current and other assets	\$ 13,773,951	\$ 4,619,314
Capital assets, net of accumulated depreciation	<u>37,352,222</u>	<u>37,518,735</u>
Total Assets	<u>51,126,173</u>	<u>42,138,049</u>
<b>Deferred Outflows of Resources</b>	<u>4,672,169</u>	<u>3,789,974</u>
<b>Liabilities</b>		
Current liabilities	5,357,498	4,515,843
Non-current liabilities	<u>62,636,746</u>	<u>55,021,548</u>
Total Liabilities	<u>67,994,244</u>	<u>59,537,391</u>
<b>Deferred Inflows of Resources</b>	<u>2,445,352</u>	<u>2,068,006</u>
<b>Net Position</b>		
Net investment in capital assets	18,788,309	17,495,625
Restricted	718,916	676,124
Unrestricted	( <u>34,148,479</u> )	( <u>33,849,123</u> )
Total Net Position	<u>\$ ( 14,641,254 )</u>	<u>\$ ( 15,677,374 )</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table II) of the School District’s governmental activities is discussed below. The School District’s net position was \$(14.6) million at June 30, 2017. Net investment in capital assets of \$18.8 million compares the original cost, less depreciation of the School District’s capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of \$0.7 million is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District’s ability to use those net positions for day-to-day operations. The remaining amount of net position of \$(34.1) million was an unrestricted deficit.

The \$(34.1) million unrestricted deficit of governmental activities represents the *accumulated* results of all past years’ operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

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

TABLE II

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
<b>Revenue</b>		
Program Revenue:		
Charges for services	\$ 527,295	\$ 938,632
Operating grants and contributions	4,745,354	3,554,556
General Revenue:		
Property taxes	7,702,523	7,790,548
State Aid, unrestricted	10,919,012	11,945,666
Interest and investment earnings	39,114	5,652
Total Revenue	<u>23,933,298</u>	<u>24,235,054</u>
 <b>Functions/Program Expenses</b>		
Instruction	12,575,916	12,752,850
Support services	8,051,746	8,377,461
Community services	560,581	656,747
Food services	869,825	903,290
Latchkey	110,660	101,846
Outgoing transfers and other transactions	5,940	6,600
Interest on long-term debt	722,510	772,558
Total Expenses	<u>22,897,178</u>	<u>23,571,352</u>
 <b>Increase in Net Position</b>	 <u>\$ 1,036,120</u>	 <u>\$ 663,702</u>

As reported in the statement of activities, the cost of all of our *governmental activities* this year was \$22.9 million. Certain activities were partially funded from those who benefited from the programs of \$0.5 million or by other governments and organizations that subsidized certain programs with grants, categoricals, and contributions of \$4.7 million. We paid for the remaining “public benefit” portion of our governmental activities with \$7.7 million in taxes, \$10.9 million in State Aid, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position of \$1,036,120. The increase in net position differs from the change in fund balance and the reconciliation appears on page 14.

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

**The School District’s Funds**

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$8,796,617, which is an increase of \$8,552,546 from last year. The primary reason for the increase was due to a new bond in the amount of \$8,845,000 for the 2017 Construction Fund. In the General Fund, our principal operating fund, the fund balance increased by \$14,290 to \$(1,282,078). Overall, General Fund expenses were within \$27,993 of budgeted amounts. The 2017 Construction Fund balance increased by \$8,912,694 due to sale of bond in 2017.

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District’s original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were decreased by \$299,776. The overall change was 1.5%, primarily due to decreased State funding.
- Budgeted expenditures decreased by \$878,586. The overall change was 4.2% due to attrition.

**Capital Asset and Debt Administration**

**Capital Assets**

At June 30, 2017, the School District had \$55.8 million invested in a broad range of capital assets before accumulated depreciation, including land, buildings, vehicles, and equipment. This amount represents an increase of capital assets of \$1,049,261 or 1.9% over last year related to bond expenditures including building and facility improvements, technology, buses, and other capital improvement.

We present more detailed information about our capital assets in Note 4 to the financial statements.

**Long-term Debt**

At the end of this year, the School District had a debt of \$28.5 million versus \$21.0 in the previous year – an increase of 35.8% due to the issuance of a new bond in 2017.

The School District’s General Obligation Bond rating is tied to the State’s credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District’s boundaries. If the School District issues “qualified debt,” (i.e., debt backed by the State) such obligations are not subject to this debt limit. The School District’s outstanding qualified general obligation debt of \$26.0 million is significantly below the statutorily imposed limit for unqualified debt.

We present more detailed information about our long-term liabilities in Note 7 to the financial statements.

**Economic Factors and Next Year’s Budgets and Rates**

Our elected officials and administration considered many factors when setting the School District’s 2017-2018 fiscal year budget. The two most important factors affecting the budget is student count and foundation revenue. The School District’s foundation revenue is composed of State Aid and local property taxes. State Aid is determined by multiplying the student count by the foundation allowance per pupil, and then subtracting local non-homestead property taxes. The student count is a blended count made up of 10% for the February 2017 count and 90% for the October 2017 count.

The 2017-2018 fiscal year budget was adopted in June 2017 and then amended August 2017, reflecting revenues over expenditures and reversing the deficit spending position the School District has been experiencing. The major factor that contributed to this reversal was an employee-negotiated wage reduction of 9%, which began with the 2016-2017 school year, and continued wage step freeze. The School District has filed a five-year deficit elimination plan with the State, which has been approved. A revised deficit elimination plan is due to the State in October 2017.

In 2016-2017, the School District saw for the first time since the 2007-2008 school year revenues exceeding expenditures. Although a small excess of revenues, it was a significant change in deficit spending the School District had experienced over the previous nine years. The deficit elimination plan anticipates the School District continuing this trend, reducing the current deficit by nearly half at the end of the 2017-2018 school year, and eliminating the deficit in 2018-2019.

Even with the deficit spending eliminated for the 2017-2018 school year and the unlikelihood of a significant increase in the State's School Aid Funding, \$60 per student (0.675% increase) for 2017-2018, or increase in enrollment, all employee groups will maintain current wage reductions. As a result of the State's reduction of the foundation allowance in 2012 by \$470 per pupil, the School District is still operating with a foundation per student equivalent to the amount in 2006. Unfortunately, School District expenses are not at a 2006 level and have increased well beyond the 0.675% increase in foundation received for 2017-2018. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations, which has not kept pace with the rate of inflation. The State holds two revenue-estimating conferences per year to estimate State revenues, one in May and the other in January.

Salary and benefits were 82.16% of the School District's budget in 2016-2017, with pension costs remaining the biggest benefit expense for employees. Even with the State reforms to the retirement system, the retirement rate for the 2017-2018 school year will increase to 36.88% of payroll. This rate is based on the Basic/MIP with Premium Subsidy plan, which is one out of seven plans provided to employees, with the lowest rate being 32.28% of payroll. The State is helping schools pay for this increase by allocating additional funding to be used toward the retirement rate increase. With this additional funding, the retirement rate schools will pay this year is artificially reduced to 25.56% and 20.96% respectively, but is still an increase over 2016-2017 rates.

Statewide, school districts are finding it more difficult to balance their budgets with less-than-inflationary increases in revenues from the State to match the at-least-inflationary increases in expenditures. South Lake Schools will continue to take action to improve its fiscal position from one of a deficit situation to one of financial strength, while maintaining to focus on the core mission of the School District - student learning.

**Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Business Department, 23101 Stadium Boulevard, St. Clair Shores, MI 48080.

## **BASIC FINANCIAL STATEMENTS**

**SOUTH LAKE SCHOOLS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	Governmental Activities
<b>Assets:</b>	
Cash and cash equivalents	\$ 11,112,911
Accounts receivable	21,499
Due from other governmental units -	
State	2,420,270
Local	116,695
Prepaid expenses	102,576
Capital assets (net of accumulated depreciation)	
Assets not being depreciated	1,203,613
Assets being depreciated	36,148,609
Total Assets	51,126,173
<b>Deferred Outflows of Resources:</b>	
Deferred charge on refunding	469,289
Related to the pension plan	4,202,880
Total Deferred Outflows of Resources	4,672,169
<b>Liabilities:</b>	
Accounts payable	532,752
Accrued payroll and payroll fringes	1,760,413
Accrued interest	380,164
Due to other governmental units	27,063
State aid note	2,600,000
Unearned revenue	57,106
Non-current liabilities -	
Bonds payable due within one year	2,666,206
Bonds payable due more than one year	25,386,771
Due to employees due more than one year	496,455
Net pension liability	34,087,314
Total Liabilities	67,994,244
<b>Deferred Inflows of Resources:</b>	
Related to the pension plan	2,445,352
<b>Net Position:</b>	
Net investment in capital assets	18,788,309
Restricted - Debt service	718,916
Unrestricted	( 34,148,479)
Total Net Position	\$( 14,641,254)

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

**SOUTH LAKE SCHOOLS**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Governmental Activities:</b>					
Instruction	\$ 12,575,916	\$ 90,936	\$ 3,595,944	\$ -	\$( 8,889,036)
Support Services	8,051,746	97,385	407,850	-	( 7,546,511)
Community Services	560,581	-	44,564	-	( 516,017)
Food Services	869,825	208,009	696,996	-	35,180
Latchkey	110,660	130,965	-	-	20,305
Outgoing Transfers and Other Transactions	5,940	-	-	-	( 5,940)
Interest on Long-term Debt	<u>722,510</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 722,510)</u>
 Total governmental activities	 <u>\$ 22,897,178</u>	 <u>\$ 527,295</u>	 <u>\$ 4,745,354</u>	 <u>\$ -</u>	 <u>( 17,624,529)</u>
 <b>General Revenues:</b>					
Property taxes -					
Levied for general purposes					4,570,149
Levied for debt service					3,132,374
State aid, unrestricted					10,919,012
Interest and investment earnings					39,114
Total general revenues					<u>18,660,649</u>
 Change in Net Position					 1,036,120
 Net Position at beginning of year					 <u>( 15,677,374)</u>
 Net Position at end of year					 <u><u>\$(14,641,254)</u></u>

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

**SOUTH LAKE SCHOOLS**

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

	General	2017 Construction	Other Non-Major Governmental Funds	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 697,349	\$ 9,301,937	\$ 1,113,625	\$ 11,112,911
Accounts receivable	20,920	-	579	21,499
Due from other funds	-	-	32,792	32,792
Due from other governmental units -				
State	2,388,238	-	32,032	2,420,270
Local	116,695	-	-	116,695
Prepaid expenditures/deposits	102,576	-	-	102,576
	<b>\$ 3,325,778</b>	<b>\$ 9,301,937</b>	<b>\$ 1,179,028</b>	<b>\$ 13,806,743</b>
 <b>Liabilities:</b>				
Accounts payable	\$ 141,299	\$ 389,243	\$ 2,210	\$ 532,752
Accrued payroll and payroll fringes	1,760,413	-	-	1,760,413
Due to other governmental units	27,063	-	-	27,063
Due to other funds	27,610	-	5,182	32,792
Unearned revenue	51,471	-	5,635	57,106
State aid note	2,600,000	-	-	2,600,000
	<b>4,607,856</b>	<b>389,243</b>	<b>13,027</b>	<b>5,010,126</b>
 <b>Fund Balances (Deficit):</b>				
Nonspendable	102,576	-	-	102,576
Restricted -				
Debt service	-	-	718,916	718,916
Capital projects	-	8,912,694	107,081	9,019,775
Food service	-	-	252,964	252,964
Committed - Latchkey	-	-	87,040	87,040
Unassigned (Deficit)	( 1,384,654)	-	-	( 1,384,654)
	<b>( 1,282,078)</b>	<b>8,912,694</b>	<b>1,166,001</b>	<b>8,796,617</b>
	<b>\$ 3,325,778</b>	<b>\$ 9,301,937</b>	<b>\$ 1,179,028</b>	<b>\$ 13,806,743</b>

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

# SOUTH LAKE SCHOOLS

## RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2017

Fund Balances - total governmental funds	\$ 8,796,617
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	55,824,634
Accumulated depreciation	( 18,472,412)
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	4,202,880
Deferred inflows of resources	( 2,445,352)
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	( 26,000,000)
Accrued interest on bonds payable	( 380,164)
Accrued compensated absence	( 411,157)
Accrued contracts payable	( 85,298)
Net pension liability	( 34,087,314)
Deferred charges on refunding are not reported in the governmental funds, whereas they are capitalized and amortized from net position	469,289
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)	( 2,052,977)
Net Position of governmental activities	<u><u>\$ ( 14,641,254)</u></u>

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

**SOUTH LAKE SCHOOLS**

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

	General	2017 Construction	Other Non-major Governmental Funds	Total
<b>Revenues:</b>				
Local sources	\$ 4,744,470	\$ 32,927	\$ 3,491,535	\$ 8,268,932
State sources	13,358,512	-	62,142	13,420,654
Federal sources	956,610	-	662,289	1,618,899
Interdistrict sources	742,827	-	-	742,827
Total Revenues	19,802,419	32,927	4,215,966	24,051,312
<b>Expenditures:</b>				
Current -				
Instruction	11,387,120	-	-	11,387,120
Support services	7,890,763	-	6,237	7,897,000
Community services	555,306	-	-	555,306
Food services	-	-	888,475	888,475
Latchkey	-	-	111,101	111,101
Outgoing transfers and other transactions	5,940	-	-	5,940
Capital outlay	-	803,591	418,160	1,221,751
Debt service	-	-	3,009,152	3,009,152
Total Expenditures	19,839,129	803,591	4,433,125	25,075,845
Revenues under expenditures	( 36,710)	( 770,664)	( 217,159)	( 1,024,533)
<b>Other Financing Sources (Uses):</b>				
Bond proceeds	-	8,845,000	-	8,845,000
Refunding bond proceeds	-	-	8,350,000	8,350,000
Premium on bonds	-	838,358	896,862	1,735,220
Payment to refunding bond escrow agent	-	-	( 9,353,141)	( 9,353,141)
Transfers from other funds	51,000	-	200,373	251,373
Transfers to other funds	-	-	( 251,373)	( 251,373)
Total Other Financing Sources (Uses)	51,000	9,683,358	( 157,279)	9,577,079
Net Change in Fund Balances (Deficit)	14,290	8,912,694	( 374,438)	8,552,546
Fun Balances (Deficit) at beginning of year	( 1,296,368)	-	1,540,439	244,071
Fund Balances (Deficit) at end of year	\$( 1,282,078)	\$ 8,912,694	\$ 1,166,001	\$ 8,796,617

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

**SOUTH LAKE SCHOOLS**

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

Net change in fund balances - total governmental funds	\$	8,552,546
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		1,119,686
Depreciation expense	(	1,279,157)
Net book value of assets sold/disposed	(	7,042)

The issuance of long-term debt (e.g. bonds, notes, leases) 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.

Bond proceeds	(	17,195,000)
Principal payment on bonds		2,305,000
Payments to refunding bond escrow agent		9,353,141
Bond premium	(	1,735,220)
Amortization of bond premium		221,206

Change in pension contributions made subsequent to the measurement date	(	100,147)
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Revenue in support of pension contributions made subsequent to the measurement date	(	118,014)
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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.

Increase in compensated absences	(	12,672)
Increase in net pension liability	(	82,364)
Change in pension expense related to deferred items related to the pension plan		253,721
Increase in accrued interest	(	239,564)

Change in net position of governmental activities	\$	<u>1,036,120</u>
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The accompanying notes are an integral part of these financial statements.

**SOUTH LAKE SCHOOLS**

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

<b>Assets:</b>	
Cash and cash equivalents	\$ <u>338,471</u>
 <b>Liabilities:</b>	
Accounts payable	\$ 197
Due to student groups	<u>338,274</u>
 Total Liabilities	 \$ <u>338,471</u>

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

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity -**

South Lake Schools (the "School District"), located in St. Clair Shores, Michigan, was established under the Constitution and statutes of the State of Michigan (the "State"). South Lake Schools is one of twenty-one (21) school districts located in Macomb County, Michigan, each of which is a separate governmental entity. The School District operates under an elected School Board (seven members) and provides services to its 1,900-student population in many areas, including basic education, special education, vocational education, adult 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 is a part of the School District's reporting entity and which organizations are legally separate component units of the School District. Based on these criteria, the School District had 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 and the fiduciary fund even though the latter is excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**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*. (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.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

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

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 can be collected within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they can be 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 School District.

The School District reports the following major governmental funds:

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

**2017 Construction Fund** - is used to record bond proceeds from the 2017 Bond Issuance and expenditures in connection with remodeling, re-equipping, and refurbishing school buildings, equipment, technology and school buses.

Additionally, the School District reports the following fund types:

**Governmental Fund Types -**

**Special Revenue (School Service) Funds** - are used to account for specific revenue sources that are restricted or committed for expenditures for specific purposes other than debt service or capital projects. The School District has two Special Revenue Funds, which are the Food Service Fund that is used to account for sales and grants received for meals served to students of the School District and the Latchkey Fund that is used to account for tuition for before and after school childcare.

**Debt Service Funds** - are used to account for the accumulation of resources for, and payment of, principal and interest on long-term debt. The School District has four Debt Service Funds, which are 2008 Issue, 2014 Issue, 2015 Issue, and 2017 Issue.

**Capital Projects Fund** - is used to record bond proceeds from the 2014 bond issuance and expenditures in connection with remodeling, re-equipping, and refurbishing school buildings, equipment, technology, and school buses.

**Fiduciary Fund Type -**

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

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

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

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

**Deposits and Investments -**

The School 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. The investment trust funds have the general characteristics of demand deposit accounts in that the School 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 "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

**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 School 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 roll.

In connection, Macomb County has established a Delinquent Tax Revolving Fund whereby all local units of government, including the School 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 School District as assets with an initial individual cost of \$5,000 or more, except if purchased with bonds 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 life are not capitalized. The School District does not have infrastructure type assets.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

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

Buildings, equipment, and vehicles of the School District are depreciated using the straight-line method over the following estimated useful lives:

Building and improvements	20-50 years
Buses and other vehicles	10 years
Furniture and equipment	7-20 years

**Compensated Absences -**

In accordance with contracts negotiated with the various employee groups of the School District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the district-wide fund financial statements. A liability for this amount is reported in governmental funds only if they have matured, for example, as a result of identified employee resignations and retirements, due to occur within one year.

**Long-term Obligations -**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issue costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, 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 School 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, net difference between projected and actual earnings on plan investments, the difference between expected and actual experience, changes in proportionate share, and deferred charges on refunding, which are all reported on the government-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 projected and actual earnings on plan investments which will be amortized over a period of five years. Deferred charges on refunding will be amortized over the remaining life of the bond.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

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

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) so will not be recognized as an inflow of resources (revenue) until that time. The School District has the following items that qualify for reporting in this category: pension related changes in proportionate share, the difference between expected and actual experience, and 147c revenues in support of pension contributions made subsequent to the measurement date, which are all reported on the government-wide statement of net position and 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.

**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 fund balance that has limitations imposed by external sources.

*Committed fund balance* - the portion of fund balance that is set aside for a specific purpose 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 School District's intended use of resources. Such intent currently must be determined by the Director of Business Operations. Also, amounts 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 School 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.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

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

**Federal Programs -**

Federal Programs are accounted for in the General and Special Revenue Funds of the School District. The School 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.

**Upcoming Accounting Pronouncements -**

The Governmental Accounting Standards Board (GASB) issued the following statements that may have an impact on the School District's financial statements when adopted. The School 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 School 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 School 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.

**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 School District Business Manager, 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.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

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

The School District's approved budgets were adopted at the function level for the General and the Special Revenue Funds. This is the legal enacted level 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.

For fiscal year 2016-2017, the School District adopted a deficit budget which is a violation of the Uniform Budgeting and Accounting Public Act 2 of 1968. As required, the School District submitted a deficit elimination plan with the State of Michigan.

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

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

**Bond Compliance -**

**2014 Construction Fund -**

The School District is remodeling, equipping, re-equipping, furnishing, refurbishing school buildings and other facilities to enhance security and for other purposes; acquiring and installing technology equipment and technology infrastructure in school buildings and other facilities; constructing additions to school buildings, including entrances to enhance security and the construction of a storage facility; preparing, developing, and improving sites at school buildings and other facilities; the purchase of school buses; and paying costs of issuing bonds.

Beginning with the year of the bond issuance, the School District has reported the annual construction activity in the 2014 Construction Capital Projects Fund. The project for which the 2014 Construction Bonds were issued was considered complete on June 30, 2017, and the cumulative expenditures recognized for the construction period were \$6,633,993.

For this Capital Projects Fund, the School District has complied with the provisions of Section 1351a of the Revised School Code.

**2017 Construction Fund -**

The School District is remodeling, equipping, re-equipping, furnishing, refurbishing school buildings and other facilities to enhance security and for other purposes; acquiring and installing technology equipment and technology infrastructure in school buildings and other facilities; constructing additions to school buildings, including entrances to enhance security and the construction of a storage facility; preparing, developing, and improving sites at school buildings and other facilities; the purchase of school buses; and paying costs of issuing bonds.

The accumulated costs as of June 30, 2017 are \$803,591.

For this Capital Projects Fund, the School District has complied with the provisions of Section 1351a of the Revised School Code.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

**NOTE 3 - DEPOSITS AND INVESTMENTS:**

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

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash on Hand - Petty Cash	\$ 5,397	\$ -	\$ 5,397
Deposits with Financial Institutions	1,736,250	338,471	2,074,721
Investments - Investment Pools	<u>9,371,264</u>	<u>-</u>	<u>9,371,264</u>
Grand Total - Reported as Cash and Cash Equivalents	<u>\$ 11,112,911</u>	<u>\$ 338,471</u>	<u>\$ 11,451,382</u>

**Custodial Credit Risk - Deposits -**

Custodial Credit Risk is the risk that in the event of a bank failure, the School 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. The School District does not have a deposit policy for custodial credit risk.

As of June 30, 2017, the carrying amount of the School District deposits is \$2,074,721 and the bank balance is \$2,592,374, of which \$320,767 is insured by depository insurance and \$2,271,607 is uninsured and uncollateralized.

**Investments -**

The School District does not have a policy regarding the type of investments or concentration of credit risk; however, Michigan Public Act 132 of 1986, as amended, has authorized school districts in Michigan to invest surplus funds in the following types of investments:

- a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- b) Certificates of deposit issued by a state or national bank, savings account of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in the State.
- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- e) United States government or federal agency obligation repurchase agreements.
- f) Bankers' acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

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

- g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
- h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

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

The School District utilized 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](http://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 the GASB, and as such is recorded at amortized cost, which approximates fair value. The fair value of the School 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 School District has \$9,371,264 (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 School 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 School District's investment policy safekeeping requirement.

***Concentration of Credit Risk - Investments*** - is the risk of loss attributed to the magnitude of the School District's investment in a single issuer. The School District has attempted to minimize risk by diversifying its investments by maturity dates, individual financial institutions, and/or security type, so that potential loss on individual securities do not exceed the income generated from the remainder of the portfolio.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

**NOTE 4 - CAPITAL ASSETS:**

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Assets, not being depreciated:				
Land	\$ 580,332	\$ -	\$ -	\$ 580,332
Construction in progress	<u>138,300</u>	<u>623,281</u>	<u>138,300</u>	<u>623,281</u>
Total assets not being depreciated	<u>718,632</u>	<u>623,281</u>	<u>138,300</u>	<u>1,203,613</u>
Capital assets, being depreciated:				
Building and improvements	50,101,408	489,204	-	50,590,612
Buses and other vehicles	1,061,115	2,500	70,425	993,190
Furniture and equipment	<u>2,894,218</u>	<u>143,001</u>	<u>-</u>	<u>3,037,219</u>
Total capital assets being depreciated	<u>54,056,741</u>	<u>634,705</u>	<u>70,425</u>	<u>54,621,021</u>
Less accumulated depreciation for:				
Building and improvements	14,546,982	997,586	-	15,544,568
Buses and other vehicles	761,425	28,330	63,383	726,372
Furniture and equipment	<u>1,948,231</u>	<u>253,241</u>	<u>-</u>	<u>2,201,472</u>
Total accumulated depreciation	<u>17,256,638</u>	<u>1,279,157</u>	<u>63,383</u>	<u>18,472,412</u>
Total capital assets being depreciated, net	<u>36,800,103</u>	<u>( 644,452)</u>	<u>7,042</u>	<u>36,148,609</u>
Total capital assets	<u>\$ 37,518,735</u>	<u>\$( 21,171)</u>	<u>\$ 145,342</u>	<u>\$ 37,352,222</u>

Depreciation expense was charged to the various function/programs as follows:

Governmental Activities -	
Instruction	\$ 1,071,633
Support services	199,913
Food service	<u>7,611</u>
	<u>\$ 1,279,157</u>

The book value of Pare Elementary (idle asset) at June 30, 2017 is \$1,114,030, which approximates fair value.

**Construction Contract Commitments -**

The School District has construction activities reported in the 2017 Construction Fund. At June 30, 2017, the School District had committed \$5,569,037 for construction contracts and had spent \$314,485 through the end of the year, leaving \$5,254,552 remaining on the commitments.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:**

The composition of interfund balances is as follows:

**Due To/From Other Funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
2008 Issue Fund	General Fund	\$ 27,435 (3)
	2014 Issue Fund	<u>3,070 (3)</u>
		<u>30,505</u>
Cafeteria Fund	General Fund	175 (1)
	Latchkey Fund	<u>2,112 (1)</u>
		<u>2,287</u>
		<u>\$ 32,792</u>

**Transfers From/To Other Funds:**

<u>Receiving Fund</u>	<u>Expending Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 31,000 (2)
	Latchkey Fund	<u>20,000 (2)</u>
		51,000
2017 Refunding Fund	2008 Issue Fund	<u>200,373 (4)</u>
		<u>\$ 251,373</u>

- (1) Reimbursement of expenditures  
(2) Charge for indirect costs

- (3) Reclassifying revenues  
(4) To fund deposit to escrow agent

**NOTE 6 - SHORT-TERM BORROWINGS:**

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

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>
Tax Anticipation Note	\$ 1,200,000	\$ -	\$ 1,200,000	\$ -
State Aid Note	660,000	-	660,000	-
2016 State Aid Note	<u>-</u>	<u>2,600,000</u>	<u>-</u>	<u>2,600,000</u>
	<u>\$ 1,860,000</u>	<u>\$ 2,600,000</u>	<u>\$ 1,860,000</u>	<u>\$ 2,600,000</u>

In September 2015, the School District issued a State Aid Note for \$900,000 with interest of 3.90% to assist with operating cash flow. The State Aid Note was payable in four installments ranging from \$140,000 to \$444,375 starting May 2016, with a final installment due on August 22, 2016, including interest. The note was paid in full in August 2016.

In March 2016, the School District issued a Tax Anticipation Note for \$1,200,000 with interest of 4.00% to assist with operating cash flow. The Tax Anticipation Note and interest was payable on September 30, 2016. The note was paid in full in September 2016.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

**NOTE 6 - SHORT-TERM BORROWINGS - (cont'd):**

In August 2016, the School District issued a State Aid Note for \$2,600,000 with interest of 3.90% to assist with operating cash flow. The State Aid Note and interest was payable August 21, 2017. The Note was paid in full in August 2017.

**NOTE 7 - LONG-TERM DEBT:**

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

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
District-wide Financial Statements -					
Bonds payable	\$ 19,955,000	\$ 17,195,000	\$ 11,150,000	\$ 26,000,000	\$ 2,445,000
Issuance Premium	577,815	1,735,220	260,058	2,052,977	221,206
Accrued vacation/sick leave	398,485	12,672	-	411,157	-
Accrued contracts payable	<u>85,298</u>	<u>-</u>	<u>-</u>	<u>85,298</u>	<u>-</u>
	<u>\$ 21,016,598</u>	<u>\$ 18,942,892</u>	<u>\$ 11,410,058</u>	<u>\$ 28,549,432</u>	<u>\$ 2,666,206</u>

**Bonds Payable -**

South Lake Schools issued Building and Site Bonds for the purposes of acquiring land, erecting and remodeling and furnishing and equipping various schools. The bonds are being paid 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:

In February 2015, \$5,490,000 of general obligation unlimited tax refunding bonds were issued to purchase direct obligations of or obligations in which the principal of and interest are unconditionally guaranteed by the United States of America, which were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments representing the 2005 refunded general obligation unlimited tax bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the statement of net position. The principal balance outstanding of these defeased bonds is \$1,880,000. The 2015 bonds are due in semi-annual installments ranging from \$270,000 to \$1,575,000 with interest of 4.00 percent, payable semi-annually.

\$ 1,845,000

2014 Building and Site bonds for remodeling, equipping, re-equipping, furnishing, refurbishing school buildings and other facilities to enhance security and for other purposes; acquiring and installing technology equipment and technology infrastructure in school buildings and other facilities; constructing additions to school buildings, including entrances to enhance security and the construction of a storage facility; preparing, developing and improving sites at school buildings and other facilities, the purchase of school buses; and paying costs of issuing the bonds dated November 20, 2014 for \$6,360,000. The bonds are due in annual installments ranging from \$100,000 to \$1,530,000 with interest ranging from 3.125% to 4.000%, payable semi-annually through 2044.

6,360,000

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

**NOTE 7 - LONG-TERM DEBT - (cont'd):**

2008 Building and Site Bonds for remodeling, re-equipping, refurbishing school buildings, athletic facilities and other facilities; preparing, developing, and improving sites at school buildings, athletic fields, and playgrounds; erecting, equipping, and furnishing additions to school buildings; preparing, developing, and improving sites for additions to school buildings; erecting, equipping, and furnishing athletic facilities; improving sites for athletic facilities; equipping and re-equipping school buildings for technology systems and equipment; purchasing school buses; and paying costs of issuing the Bond dated June 26, 2008 for \$10,900,000. The bonds were partially refunded with the 2017 Refunding Bonds. The bonds are due May 1, 2018 with interest of 4.25%

\$ 600,000

2017 Building and Site and Refunding Bonds were issued to refund the 2008 Building and Site Bond and for remodeling, re-equipping, and refurbishing school buildings, athletic facilities, and other facilities; preparing, developing, and improving sites at school buildings, athletic fields, and playgrounds; erecting, equipping, and furnishing additions to school buildings; erecting, equipping, and furnishing athletic facilities; improving sites for athletic facilities; equipping and re-equipping school buildings for technology systems and equipment; purchasing school buses; and paying costs of issuing the Bond dated February 9, 2017 for \$17,195,000. The net present value of the savings of the refunded portion was \$486,341. The bonds are due May 1 and November 1 with principal payments beginning May 1, 2019 and interest ranging from 3.125% to 5.000%, due semi-annually.

17,195,000  
\$ 26,000,000

The Debt Service Funds have \$718,916 available at June 30, 2017 to service the Building and Site Bonds.

**Accrued Vacation and Sick Leave -**

The accrued vacation and sick leave represents the unmatured portion of accumulated unpaid vacation and sick leave due qualifying School District employees upon termination with the School District.

\$ 411,157

**Accrued Contracts Payable -**

The accrued contracts payable represents the balance of certain employees' contracts that will not be paid until termination of employment with the School District as a result of voluntarily changing contract end date to June 30.

\$ 85,298

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

**NOTE 7 - LONG-TERM DEBT - (cont'd):**

**Annual Debt Requirements -**

The annual requirements to pay the debt outstanding at June 30, 2017 (excluding vacation and sick and accrued contracts payable) are as follows:

	Bonds	
	Principal	Interest
2018	\$ 2,445,000	\$ 1,281,408
2019	2,215,000	1,024,469
2020	2,270,000	921,068
2021	2,155,000	817,019
2022	1,435,000	723,319
2023-2027	7,255,000	2,563,093
2028-2032	6,050,000	1,078,923
2033-2037	945,000	326,833
2038-2042	925,000	152,112
2043-2044	305,000	12,100
	\$ 26,000,000	\$ 8,900,344

**NOTE 8 - PENSION PLANS AND POSTEMPLOYMENT BENEFITS:**

**Plan Description -**

The School District participates in Michigan Public School Employees' Retirement System (MPERS), 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 MPERS. MPERS 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 MPERS in their Comprehensive Annual Financial Report. The report may be obtained online at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools). MPERS' 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 MPERS. 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. MPERS also provides disability and survivor benefits to DB Plan members.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

**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 School 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 School District's contributions amounted to approximately \$2,987,000, of which approximately \$1,946,000 was district funded and \$1,041,000 was State funded.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

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

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

**Proportionate Share Net Pension Liability -**

At June 30, 2017, the School District reported net pension liability of \$34,087,314 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 School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all of the School District's statutorily required contributions for the measurement period. At September 30, 2016, the School District's proportionate share percent was 0.13662700 percent and 0.13922175 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 \$2,814,730. At June 30, 2017, the School 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	\$ 532,926	\$ -
Net difference between projected and actual earnings on Plan investments	566,531	-
Changes in proportion and differences between School District contributions and proportionate share of contributions	1,034	1,323,294
Difference between expected and actual experience	<u>424,818</u>	<u>80,788</u>
	1,525,309	1,404,082
Contributions made subsequent to the measurement date	2,677,571	-
147c Pension revenue related to contributions made subsequent to the measurement date	<u>-</u>	<u>1,041,270</u>
Total	<u>\$ 4,202,880</u>	<u>\$ 2,445,352</u>

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

**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	\$( 165,781)
2019	( 210,322)
2020	464,549
2021	<u>32,781</u>
	<u>\$ 121,227</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.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

**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:

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

\* 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.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

**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 School 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%)
\$ 43,895,880	\$ 34,087,314	\$ 25,817,749

**Payable to the Plan -**

At June 30, 2017, the School District reported a payable of \$446,598 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 School District to provide a 2% employer match into the employee's 403(b) account. For the year ended June 30, 2017, the School District's contributions were approximately \$20,000.

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 School 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 School District's funded contributions amounted to approximately \$597,000, \$749,000, and \$198,000; and the State funded contributions amounted to approximately \$387,000, \$406,000, and \$1,043,000 for the years ended June 30, 2017, 2016, and 2015, respectively.

**SOUTH LAKE SCHOOLS**  
**St. Clair Shores, Michigan**

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

**NOTE 9 - RISK MANAGEMENT:**

The School 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 School District contracts with a commercial insurance carrier to provide medical benefits. The School District participates in the SET-SEG risk pool for property loss, general liability, fleet coverage, and errors and omissions. The pool, organized under Public Act 138, is composed of school 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 pool need additional funding they could also assess the members' additional charges.

The School District also participates in the SET-SEG Self-Insured Workers' Compensation Fund for claims relating to workers' compensation. The pool operates as a common risk sharing management program for school districts in Michigan. Members' premiums are used to purchase commercial excess insurance and to pay member claims in excess of deductible amounts.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH LAKE SCHOOLS**

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

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Local sources	\$ 4,855,874	\$ 4,732,804	\$ 4,744,470	\$ 11,666
State sources	13,568,254	13,345,186	13,358,512	13,326
Federal sources	1,037,344	1,042,814	956,610	( 86,204)
Interdistrict sources	784,374	825,266	742,827	( 82,439)
Total Revenues	<u>20,245,846</u>	<u>19,946,070</u>	<u>19,802,419</u>	<u>( 143,651)</u>
<b>Expenditures:</b>				
Current -				
Instruction -				
Basic programs	9,924,874	9,609,017	9,675,819	( 66,802)
Added needs	1,865,271	1,719,836	1,711,301	8,535
Support Services -				
Pupil	2,066,693	2,037,385	2,078,563	( 41,178)
Instructional staff	1,275,426	1,158,299	1,125,987	32,312
General administration	489,567	537,706	536,130	1,576
School administration	1,121,410	1,118,683	1,081,311	37,372
Business services	507,896	330,269	346,830	( 16,561)
Operation and maintenance	1,937,756	1,984,519	1,955,460	29,059
Pupil transportation services	437,386	441,864	442,128	( 264)
Central	116,496	91,912	74,756	17,156
Athletics	295,947	264,794	249,598	15,196
Community Services -				
Custody and care of children	12,819	12,655	6,348	6,307
Non-public school pupils	675,764	541,780	548,958	( 7,178)
Outgoing Transfers	18,403	18,403	5,940	12,463
Total Expenditures	<u>20,745,708</u>	<u>19,867,122</u>	<u>19,839,129</u>	<u>27,993</u>
Revenues over (under) expenditures	( 499,862)	78,948	( 36,710)	( 115,658)
<b>Other Financing Sources:</b>				
Transfers from other funds	51,000	51,000	51,000	-
Net Change in Fund Deficit	( 448,862)	129,948	14,290	( 115,658)
Fund Deficit at beginning of year	<u>( 1,296,368)</u>	<u>( 1,296,368)</u>	<u>( 1,296,368)</u>	<u>-</u>
Fund Deficit at end of year	<u><u>\$( 1,745,230)</u></u>	<u><u>\$( 1,166,420)</u></u>	<u><u>\$( 1,282,078)</u></u>	<u><u>\$( 115,658)</u></u>

**SOUTH LAKE SCHOOLS**

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

	Year Ended September 30,			
	2016	2015	2014	2013-2007*
Proportion of net pension liability	0.136627%	0.139222%	0.144760%	0.00%
Proportionate share of net pension liability	\$ 34,087,314	\$ 34,004,950	\$ 31,885,482	\$ -
Covered Payroll	\$ 11,413,253	\$ 11,560,805	\$ 12,748,583	\$ -
Proportionate share of net pension liability as a percentage of covered payroll	298.66%	294.14%	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 School District did not elect retroactive implementation.

**SOUTH LAKE SCHOOLS**

**SCHEDULE OF DISTRICT CONTRIBUTIONS  
LAST TEN FISCAL YEARS**

	Year Ended June 30,			
	2017	2016	2015	2014-2008*
Statutorily required contributions	\$ 2,987,013	\$ 3,010,911	\$ 2,673,474	\$ -
Contributions in relation to statutorily required contribution	<u>2,987,013</u>	<u>3,010,911</u>	<u>2,673,474</u>	<u>-</u>
<b>Contribution Deficiency</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<b>Covered Payroll</b>	\$ 10,161,173	\$ 10,907,092	\$ 11,808,693	\$ -
<b>Contributions as a Percentage of Covered Employee Payroll</b>	29.40%	27.61%	22.64%	0.00%

\* GASB No. 68 was implemented for fiscal year ended June 30, 2015; the School 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.

## **OTHER SUPPLEMENTARY INFORMATION**

**SOUTH LAKE SCHOOLS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	Special Revenue Funds		Debt Service Funds	
	Food Service	Latchkey	2008 Issue	2014 Issue
<b>Assets:</b>				
Cash and cash equivalents	\$ 223,701	\$ 89,152	\$ 68,686	\$ 109,170
Accounts receivable	579	-	-	-
Due from other governmental units - State	32,032	-	-	-
Due from other funds	2,287	-	30,505	-
Total Assets	\$ 258,599	\$ 89,152	\$ 99,191	\$ 109,170
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	2,112	-	3,070
Unearned revenues	5,635	-	-	-
Total Liabilities	5,635	2,112	-	3,070
<b>Fund Balances:</b>				
Restricted -				
Debt service	-	-	99,191	106,100
Food service	252,964	-	-	-
Capital projects	-	-	-	-
Committed - Latchkey	-	87,040	-	-
Total Fund Balances	252,964	87,040	99,191	106,100
Total Liabilities and Fund Balances	\$ 258,599	\$ 89,152	\$ 99,191	\$ 109,170

<u>Debt Service Funds</u>		<u>Capital Project Fund</u>	
<u>2015 Issue</u>	<u>2017 Refunding</u>	<u>2014 Construction</u>	<u>Total</u>
\$ 513,625	\$ -	\$ 109,291	\$ 1,113,625
-	-	-	579
-	-	-	32,032
-	-	-	32,792
<u>\$ 513,625</u>	<u>\$ -</u>	<u>\$ 109,291</u>	<u>\$ 1,179,028</u>
\$ -	\$ -	\$ 2,210	\$ 2,210
-	-	-	5,182
-	-	-	5,635
-	-	2,210	13,027
513,625	-	-	718,916
-	-	-	252,964
-	-	107,081	107,081
-	-	-	87,040
<u>513,625</u>	<u>-</u>	<u>107,081</u>	<u>1,166,001</u>
<u>\$ 513,625</u>	<u>\$ -</u>	<u>\$ 109,291</u>	<u>\$ 1,179,028</u>

**SOUTH LAKE SCHOOLS**

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

	Special Revenue Funds		Debt Service Funds	
	Food Service	Latchkey	2008 Issue	2014 Issue
<b>Revenues:</b>				
Local Sources	\$ 208,009	\$ 130,965	\$ 850,471	\$ 251,243
State Sources	34,707	-	27,435	-
Federal Sources	662,289	-	-	-
Total Revenues	905,005	130,965	877,906	251,243
<b>Expenditures:</b>				
Current -				
Support services	-	-	2,237	439
Food services	888,475	-	-	-
Latchkey	-	111,101	-	-
Capital Outlay	-	-	-	-
Debt Service -				
Principal retirement	-	-	470,000	-
Interest and fiscal charges	-	-	245,864	247,094
Total Expenditures	888,475	111,101	718,101	247,533
Revenues over (under) expenditures	16,530	19,864	159,805	3,710
<b>Other Financing Sources (Uses):</b>				
Refunding bond proceeds	-	-	-	-
Premium on bonds	-	-	-	-
Payment to refunding bond escrow agent	-	-	-	-
Transfers from other funds	-	-	-	-
Transfers to other funds	( 31,000)	( 20,000)	( 200,373)	-
Total Other Financing Sources (Uses)	( 31,000)	( 20,000)	( 200,373)	-
Net Change in Fund Balances	( 14,470)	( 136)	( 40,568)	3,710
Fund Balances at beginning of year	267,434	87,176	139,759	102,390
Fund Balances at end of year	\$ 252,964	\$ 87,040	\$ 99,191	\$ 106,100

Debt Service Funds		Capital Project Fund	
2015 Issue	2017 Refunding	2014 Construction	Total
\$ 2,035,311	\$ -	\$ 15,536	\$ 3,491,535
-	-	-	62,142
-	-	-	662,289
<u>2,035,311</u>	<u>-</u>	<u>15,536</u>	<u>4,215,966</u>
3,561	-	-	6,237
-	-	-	888,475
-	-	-	111,101
-	-	418,160	418,160
1,835,000	-	-	2,305,000
117,100	94,094	-	704,152
<u>1,955,661</u>	<u>94,094</u>	<u>418,160</u>	<u>4,433,125</u>
<u>79,650</u>	<u>( 94,094)</u>	<u>( 402,624)</u>	<u>( 217,159)</u>
-	8,350,000	-	8,350,000
-	896,862	-	896,862
-	( 9,353,141)	-	( 9,353,141)
-	200,373	-	200,373
-	-	-	( 251,373)
-	<u>94,094</u>	<u>-</u>	<u>( 157,279)</u>
79,650	-	( 402,624)	( 374,438)
<u>433,975</u>	<u>-</u>	<u>509,705</u>	<u>1,540,439</u>
<u>\$ 513,625</u>	<u>\$ -</u>	<u>\$ 107,081</u>	<u>\$ 1,166,001</u>

**SOUTH LAKE SCHOOLS**

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

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Local sources	\$ 263,077	\$ 210,298	\$ 208,009	\$( 2,289)
State sources	39,770	34,708	34,707	( 1)
Federal sources	680,303	661,665	662,289	624
Total Revenues	<u>983,150</u>	<u>906,671</u>	<u>905,005</u>	<u>( 1,666)</u>
<b>Expenditures:</b>				
Food Service -				
Salaries			263,783	
Payroll taxes, retirement, etc.			134,599	
Insurance			23,836	
Purchased services			10,124	
Cost of goods sold			416,841	
Other expenditures			32,432	
Capital Outlay			6,860	
Total Expenditures	<u>918,162</u>	<u>894,701</u>	<u>888,475</u>	<u>6,226</u>
Revenues over expenditures	64,988	11,970	16,530	4,560
<b>Other Financing Uses:</b>				
Transfers to other funds	<u>( 31,000)</u>	<u>( 31,000)</u>	<u>( 31,000)</u>	<u>-</u>
Net Change in Fund Balance	33,988	( 19,030)	( 14,470)	4,560
Fund Balance at beginning of year	<u>267,434</u>	<u>267,434</u>	<u>267,434</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 301,422</u>	<u>\$ 248,404</u>	<u>\$ 252,964</u>	<u>\$ 4,560</u>

**SOUTH LAKE SCHOOLS**

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

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Local sources -				
Tuition	\$ 141,498	\$ 130,648	\$ 130,965	\$ 317
<b>Expenditures:</b>				
Latchkey -				
Salaries			65,436	
Payroll taxes, retirement, etc.			29,703	
Insurance			162	
Purchased services			394	
Other expenditures			15,406	
Total Expenditures	105,584	117,320	111,101	6,219
Revenues over expenditures	35,914	13,328	19,864	6,536
<b>Other Financing Uses:</b>				
Transfers to other funds	( 20,000)	( 20,000)	( 20,000)	-
Net Change in Fund Balance	15,914	( 6,672)	( 136)	6,536
Fund Balance at beginning of year	87,176	87,176	87,176	-
Fund Balance at end of year	\$ 103,090	\$ 80,504	\$ 87,040	\$ 6,536