Lake City Area Schools
Lake City, Michigan

FINANCIAL STATEMENTS

June 30, 2018

Lake City Area Schools

Lake City, Michigan

June 30, 2018

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Lake City Area Schools

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June 30, 2018

STEVENS KIRINOVIC & TUCKER P.C.

INDEPENDENT AUDITOR'S REPORT

Board of Education
Lake City Area Schools
Lake City, 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 Lake City Area Schools (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Lake City Area Schools, as of June 30, 2018, 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.

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Emphasis of Matter - Change in Accounting Principle

As discussed in Note N to the financial statements, Lake City Area Schools implemented Governmental Accounting Standards Board Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.* Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate 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 combining nonmajor fund financial statements are 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 September 29, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the District's internal control over financial reporting and compliance.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

September 29, 2018

This section of the annual financial report presents management's discussion and analysis of the financial performance for the fiscal year ended June 30, 2018. This discussion and analysis is intended to be read in conjunction with the District's financial statements.

Generally Accepted Accounting Principles (GAAP) requires the reporting of two types of financial statements: Government-wide (District-wide) and Fund-level financial statements.

District-wide Financial Statements:

District-wide financial statements provide information about the activities of the entire school district. They present an overall view of the District's finances, reporting the District's assets and liabilities both short and long term-basis, regardless if they are "currently available" or not. District-wide financial statements are reported on a full accrual basis.

Fund-level Financial Statements:

Fund-level financial statements are reported on a more detailed level than district-wide financial statements. Fund-level financial statements provide information on the District's most significant funds and are reported on a modified accrual basis. Only those assets that are "measurable" and "available" are reported on a modified accrual basis. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. In the state of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are classified as Major Funds, such as one (1) of the four (4) Capital Projects Funds, or Nonmajor Governmental Funds on the financial statements and include the Food Service Special Revenue Fund.

Statement of Fiduciary Net Position:

The Statement of Fiduciary Net Position presents financial information about resources for which the District acts solely as an agent for the benefit of students and parents. These activities are excluded from the District's other financial statements because as a fiduciary, the District is unable to use these assets for its operations. The school district's responsibility for assets reported in the Statement of Fiduciary Net Position is to ensure the funds are used for their intended purposes.

Summary of Net Position:

The following table summarizes the District's net position for the fiscal year ended June 30, 2018 with comparative information for June 30, 2017.

Condensed Statement of Net Position
Years Ended June 30, 2017 and 2018

	Governmental Activities	
	2017	2018
Assets		
Current Assets	$ 25,959,888	$ 15,364,349
Noncurrent Assets	6,643,945	20,212,890
Total assets	**32,603,833**	**35,577,239**
Deferred Outflows of Resources	**2,163,981**	**4,022,124**

Condensed Statement of Net Position
Years Ended June 30, 2017 and 2018 - continued

	Governmental Activities	
	2017	2018
Liabilities		
Current Liabilities	$ 1,731,787	$ 4,239,630
Noncurrent Liabilities	38,305,515	44,379,870
Total Liabilities	**40,037,302**	**48,619,500**
Deferred Inflows of Resources	**744,491**	**1,993,522**
Net Position		
Net investment in capital assets	5,126,407	5,430,768
Restricted	993,539	1,414,151
Unrestricted	(12,133,925)	(17,858,578)
Total Net Position	**$ (6,013,979)**	**$ (11,013,659)**

Analysis of Financial Position:

At the end of the current fiscal year, Lake City Area Schools reported a negative balance in net position for the school district. This means that if the District liquidated all of its assets as of June 30, 2018, it would not be able to pay off all liabilities (net pension liability and net other post-employment benefits (OPEB) liability; for example), there would be over $11 million in liabilities remaining. By far the most significant portion of the District's net position is the negative unrestricted portion related to pensions and OPEB.

Results of Operations:

For the fiscal years ended June 30, 2018 and 2017, the District-wide results of operations were:

Condensed Statement of Activities
Years Ended June 30, 2017 and 2018

	Governmental Activities	
	2017	2018
Revenues		
Program Revenues		
Charges for services	$ 206,798	$ 207,953
Operating grants and contributions	2,514,251	2,519,405
Capital grants and contributions	6,600	29,415
General Revenues		
Property Taxes	4,211,952	4,256,158
State unrestricted foundation aid	5,788,755	6,092,566
Other	498,378	591,318
Total Revenues	13,226,734	13,696,815

Condensed Statement of Activities
Years Ended June 30, 2017 and 2018 - continued

	Governmental Activities	
	2017	2018
Expenses		
Instruction	$ 6,706,427	$ 7,022,121
Support services	3,919,314	4,472,904
Food services	598,989	607,628
Interest on long-term debt	824,233	800,855
Unallocated depreciation	408,109	375,461
Total Expenses	12,457,072	13,278,969
Change in Net Position	$ 769,662	$ 417,846

Analysis of Results of Operations:

During fiscal year ended June 30, 2018, the District's net position increased by $417,846. Several factors which contributed to the increase are discussed in the following sections.

A. Governmental Funds Operating Results

The District's expenditures and other financing uses exceeded revenues and other financing sources from governmental funds activities by $13,109,747 for the fiscal year ended June 30, 2018, but capital outlay additions outpaced depreciation expenses and losses on capital asset disposals by $13,554,945, changes in pension and OPEB related assets and liabilities decreased net position by $453,928 and the District repaid $315,000 in outstanding debt. Further discussion of the District's operating results is available in the section entitled "Results of 2017-18 Operations" following this section.

Results of 2017-2018 Operations

During fiscal year ended June 30, 2018, the District's net position increased by $417,846 at the district-wide, full accrual level. A few additional significant factors affecting net position during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the cost related to educating the students of the Lake City Area Schools such as: Salaries and benefits for Teachers, Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers, and other support positions; teaching supplies, employee training, utilities, building maintenance supplies and miscellaneous expenses needed to run the District.

The District's revenues for General Fund operations exceeded expenditures by $185,280 for the fiscal year ended June 30, 2018. The General Fund as of June 30, 2018, has a fund balance of $1,625,019 or 14% of expenditures and other financing uses for the 2017-2018 fiscal year.

B. Capital Projects Funds

The District maintains four (4) Capital Projects Funds. The General Capital Projects Fund has funds in it that were set aside in prior years that were committed to be used for capital projects throughout the District. In the current year the District expended $33,742 on capital outlay from this fund to leave $189,408 remaining in fund balance. The Legacy Fund has funds for the purpose of capital projects and academic program improvement. Throughout the current year, the District received $5,541 in restricted revenues from local sources to leave $83,394 remaining in fund balance. The Capital Projects Sinking Fund, accounts for the voter approved millage funds to be expended on allowable expenditures throughout the District. In the current year the District expended $193,513 on capital outlay from this fund to leave $504,157 remaining in fund balance. The other fund, a major fund, the 2016 Construction Project Fund, was established for the purpose of accounting for the financial resources for the construction and improvement of school facilities financed by a bond issue in 2016. In the current year the District expended $13,708,300 on capital outlay from this fund to leave $8,618,934 remaining in fund balance.

C. Food Service Fund

The Food Service Fund is a fund that reports the food service program activities in the District. In 2017-2018, the Food Service Fund revenues exceeded expenditures and other financing uses by $32,936. The fund balance for Food Service as of June 30, 2018, was $234,814. The District continued to participate in the K-12 Universal Breakfast and the Summer Food Program which provided a free lunch to any person under the age of eighteen (18) and was funded through a Federal grant.

D. Net Investment in Capital Assets

The District's net investment in capital assets increased by a net of $13,568,945 during the fiscal year. This can be summarized as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets	$ 13,516,892	$ 13,944,406	$ (112,844)	$ 27,348,454
Less: Accumulated depreciation	(6,872,947)	(341,893)	79,276	(7,135,564)
Net Investment in capital assets	$ 6,643,945	$ 13,602,513	$ (33,568)	$ 20,212,890

More information related to capital assets can be found in Note C of the financial statements.

E. Debt

At the end of this year, the District had $23,164,025 in bonds and other obligations outstanding versus $23,574,501 in the previous year as the result of the repayment of $315,000 of outstanding principal and amortization of capitalized premiums in the current year.

	2018	2017
General obligation bonds	$ 20,190,000	$ 20,505,000
Premium on bonds	2,780,188	2,879,480
Compensated absences	193,837	190,021
Total	$ 23,164,025	$ 23,574,501

See Note D to the financial statements for more information related to long-term debt.

IMPORTANT ECONOMIC FACTORS

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

a. State of Michigan State Aid Act per student foundation allowance.
b. The District's non-principal residence exempt property valuation.

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Lake City Area Schools foundation allowance was $7,631 per student for the 2017-2018 school year.

Student Enrollment

The District's student enrollment for the fall count of 2017-2018 was 1,180 students as compared to 1,151 for 2016-2017. The following summarizes fall student enrollments in the past five years:

	Student FTE	FTE Change from Prior Year
2017-2018	1180	29
2016-2017	1151	26
2015-2016	1125	9
2014-2015	1116	-29
2013-2014	1145	-2

Because economic conditions in Northern Michigan remain unchanged, the District is closely monitoring any change in student enrollment.

Lake City Area Schools continues to attempt to reach the needs of the families we serve. In the 2015-16 school year a before and after school latchkey program was established to help parents with daycare needs. During the 2016-17 school year a tuition based preschool program was launched to help meet the needs of our students not qualifying for existing preschool programs. Both of these programs are targeting enrollment retention and expansion.

C. Property Taxes levied for General Operations (General Fund Non-Principal Residence Exempt Taxes)

The District levies 17.9730 mills of property taxes for operations (General Fund) on non-principal residence exempt properties. An election is held biannually to reestablish the 18 mills and prevent a Headlee Rollback. Under Michigan law, the operating tax levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-principal residence exempt property tax revenue generated for 2017-2018 fiscal year was approximately $2,727,513. This was less than the original levy due to unpaid personal property tax and December board of review changes. The non-principal residence exempt tax levy increased by about 1% from the prior year.

D. Sinking Fund Property Taxes

The District's sinking fund levy, which is used to finance capital projects, is based on the taxable valuation of all properties: principal residence exempt and non-principal residence exempt.

For 2017-2018, the District's sinking fund levy was 1.1 mills that generated revenue of approximately $337,358.

E. Debt Fund Property Taxes

The District's debt fund levy, which is used to finance capital projects, is based on the taxable valuation of all properties: principal residence exempt and non-principal residence exempt.

For 2017-2018, the District's debt fund levy was 3.84 mills that generated revenue of approximately $1,178,435.

Analysis of Original Budget, Final Budget, and Actual Results:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Lake City Area Schools amends its budget periodically during the school year. The June 2018 budget amendment was the final budget for the fiscal year.

Changes from Original Budget, Final Budget and Actual:

				Variances	
	Original Budget	Final Budget	Actual	Final & Original Budget	Actual & Final Budget
Total Revenues and Other Financing Sources	$ 10,943,220	$ 11,607,052	$ 11,546,250	6.1%	-0.5%
Total Expenditures, Other Financing Uses, and Special Item	11,315,582	11,904,720	11,360,970	5.2%	4.6%

Revenues:

The District's final budget for revenues and other financing sources was $663,832 or 6.1% higher than the original budget projections. A conservative approach to state aid revenues was used due to the uncertainty of enrollment and funding from the State.

Because of uncertainties in funding sources at the time the original budget is adopted the District amends its budget during the year to reflect actual amounts to be received. Unused grant dollars are carried over to the following school year.

Expenditures:

The District's final budget for expenditures and other financing uses was $589,138 or 5.2% higher than the original budget projections. Actual expenditures were approximately $543,750 under the final budget due to continued efforts by the District to contain expenditures.

Contacting the District's Financial Management:

Management discussion and analysis documents are prepared to provide the District's constituents with a general overview of the District's financial position. Question or requests for additional information can be directed to the Business Department of Lake City Area Schools, 710 E. Mitchell Street, PO Box 900, Lake City, Michigan 49651.

BASIC FINANCIAL STATEMENTS

Lake City Area Schools

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 3,899,316
Investments	9,910,000
Due from other governmental units	1,481,680
Accounts receivable	52,166
Inventories	11,387
Prepaids	9,800
Total current assets	15,364,349
Noncurrent assets	
Capital assets not being depreciated	15,415,030
Capital assets, net of accumulated depreciation	4,797,860
Total noncurrent assets	20,212,890
TOTAL ASSETS	35,577,239
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	3,712,929
Deferred outflows of resources related to OPEB	309,195
Total deferred outflows of resources	4,022,124
LIABILITIES	
Current liabilities	
Accounts payable	2,624,451
Accrued payroll	548,737
Other accrued liabilities	445,091
Accrued interest payable	147,983
Current portion of compensated absences	29,076
Current portion of long-term debt	444,292
Total current liabilities	4,239,630
Noncurrent liabilities	
Noncurrent portion of compensated absences	164,761
Net pension liability	16,163,257
Net OPEB liability	5,525,956
Noncurrent portion of long-term debt	22,525,896
Total noncurrent liabilities	44,379,870
TOTAL LIABILITIES	48,619,500
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	1,806,705
Deferred inflows of resources related to OPEB	186,817
Total deferred inflows of resources	1,993,522
NET POSITION	
Net investment in capital assets	5,430,768
Restricted for food and nutrition	53,371
Restricted for debt service	342,361
Restricted for capital projects	1,018,419
Unrestricted	(17,858,578)
TOTAL NET POSITION	$(11,013,659)

See accompanying notes to financial statements.

Lake City Area Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities					
Instruction	$ 7,022,121	$ -	$ 1,486,140	$ -	$ (5,535,981)
Supporting services	4,472,904	66,837	495,775	29,415	(3,880,877)
Food service	607,628	141,116	537,490	-	70,978
Interest and costs on long-term debt	800,855	-	-	-	(800,855)
Unallocated depreciation	375,461	-	-	-	(375,461)
TOTAL GOVERNMENTAL ACTIVITIES	$ 13,278,969	$ 207,953	$ 2,519,405	$ 29,415	(10,522,196)
General revenues					
Property taxes					4,256,158
State school aid - unrestricted					6,092,566
Investment earnings					270,727
Intermediate School District allocations					209,039
Miscellaneous					111,552
TOTAL GENERAL REVENUES					10,940,042
CHANGE IN NET POSITION					417,846
Restated net position, beginning of year					(11,431,505)
Net position, end of year					$ (11,013,659)

See accompanying notes to financial statements.

Lake City Area Schools

Governmental Funds

BALANCE SHEET

June 30, 2018

	General	2016 Construction Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,147,151	$ 1,270,974	$ 1,481,191	$ 3,899,316
Investments	-	9,910,000	-	9,910,000
Due from other funds	-	-	20,666	20,666
Due from other governmental units	1,481,680	-	-	1,481,680
Accounts receivable	9,899	42,267	-	52,166
Inventories	-	-	11,387	11,387
Prepaids	9,800	-	-	9,800
TOTAL ASSETS	$ 2,648,530	$ 11,223,241	$ 1,513,244	$ 15,385,015
LIABILITIES				
Accounts payable	$ 9,017	$ 2,604,307	$ 11,127	$ 2,624,451
Accrued payroll	548,737	-	-	548,737
Other accrued liabilities	445,091	-	-	445,091
Due to other funds	20,666	-	-	20,666
TOTAL LIABILITIES	1,023,511	2,604,307	11,127	3,638,945
FUND BALANCES				
Nonspendable				
Prepaids	9,800	-	-	9,800
Restricted				
Food and nutrition	-	-	234,814	234,814
Capital projects	-	8,618,934	587,551	9,206,485
Debt service	-	-	490,344	490,344
Committed				
Capital projects	-	-	189,408	189,408
Assigned				
Subsequent year's expenditures	538,977	-	-	538,977
Unassigned	1,076,242	-	-	1,076,242
TOTAL FUND BALANCES	1,625,019	8,618,934	1,502,117	11,746,070
TOTAL LIABILITIES AND FUND BALANCES	$ 2,648,530	$ 11,223,241	$ 1,513,244	$ 15,385,015

See accompanying notes to financial statements.

Lake City Area Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2018

Total fund balance - governmental funds		$ 11,746,070
Amounts reported for the 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 as assets in the governmental funds.		
The cost of capital assets is	$ 27,348,454	
Accumulated depreciation is	(7,135,564)	
Capital assets, net		20,212,890
Governmental funds report actual pension/OPEB expenditures for the fiscal year, whereas the governmental activities will recognize the net pension/OPEB liability as of the measurement date. Contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, net differences between projected and actual pension plan investment earnings, and changes in proportion and and differences between employer contributions and proportionate share of contributions will be deferred over time in the government-wide financial statements. These amounts consist of:		
Deferred outflows of resources related to pensions	3,712,929	
Deferred inflows of resources related to pensions	(1,806,705)	
Deferred outflows of resources related to OPEB	309,195	
Deferred inflows of resources related to OPEB	(186,817)	
		2,028,602
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Capitalized bond premium	(2,780,188)	
Bonds payable	(20,190,000)	
Accrued interest payable	(147,983)	
Net pension liability	(16,163,257)	
Net OPEB liability	(5,525,956)	
Compensated absences	(193,837)	
		(45,001,221)
Net position of governmental activities		$(11,013,659)

See accompanying notes to financial statements.

Lake City Area Schools

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2018

	General	2016 Construction Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	$ 2,957,939	$ 246,283	$ 1,690,540	$ 4,894,762
State sources	7,911,901	-	28,911	7,940,812
Federal sources	451,844	-	508,579	960,423
Interdistrict sources	209,039	-	-	209,039
TOTAL REVENUES	11,530,723	246,283	2,228,030	14,005,036
EXPENDITURES				
Current				
Instruction	6,941,871	-	-	6,941,871
Supporting services	4,419,099	-	-	4,419,099
Food service	-	-	601,011	601,011
Debt service	-	-	1,217,247	1,217,247
Capital outlay	-	13,708,300	227,255	13,935,555
TOTAL EXPENDITURES	11,360,970	13,708,300	2,045,513	27,114,783
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	169,753	(13,462,017)	182,517	(13,109,747)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	15,527	29,424	-	44,951
Transfers to other funds	-	-	(44,951)	(44,951)
TOTAL OTHER FINANCING SOURCES (USES)	15,527	29,424	(44,951)	-0-
NET CHANGE IN FUND BALANCES	185,280	(13,432,593)	137,566	(13,109,747)
Fund balances, beginning of year	1,439,739	22,051,527	1,364,551	24,855,817
Fund balances, end of year	$ 1,625,019	$ 8,618,934	$ 1,502,117	$ 11,746,070

See accompanying notes to financial statements.

Lake City Area Schools

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Net change in fund balances - total governmental funds		$(13,109,747)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	$ 13,930,406	
Depreciation expense	(375,461)	
Excess of capital outlay over depreciation expense		13,554,945
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Capital assets contributed to the district		14,000
Repayments of long-term debt and borrowings of long-term debt are reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. Also, governmental funds report the effect of issuance premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consisted of:		
Amortization of capitalized bond premiums	99,292	
Bond principal retirement	315,000	
		414,292
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported in governmental funds. These activities consist of:		
Increase in deferred outflows of resources related to pensions	1,548,948	
(Increase) in deferred inflows of resources related to pensions	(1,062,214)	
(Decrease) in deferred outflows of resources related to OPEB	(101,938)	
(Increase) in deferred inflows of resources related to OPEB	(186,817)	
(Increase) in net pension liability	(954,610)	
Decrease in net OPEB liability	302,703	
Decrease in accrued interest payable	2,100	
(Increase) in compensated absences	(3,816)	
		(455,644)
Change in net position of governmental activities		$ 417,846

See accompanying notes to financial statements.

Lake City Area Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2018

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	$ 11,128	$ 101,707
LIABILITIES		
Due to individuals and others		
Band Boosters	-	$ 12,732
Central Office	-	5,223
Elementary	-	22,968
Middle School	-	5,538
High School	-	55,246
TOTAL LIABILITIES	-0-	$ 101,707
NET POSITION		
Held in trust for scholarships	$ 11,128	

See accompanying notes to financial statements.

Lake City Area Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2018

	Private Purpose Trust Fund
ADDITIONS	
Contributions	$ 1,000
Interest	14
TOTAL ADDITIONS	1,014
Net position - beginning of year	10,114
Net position - end of year	$ 11,128

See accompanying notes to financial statements.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lake City Area Schools (the District) have been prepared in conformity with accounting principles generally accepted in the Unites States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the Unites States of America, these financial statements present the financial activities of Lake City Area Schools. The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the district-wide financial statements) present information for the District as a whole. All non-fiduciary activities of the District are included (i.e., fiduciary fund activities are not included in the district-wide financial statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for each major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

The District presents the following major governmental funds:

a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

b. 2016 Construction Project Fund - The 2016 Construction Project Fund was established for the purpose of accounting for the financial resources for the construction and improvement of school facilities of the District with a 2016 bond issuance.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The district-wide and fiduciary private purpose trust fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet, when applicable. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned, and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty (60) days of the end of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

If/when both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources if they are needed.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds. All unexpended appropriations lapse at fiscal year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.

b. Public hearings are conducted to obtain taxpayer comments.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

   c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.

   d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

   e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

   f. The budget, as presented, has been amended in a legally permissible manner.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, money market accounts, and pooled investment funds with an original maturity of ninety (90) days or less. Investments consist of pooled investments with original maturities of greater than 90 days. Cash equivalents and investments are recorded at fair value.

7. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” and “due to other funds” on the governmental funds balance sheet.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan’s funding stream of State Aid payments results in the final two (2) payments, related to the fiscal year ended June 30, 2018, to be paid in July and August 2018. The total amount of $1,481,680 due from other governmental units consists of $1,413,522 and $68,158 related to State Aid and grant and local programs, respectively.

9. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory mainly consists of food and miscellaneous paper goods. Inventory that will be sold, rather than used in providing services (i.e., food in the Food Service Fund), and for which the proceeds from the sales are restricted for food service activities are not classified as “nonspendable” but instead are reflected as a component of restricted fund balance in accordance with GASB Statement No. 54.

10. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than $5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated acquisition cost on the date received.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Capital Assets - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	20 - 50 years
Equipment, furniture, and other assets	3 - 20 years
Vehicles	8 years

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated compensated absences amounts are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide financial statements related to interest payable on general obligation bonds.

13. Deferred Outflows

In addition to assets, the statement of net position will sometimes report 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 (expense/ expenditure) until then. The District has two items that qualify for reporting in this category. They are pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

14. Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualifies for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

15. Unearned Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as unearned revenue until the period in which eligible expenditures are incurred. Other monies collected in advance are also presented as unearned. These same amounts have been shown as “unearned revenue” on the Statement of Net Position and the Balance Sheet, when applicable, to indicate that the revenue has not been recognized because it has not been earned.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

17. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied.

The District levies taxes of $17.9730 per $1,000 of taxable valuation on most non-primary residency exempt property and $5.9730 per $1,000 of taxable value on commercial personal property for general governmental services. The District levies $1.10 per $1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for a sinking fund. The District levies $3.8400 per $1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained. The above millages generated $2,736,165, $337,358, and $1,178,435 for the General, Capital Projects Sinking, and 2016 Building and Site Bonds debt service funds, respectively.

18. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995, the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2018, the foundation allowance was based on the average of pupil membership counts taken in February 2017 and September 2017. The average calculation was weighted 90% for the September counts and 10% for the February counts.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-principal residence exempt property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payment made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

19. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as unearned revenue.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

20. Intermediate School District Allocations

Among other revenues and reimbursements received from Intermediate School Districts, the District continued to receive revenue based on excess funds remaining from a County-wide Special Education millage approved in prior years.

The millage, a one-half mill which was collected by Wexford-Missaukee Intermediate School District (WMISD), was approved to cover additional, unreimbursable special education costs not covered by grant programs. The amount available for Lake City Area Schools is based on the District's Taxable Value multiplied by the one-half mill. This amount is then used to cover the District's unreimbursable costs related to special education children served at WMISD. If there are any funds left after these unreimbursable costs are covered, they are distributed to the District from WMISD. In any given year, the District may receive a one-half mill distribution, or they may receive more or less than a one-half mill of this special education funding.

21. Defined Benefit Plans

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

22. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

23. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

24. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: DEPOSITS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. 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.

NOTE B: DEPOSITS - CONTINUED

2. Certificates of deposit issued by a State or national bank, savings accounts 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 this State.

3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.

5. United States government or federal District obligation repurchase agreements.

6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.

7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.

8. 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.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, the carrying amount of the District's deposits was $2,997,045 and the bank balance was $2,043,783, of which $250,000 was covered by federal depository insurance, and the remaining $1,793,783 was uninsured and uncollateralized. The District had $20 of imprest cash on hand.

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. There are three (3) levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

NOTE B: DEPOSITS - CONTINUED

Investments

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The District participates in the following Michigan Liquid Asset Fund (MILAF) portfolios: Michigan Liquid Asset Fund Plus (MILAF+) Portfolio and Michigan Term Portfolio. These portfolios securities are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. It is MILAF's policy to compare amortized cost and fair values of the securities periodically throughout each month and as of the last business day of each month. Fair value is determined by reference to quoted market prices. MILAF's annual financial statement may be obtained at www.milaf.org. As of June 30, 2018, the District has $1,015,086 invested with MILAF+ and $9,910,000 invested with Michigan Term.

MILAF+ and Michigan Term Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Money market securities are valued using amortized cost, as outlined in GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the MILAF+ Portfolio and Michigan Term are categorized as Level 2.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2018, the District's investments in the MILAF+ Portfolio and Michigan Term were rated AAAm and AAAf, by Standard and Poor's and had weighted average maturities (WAM) of < 60 days and < 1 year, respectively.

Interest Rate Risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with Board approved policy.

NOTE B: DEPOSITS - CONTINUED

Custodial Credit Risk - continued

As of June 30, 2018, the deposits referred to above have been reported in the cash and cash equivalents and investment captions in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	$ 3,899,316	$ 112,835	$ 4,012,151
Investments	9,910,000	-	9,910,000
	$ 13,809,316	$ 112,835	$ 13,922,151

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental activities				
Capital assets not being depreciated				
Land	$ 269,504	$ 5,000	$ -	$ 274,504
Construction in progress	1,465,140	13,675,386	-	15,140,526
Subtotal of capital assets not being depreciated	1,734,644	13,680,386	-0-	15,415,030
Capital assets being depreciated				
Building and additions	9,500,821	169,000	(87,676)	9,582,145
Equipment, furniture, and other assets	1,910,492	67,406	(11,217)	1,966,681
Vehicles	370,935	27,614	(13,951)	384,598
Subtotal of capital assets being depreciated	11,782,248	264,020	(112,844)	11,933,424
Less accumulated depreciation for:				
Building and additions	(5,084,824)	(183,415)	54,108	(5,214,131)
Equipment, furniture, and other assets	(1,462,556)	(141,254)	11,217	(1,592,593)
Vehicles	(325,567)	(17,224)	13,951	(328,840)
Subtotal	(6,872,947)	(341,893)	79,276	(7,135,564)
Net capital assets being depreciated	4,909,301	(77,873)	(33,568)	4,797,860
Capital assets, net	$ 6,643,945	$ 13,602,513	$ (33,568)	$ 20,212,890

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE C: CAPITAL ASSETS - CONTINUED

The current year depreciation expense of $341,893 has been adjusted by $33,568 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Amounts Due within One Year
2016 School Building and Site Bonds	$ 20,505,000	$ -	$ (315,000)	$ 20,190,000	$ 345,000
Capitalized bond premium	2,879,480	-	(99,292)	2,780,188	99,292
Compensated absences	190,021	32,453	(28,637)	193,837	29,076
	$ 23,574,501	$ 32,453	$ (442,929)	$ 23,164,025	$ 473,368

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

$20,505,000 2016 Construction Project Bonds dated July 12, 2016, due in annual installments ranging from $345,000 to $1,190,000 through May 1, 2046, with interest ranging from 4.00 to 5.00 percent, payable semi-annually.	$ 20,190,000

Compensated Absences - In recognition of services to the District, a severance payment is made to eligible employees according to their respective employment contracts.

A summary of the calculated amounts of compensated absences related to severance pay and related payroll taxes as of June 30, 2018, which have been recorded in the district-wide financial statements, is as follows:

	Vested Employees	Nonvested Employees	Total
Compensated absences	$ 128,572	$ 51,491	$ 180,063
Payroll taxes	9,836	3,938	13,774
	$ 138,408	$ 55,429	$ 193,837

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the long-term debt are as follows:

Year Ending June 30,	General Obligation Debt Principal	General Obligation Debt Interest
2019	$ 345,000	$ 887,900
2020	375,000	874,100
2021	395,000	859,100
2022	415,000	843,300
2023	430,000	826,700
2024-2028	2,500,000	3,810,000
2029-2033	3,190,000	3,119,750
2034-2038	4,085,000	2,243,800
2039-2043	4,990,000	1,306,800
2044-2046	3,465,000	280,200
	$ 20,190,000	$ 15,051,650

NOTE E: SHORT-TERM NOTES

On August 23, 2017, the District issued short-term State School Aid Anticipation Notes in the amount of $1,400,000 for the purpose of funding operating expenditures until the 2018 State Aid payments resumed. These short-term notes, including $11,914 in interest, were paid in full during fiscal year 2018.

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2018, are as follows:

Due to nonmajor governmental funds from:	
General Fund	$ 20,666

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE G: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental funds	$ 15,527
Transfers to 2016 Construction Project Fund	
Nonmajor governmental funds	$ 29,424

NOTE G: INTERFUND TRANSFERS - CONTINUED

The transfers from the nonmajor governmental funds to the General Fund and 2016 Construction Project Fund was for reimbursement of current year operating costs.

NOTE H: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler and machinery, property, fleet, liability, employee dishonesty, data breach, in-land marine, crime, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required in any of the past three (3) fiscal years.

The District also participates in a pool, the SEG Self-Insurer Workers' Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required in any of the past three (3) fiscal years.

NOTE I: CONTINGENT LIABILITIES

The District participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The periodic program compliance audits of many of the programs have not yet been completed or final resolution has not been received. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (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 the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www://michigan.gov/mpsers-cafr.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian of the system.

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS - CONTINUED

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPSERS is as follows:

Plan Name	Plan Type	Plan Status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension 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. The System also provides disability and survivor benefits to DB plan members.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS - CONTINUED

Pension Reform 2012 - continued

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1: Members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2: Members voluntarily elected to increase their contribution to the pension fund as stated in Potion 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transient date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3: Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4: Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 199% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS - CONTINUED

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefits Provided - Other Postemployment Benefit (OPEB)

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Regular Retirement (No Reduction Factor for Age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS - CONTINUED

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System 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 and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 22-year period for fiscal 2017.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension	Other Postemployment Benefit
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately $1,752,639, with $1,731,838 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately $393,378, with $372,945 specifically for the Defined Benefit Plan.

These amounts, for both pension and OPEB benefit, include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

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

Pension Liabilities

At June 30, 2018, the District reported a liability of $16,163,257 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS - CONTINUED

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

Pension Liabilities - continued

At September 30, 2017, the District's proportion was 0.06237208 percent.

MPSERS (Plan) Non-University Employers	September 30, 2017
Total Pension Liability	$ 72,407,218,688
Plan Fiduciary Net Position	46,492,967,561
Net Pension Liability	25,914,251,127
Proportionate Share	0.06237208%
Net Pension Liability for the District	$ 16,163,257

For the year ended June 30, 2018, the District recognized pension expense of $1,663,323.

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 263,623	$ 161,709
Differences between expected and actual experience	140,470	79,310
Changes of assumptions	1,770,813	-
Net differences between projected and actual plan investment earnings	-	772,710
State aid related to pensions	-	792,976
Reporting unit's contributions subsequent to the measurement date	1,538,023	-
	$ 3,712,929	$ 1,806,705

$1,538,023, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year. $792,976 reported as deferred inflows of resources under the caption "State aid related to pensions" will be recognized as an increase to State Aid revenue during the year ended June 30, 2019.

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS - CONTINUED

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

Pension Liabilities - continued

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 Ending September 30,	Amount
2018	$ 282,436
2019	570,142
2020	304,064
2021	4,535

Defined Contribution Pension Plan

Benefit provisions of MPSERS also requires the District to contribute to a defined contribution tax-deferred investment account for all eligible employees. The District is required to match 50% of an employee's contributions up to 1% of an employee's salary. The retirement benefits are determined by the final average compensation and years of service with disability and survivor benefits available to members. The District contribution for the year ended June 30, 2018, was $20,801.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB Liabilities

At June 30, 2018, the District reported a liability of $5,525,956 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.06240160 percent.

MPSERS (Plan) Non-University Employers	September 30, 2017
Total Other Postemployment Benefit Liability	$ 13,920,945,991
Plan Fiduciary Net Position	5,065,474,936
Net Other Postemployment Benefit Liability	8,855,471,055
Proportionate Share	0.06240160%
Net Other Postemployment Benefit Liability for the District	$ 5,525,956

For the year ended June 30, 2018, the District recognized OPEB expense of $369,659.

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS - CONTINUED

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

OPEB Liabilities - continued

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 181	$ -
Differences between expected and actual experience	-	58,835
Net differences between projected and actual plan investment earnings	-	127,982
Reporting unit's contributions subsequent to the measurement date	309,014	-
	$ 309,195	$ 186,817

$309,014, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending September 30,	Amount
2018	$ (45,104)
2019	(45,104)
2020	(45,104)
2021	(45,104)
2022	(6,220)

Defined Contribution OPEB Plan

Benefit provisions of MPSERS also requires the District to contribute to a defined contribution tax-deferred investment account for all eligible employees. The District is required to match 50% of an employee's contributions up to 1% of an employee's salary. The retirement benefits are determined by the final average compensation and years of service with disability and survivor benefits available to members. The District contribution for the year ended June 30, 2018, was $20,433.

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS - CONTINUED

Actuarial Assumptions

Investment rate of return for Pension: 7.5% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus Plan).

Investment rate of return for OPEB: 7.5% a year, compounded annually net of investment and administrative expenses.

Salary increases: The rate of pay increase used for individual members is 3.5%.

Inflation: 3.0%

Mortality assumptions: RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB (for men, 80% of the table rates were used and for women, 70% of the table rates were used).

Experience Study: The annual actuarial valuation report of the System used for these statements is dated September 30, 2016. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments: The pension rate was 7.5% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.5%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension 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.

Cost of Living Pension Adjustments: 3.0% annual non-compounded for MIP members.

Healthcare Cost Trend Rate for Other Postemployment Benefit: 7.5% for year one and graded to 3.5% to year twelve.

Additional Assumptions for Other Postemployment Benefit Only: Applies to individuals hired before September 4, 2012:

Opt Out Assumption - 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage - 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.

Coverage Election at Retirement - 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS - CONTINUED

Actuarial Assumptions - continued

The target asset allocation at September 30, 2017 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
Private Equity Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	(0.1)%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	(0.9)%
	100.0%	

*Long term rate of return are net of administrative expenses and 2.3% inflation.

Pension Discount rate: The discount rate used to measure the total pension liability was 7.5% (7.0% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that plan members contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB Discount Rate: The discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. 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 school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was project to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for Pension Plus Plan), as well as what the District'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 than the current rate:

	Pension		
	1% Decrease (6.5% / 6.0%)	Discount Rate (7.5% / 7.0%)	1% Increase (8.5% / 8.0%)
District's proportionate share of the net pension liability	$ 21,055,348	$ 16,163,257	$ 12,044,428

NOTE J: RETIREMENT AND POSTEMPLOYMENT BENEFITS - CONTINUED

Actuarial Assumptions - continued

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net other postemployment benefit liability	$ 6,472,491	$ 5,525,956	$ 4,722,643

Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the District's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the District's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare Cost Trend Rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
District's proportionate share of the net other postemployment benefit liability	$ 4,679,742	$ 5,525,956	$ 6,486,773

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2017 Comprehensive Annual Financial Report.

Payable to the Pension and OPEB Plan: At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

Other Information

On December 20, 2017, the Michigan Supreme Court affirmed that Public Act 75 of 2010 is unconstitutional as it substantially impaired the employee's employment contracts by involuntarily reducing the employee's wages by 3%. As a result, the funds collected pursuant to Public Act 75 before the effective date of Public Act 300 of 2012, must be refunded to the employees in accordance with the Michigan Court of Clams judgment on the aforementioned court case. Effective September 30, 2017, the 3% contribution collected under Public Act 75, which amounted to approximately $554 million (including interest), was posted as a liability on the plan's CAFR report.

NOTE K: BONDED CONSTRUCTION AND SINKING FUNDS

The Capital Projects Funds of the District include the capital project activities which are funded by the local sinking fund millage and the 2016 Construction Project Fund. The Sinking Fund capital project fund records capital project activities funded with sinking fund millage. For the expenditures recorded within the Capital Projects Sinking Fund the District has complied with the applicable provisions of Section 1212 of the Revised School Code. The 2016 Construction Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For the expenditures recorded within the 2016 Construction Project Fund the District has complied with the applicable provisions of Section 1351 (a) of the Revised School Code.

NOTE L: CONTRACTUAL COMMITMENTS

The District is obligated for contracts relating to bond and sinking fund projects in the amount of $6,001,744. These commitments are not susceptible to accrual. Accordingly, no liabilities have been recorded in the basic financial statements. The District's remaining bond proceeds and sinking fund tax revenue (i.e., fund balance) along with future anticipated tax revenue and investment earnings are expected to be sufficient to cover these commitments.

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

For committed fund balance, Lake City Area Schools' highest level of decision-making authority is the Board of Education. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is through a formal action and approval by the Board of Education and committed fund balances do not lapse at year end.

For assigned fund balance, the School Board is authorized to assign amounts to a specific purpose. The authorization is delegated by the Board of Education to the District's Superintendent for purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed by committed, assigned, and lastly unassigned.

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

Fund Balance Classification Policies and Procedures

For the classification of fund balances, Lake City Area Schools considers restricted amounts to have been spent first when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, Lake City Area Schools considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE N: NEW ACCOUNTING STANDARDS

For the year ended June 30, 2018, the District implemented the following new pronouncements: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Summary

GASB Statement No. 75 requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. 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 (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

The restatement of the beginning of the year net position is as follows:

	Governmental Activities
Net position as previously stated July 1, 2017	$ (6,013,979)
Adoption of GASB Statement 75	
Net other postemployment benefit liability	(5,828,659)
Deferred outflows of resources related to subsequent other post employment benefits contributions	411,133
Net position as restated July 1, 2017	$(11,431,505)

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*, was implemented during the year. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE O: SUBSEQUENT EVENT

On August 29, 2018, the District issued a State School Aid Anticipation Note in the amount of $1,400,000 for the purpose of funding operating expenditures until the fiscal year 2019 State Aid payments begin. This short-term note will be paid off when the District accumulates sufficient State Aid revenues at the end of next fiscal year. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

NOTE P: UPCOMING ACCOUNTING PRONOUNCEMENTS

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes guidance regarding what constitutes fiduciary activities for accounting and financial reporting purposes, the recognition of liabilities to beneficiaries, and how fiduciary activities should be reported. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019-2020 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. The statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2018-2019 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Lake City Area Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	$ 2,920,180	$ 2,971,269	$ 2,957,939	$ (13,330)
State sources	7,412,760	7,887,479	7,911,901	24,422
Federal sources	355,780	519,606	451,844	(67,762)
Interdistrict sources	232,500	211,698	209,039	(2,659)
TOTAL REVENUES	10,921,220	11,590,052	11,530,723	(59,329)
EXPENDITURES				
INSTRUCTION				
Basic programs				
Elementary	2,486,570	2,644,370	2,568,351	76,019
Middle School	1,451,260	1,418,970	1,379,972	38,998
High School	1,911,395	1,960,564	1,885,849	74,715
Summer School	21,650	30,701	25,308	5,393
Total basic programs	5,870,875	6,054,605	5,859,480	195,125
Added needs				
Special education	889,250	816,525	778,730	37,795
Compensatory education	247,910	340,838	303,661	37,177
Total added needs	1,137,160	1,157,363	1,082,391	74,972
TOTAL INSTRUCTION	7,008,035	7,211,968	6,941,871	270,097
SUPPORTING SERVICES				
Student services				
Guidance services	341,960	345,460	331,596	13,864
Social work services	72,720	76,265	75,955	310
Other pupil support	31,705	55,005	50,558	4,447
Total student services	446,385	476,730	458,109	18,621
Instructional staff				
Improvement of instruction	209,393	270,474	229,782	40,692
Media services	179,975	185,830	170,655	15,175
Total instructional staff	389,368	456,304	400,437	55,867
General administration				
Board of education	67,115	67,960	52,006	15,954
Executive administration	316,435	333,335	326,797	6,538
Total general administration	383,550	401,295	378,803	22,492

Lake City Area Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES - CONTINUED				
SUPPORTING SERVICES - CONTINUED				
School administration	$ 707,425	$ 820,155	$ 787,738	$ 32,417
Business				
Fiscal services	158,300	169,405	156,701	12,704
Other business services	38,060	38,680	34,829	3,851
Total business	196,360	208,085	191,530	16,555
Operations and maintenance	1,010,330	1,143,525	1,069,791	73,734
Transportation	664,305	674,847	653,378	21,469
Other supporting services				
Athletics	201,813	211,655	202,729	8,926
Central services	191,850	202,335	191,792	10,543
Community activities	110,061	97,821	84,792	13,029
Total other supporting services	503,724	511,811	479,313	32,498
TOTAL SUPPORTING SERVICES	4,301,447	4,692,752	4,419,099	273,653
TOTAL EXPENDITURES	11,309,482	11,904,720	11,360,970	543,750
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(388,262)	(314,668)	169,753	484,421
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	22,000	17,000	15,527	(1,473)
Transfers to other funds	(6,100)	-	-	-0-
TOTAL OTHER FINANCING SOURCES (USES)	15,900	17,000	15,527	(1,473)
NET CHANGE IN FUND BALANCE	(372,362)	(297,668)	185,280	482,948
Fund balance, beginning of year	1,439,739	1,439,739	1,439,739	-0-
Fund balance, end of year	$ 1,067,377	$ 1,142,071	$ 1,625,019	$ 482,948

Lake City Area Schools

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Michigan Public School Employee Retirement Plan

Last Four Measurement Dates (Ultimately ten years will be displayed)
(Amounts were determined as of 9/30 of each year)

	2014	2015	2016	2017
Lake City Area Schools' proportion of net pension liability (%)	0.06248%	0.06137%	0.06096%	0.06237%
Lake City Area Schools' proportionate share of net pension liability	$ 13,761,827	$ 14,990,784	$ 15,208,647	$ 16,163,257
Lake City Area Schools' covered employee payroll	$ 5,492,224	$ 4,870,308	$ 5,162,361	$ 5,289,649
Lake City Area Schools' proportionate share of net pension liability as a percentage of its covered employee payroll	250.57%	307.80%	294.61%	305.56%
Plan fiduciary net position as a percentage of total pension liability	66.20%	63.17%	63.27%	64.21%

Lake City Area Schools

SCHEDULE OF PENSION CONTRIBUTIONS

Michigan Public School Employee Retirement Plan

Last Four Fiscal Years (Ultimately ten fiscal years will be displayed)
(Amounts were determined as of 6/30 of each fiscal year)

	2015	2016	2017	2018
Statutorily required contributions	$ 1,133,325	$ 1,349,031	$ 1,397,282	$ 1,734,140
Contributions in relation to statutorily required contributions	1,133,325	1,349,031	1,397,282	1,734,140
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-
Lake City Area Schools' covered employee payroll	$ 5,093,721	$ 5,084,131	$ 5,396,951	$ 5,326,237
Contributions as a percentage of covered employee payroll	22.25%	26.53%	25.89%	32.56%

Lake City Area Schools

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY

Michigan Public School Employee Retirement Plan

Last Measurement Date (Ultimately ten years will be displayed)
(Amounts were determined as of 9/30 of each year)

	2017
Lake City Area Schools' proportion of net OPEB liability (%)	0.06240%
Lake City Area Schools' proportionate share of net OPEB liability	$ 5,525,956
Lake City Area Schools' covered employee payroll	5,289,649
Lake City Area Schools' proportionate share of net OPEB liability as a percentage of its covered employee payroll	104.47%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%

Lake City Area Schools

SCHEDULE OF OPEB CONTRIBUTIONS

Michigan Public School Employee Retirement Plan

Last Fiscal Year (Ultimately ten fiscal years will be displayed)
(Amounts were determined as of 6/30 of each fiscal year)

	2018
Statutorily required contributions	$ 372,945
Contributions in relation to statutorily required contributions	372,945
Contribution deficiency (excess)	$ -0-
Lake City Area Schools' covered employee payroll	$ 5,326,237
Contributions as a percentage of covered employee payroll	7.00%

NOTE A: MICHIGAN PUBLIC SCHOOL EMPLOYEE RETIREMENT PLAN

Changes of benefit terms: There were no changes of benefit terms in plan year 2017.

Changes of assumptions: There were no changes of benefit assumptions in plan year 2017.

OTHER SUPPLEMENTARY INFORMATION

Lake City Area Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2018

	Special Revenue Fund	Debt Service Fund	Capital
	Food Service	2016 Building and Site Bonds	General Capital Projects
ASSETS			
Cash and cash equivalents	$ 213,888	$ 490,344	$ 189,408
Due from other funds	20,666	-	-
Inventories	11,387	-	-
TOTAL ASSETS	$ 245,941	$ 490,344	$ 189,408
LIABILITIES			
Accounts payable	$ 11,127	$ -	$ -
FUND BALANCES			
Restricted			
Food and nutrition	234,814	-	-
Debt service	-	490,344	-
Capital projects	-	-	-
Committed			
Capital projects	-	-	189,408
TOTAL FUND BALANCES	234,814	490,344	189,408
TOTAL LIABILITIES AND FUND BALANCES	$ 245,941	$ 490,344	$ 189,408

Projects Funds		
Capital Projects Sinking Fund	Legacy Fund	Total
$ 504,157	$ 83,394	$ 1,481,191
-	-	20,666
-	-	11,387
$ 504,157	$ 83,394	$ 1,513,244
$ -	$ -	$ 11,127
-	-	234,814
-	-	490,344
504,157	83,394	587,551
-	-	189,408
504,157	83,394	1,502,117
$ 504,157	$ 83,394	$ 1,513,244

Lake City Area Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2018

	Special Revenue Fund	Debt Service Fund	Capital
	Food Service	2016 Building and Site Bonds	General Capital Projects
REVENUES			
Local sources	$ 141,408	$ 1,186,545	$ 11,615
State sources	28,911	-	-
Federal sources	508,579	-	-
TOTAL REVENUES	678,898	1,186,545	11,615
EXPENDITURES			
Current			
Food service	601,011	-	-
Debt service	-	1,217,247	-
Capital outlay	-	-	33,742
TOTAL EXPENDITURES	601,011	1,217,247	33,742
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	77,887	(30,702)	(22,127)
OTHER FINANCING (USES)			
Transfers to other funds	(44,951)	-	-
NET CHANGE IN FUND BALANCES	32,936	(30,702)	(22,127)
Fund balances, beginning of year	201,878	521,046	211,535
Fund balances, end of year	$ 234,814	$ 490,344	$ 189,408

Projects Funds		
Capital Projects Sinking Fund	Legacy Fund	Total
$ 345,431	$ 5,541	$ 1,690,540
-	-	28,911
-	-	508,579
345,431	5,541	2,228,030
-	-	601,011
-	-	1,217,247
193,513	-	227,255
193,513	-0-	2,045,513
151,918	5,541	182,517
-	-	(44,951)
151,918	5,541	137,566
352,239	77,853	1,364,551
$ 504,157	$ 83,394	$ 1,502,117