

**LAKE CITY AREA SCHOOLS**

**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and**  
**additional supplementary information)**

**YEAR ENDED JUNE 30, 2019**

## TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT.....   | 1-3         |
| MANAGEMENT'S DISCUSSION AND ANALYSIS .....  | 4-10        |
| BASIC FINANCIAL STATEMENTS.....   | 11          |
| Government-wide Financial Statements  |             |
| Statement of Net Position.....  | 12          |
| Statement of Activities.....  | 13          |
| Fund Financial Statements   |             |
| Balance Sheet - Governmental Funds.....   | 14          |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....  | 15          |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....  | 16          |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | 17          |
| Fiduciary Funds   |             |
| Statement of Fiduciary Net Position.....  | 18          |
| Statement of Changes in Fiduciary Net Position .....  | 19          |
| Notes to Financial Statements .....   | 20-45       |
| REQUIRED SUPPLEMENTARY INFORMATION .....  | 46          |
| Budgetary Comparison Schedule - General Fund .....  | 47-48       |
| Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability.....  | 49          |
| Schedule of the Reporting Unit's Pension Contributions.....   | 50          |
| Schedule of the Reporting Unit's Proportionate Share of the Net OPEB Liability.....   | 51          |
| Schedule of the Reporting Unit's OPEB Contributions.....  | 52          |
| Notes to Required Supplementary Information .....   | 53          |
| ADDITIONAL SUPPLEMENTARY INFORMATION .....  | 54          |
| Nonmajor Governmental Fund Types  |             |
| Combining Balance Sheet.....  | 55          |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances .....   | 56          |
| Schedule of Expenditures of Federal Awards .....  | 57          |
| Notes to Schedule of Expenditures of Federal Awards.....  | 58          |

**TABLE OF CONTENTS**  
**(continued)**

Page

|  |       |
|--|-------|
| INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL<br>REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN<br>AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE<br>WITH <i>GOVERNMENT AUDITING STANDARDS</i> ..... | 59-60 |
| INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR<br>PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE<br>REQUIRED BY THE UNIFORM GUIDANCE .....   | 61-62 |
| Schedule of Findings and Questioned Costs .....  | 63    |
| Schedule of Prior Year Audit Findings and Questioned Costs .....   | 64    |
| Other Financial Information.....   | 65    |
| INDEPENDENT AUDITOR'S REPORT .....   | 66-67 |
| 2016 Construction Project Fund   |       |
| Balance Sheet.....   | 68    |
| Statement of Revenues, Expenditures, and Changes in Fund Balance.....  | 69    |

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Lake City Area Schools

### **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, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Lake City Area Schools' 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, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, 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 Lake City Area Schools basic financial statements. The additional supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary 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 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 additional supplementary information is fairly stated, in all material respects, in relation to the 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 23, 2019, on our consideration of Lake City Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Lake City Area Schools' 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 Lake City Area Schools' internal control over financial reporting and compliance.

*Maney Costeiran PC*

September 23, 2019

**LAKE CITY AREA SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2019**

This section of Lake City Area Schools' annual report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

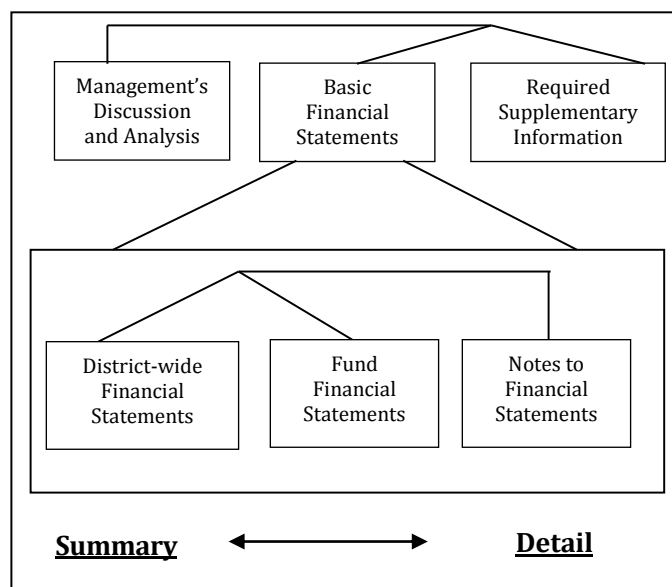
Lake City Area Schools, a K-12 district, issues its financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of accounting principles generally accepted in the United States of America, is intended to be the Lake City Area Schools' administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2019.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the District-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

**Figure A-1  
Organization of Lake City Area Schools'  
Annual Financial Report**



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

| <b>Figure A-2</b><br><b>Major Features of District-wide and Fund Financial Statements</b> |  |   |   |
|---|--|---|---|
|   | District-wide<br>Statements  | Fund Financial Statements   |   |
|   |  | Governmental Funds  | Fiduciary Funds   |
| Scope   | Entire District<br>(except fiduciary funds)  | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance  | Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies       |
| Required financial statements   | <ul style="list-style-type: none"> <li>* Statement of net position</li> <li>* Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>* Balance sheet</li> <li>* Statement of revenues, expenditures and changes in fund balances</li> </ul>                                     | <ul style="list-style-type: none"> <li>* Statement of fiduciary net position</li> <li>* Statement of changes in fiduciary net position</li> </ul> |
| Accounting basis and measurement focus  | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus   | Accrual accounting and economic resources focus   |
| Type of asset/liability information   | All assets and liabilities, both financial and capital, short-term and long-term                                 | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included                     | All assets and liabilities, both short-term and long-term, FPS's funds do not currently contain capital assets, although they can                 |
| Type of inflow/outflow information  | All revenues and expenses during year, regardless of when cash is received or paid                               | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable | All additions and deductions during the year, regardless of when cash is received or paid   |

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

## DISTRICT-WIDE FINANCIAL STATEMENTS

All of the District's assets, deferred outflows of resources, deferred inflows of resources, and liabilities are reported in the District-wide financial statements and are on a full accrual basis that is similar to those used by private-sector companies. For example, capital assets and long-term obligations of the District are reported in the statement of net position of the District-wide financial statements. The difference between the District's assets, deferred outflows of resources, deferred inflows of resources and liabilities (net position) are one way to measure the District's financial position. However, you need to consider other non-financial factors such as changes in the District's property tax base and the condition and age of the school buildings and other facilities.

The current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Most of the District's basic services are included here, such as regular and special education, transportation and administration. These activities are financed through the state foundation grant, property taxes and various federal and state programs.



The District's combined net position at the beginning of the fiscal year was (\$11,013,659), and on June 30, 2019 it is (\$11,083,057) which represents a decrease of \$69,398 as recorded in the statement of activities.

## FUND FINANCIAL STATEMENTS

The fund financial statements are reported on a modified accrual basis and consist of governmental funds and fiduciary funds. Governmental funds include most of the District's basic services which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending on future District programs.

Fiduciary funds are for assets that belong to others, such as the scholarship fund and the student activities fund where the District is the trustee or fiduciary. The District cannot use these assets to finance its operations, but it is responsible to ensure that these funds are used for their intended purposes. Only measurable and currently available funds are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. Some of these funds are established by State law and by bond covenants while others can be established for the District to control and manage money for a particular purpose such as school lunch and athletics.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net position** - The District's combined net deficit increased as of June 30, 2019.

| <b>Table A-3</b>                            |                        |                        |
|---|------------------------|------------------------|
| <b>Lake City Area Schools' Net Position</b> |                        |                        |
|   | <b>2019</b>            | <b>2018</b>            |
| Current and other assets                    | \$ 6,267,386           | \$ 15,364,349          |
| Capital assets                              | 27,802,422             | 20,212,890             |
| <b>Total assets</b>                         | <b>34,069,808</b>      | <b>35,577,239</b>      |
| Deferred outflows of resources              | 7,078,497              | 4,022,124              |
| Noncurrent liabilities outstanding          | 22,225,990             | 22,690,657             |
| Net pension liability                       | 18,753,372             | 16,163,257             |
| Net other postemployment benefits liability | 4,942,689              | 5,525,956              |
| Other liabilities                           | 2,983,861              | 4,239,630              |
| <b>Total liabilities</b>                    | <b>48,905,912</b>      | <b>48,619,500</b>      |
| Deferred inflows of resources               | 3,325,450              | 1,993,522              |
| <b>Net position</b>                         |                        |                        |
| Net investment in capital assets            | 6,406,155              | 5,430,768              |
| Restricted for debt service                 | 341,771                | 342,361                |
| Restricted for food service                 | -                      | 53,371                 |
| Restricted for capital projects             | 856,300                | 1,018,419              |
| Unrestricted                                | (18,687,283)           | (17,858,578)           |
| <b>Total net position</b>                   | <b>\$ (11,083,057)</b> | <b>\$ (11,013,659)</b> |

| <b>Table A-4</b>                                       |                    |                   |
|--|--------------------|-------------------|
| <b>Changes in Lake City Area Schools' Net Position</b> |                    |                   |
|  | <u>2019</u>        | <u>2018</u>       |
| Revenues   |                    |                   |
| Program revenues                                       |                    |                   |
| Charges for services                                   | \$ 199,999         | \$ 207,953        |
| Federal and state categorical grants                   | 2,852,434          | 2,548,820         |
| General revenues                                       |                    |                   |
| Property taxes   | 4,447,249          | 4,256,158         |
| Investment earnings                                    | 151,931            | 270,727           |
| State aid - unrestricted                               | 6,156,116          | 6,092,566         |
| Intermediate sources                                   | 208,648            | 209,039           |
| Other  | 138,743            | 111,552           |
| Total revenues   | <u>14,155,120</u>  | <u>13,696,815</u> |
| Expenses   |                    |                   |
| Instruction  | 7,650,344          | 7,022,121         |
| Support services                                       | 4,400,297          | 4,472,904         |
| Food services  | 597,190            | 607,628           |
| Interest on long-term debt                             | 788,100            | 800,855           |
| Unallocated depreciation                               | 788,587            | 375,461           |
| Total expenses   | <u>14,224,518</u>  | <u>13,278,969</u> |
| Change in net position                                 | <u>\$ (69,398)</u> | <u>\$ 417,846</u> |

#### **STATE OF MICHIGAN UNRESTRICTED AID (State Foundation Grant)**

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

- a. The Michigan State Aid Act per student foundation allowance which was established under Proposal A has increased from \$4,754 per student in 1995 to \$7,871 per student in 2018-19. The per student State foundation allowance increased by \$240 from 2017-18. This increase followed the previous year increase in foundation allowance paid to the districts from \$7,511 in 2016-17 to \$7,631 in 2017-18.

#### **Student Enrollment**

Student enrollment decreased from 1,180 in 2017-18 to 1,165 in 2018-19. For the 2018-19 school year it is hopeful that enrollment will be the same as 2018-19 or up slightly; as of the end of July, enrollment for 2019-20 has increased.

## GOVERNMENTAL FUNDS

### Results of Operations:

For the fiscal years ended June 30, 2019 and 2018, the total fund-level results of operations were:

|                           | 2019                 | 2018                 |
|---------------------------|----------------------|----------------------|
| <b>REVENUES</b>           |                      |                      |
| Local sources             | \$ 4,986,799         | \$ 4,894,762         |
| State sources             | 7,935,106            | 7,940,812            |
| Federal sources           | 918,956              | 960,423              |
| Intermediate sources      | 208,648              | 209,039              |
| <b>TOTAL REVENUES</b>     | <b>\$ 14,049,509</b> | <b>\$ 14,005,036</b> |
| <b>EXPENDITURES</b>       |                      |                      |
| Current                   |                      |                      |
| Instruction               | \$ 7,372,281         | \$ 6,941,871         |
| Supporting services       | 4,812,002            | 4,419,099            |
| Food service activities   | 733,455              | 601,011              |
| Debt service              | 1,234,692            | 1,217,247            |
| Capital outlay            | 7,708,875            | 13,935,555           |
| <b>TOTAL EXPENDITURES</b> | <b>\$ 21,861,305</b> | <b>\$ 27,114,783</b> |

The following summarizes the revenues and expenses by comparing fiscal year 2019 to 2018 as shown in the previous results of operations.

- Property tax revenue increased due to taxable values increasing slightly.
- State sources decreased due to decreases in enrollment.
- Federal sources showed a decrease due to decreases in Title I and the Child Nutrition Cluster.
- Total expenditures decreased from \$27.1 million in 2018 to \$21.9 million, a decrease of \$5.2 million. This decrease is primarily due to the completion of the bond construction project.

## GENERAL FUND AND BUDGET HIGHLIGHTS

### Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The original 2018-19 budget was approved on June 13, 2018.

The 2018-19 budget was revised throughout the fiscal year, with the final revision approved on June 12, 2019. The final budget revision anticipated higher revenues and expenses than was expected in June 2018 when the original budget was approved. The increase in revenues was a result of receiving more local, state and federal funding than anticipated. The increase in expenditures was the result of the additional high school instruction and operations and maintenance expenditures incurred during the current year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2019, the District had invested \$27.8 million in a broad range of capital assets.

| <b>Table A-5</b><br><b>Lake City Area Schools' Capital Assets</b> |                      |                          |                      |                      |
|---|----------------------|--------------------------|----------------------|----------------------|
|   | 2019                 |                          | 2018                 |                      |
|   | Cost                 | Accumulated Depreciation | Net Book Value       | Net Book Value       |
| Land  | \$ 274,504           | \$ -                     | \$ 274,504           | \$ 274,504           |
| Construction in progress  | -                    | -                        | -                    | 15,140,526           |
| Buildings and additions   | 28,808,001           | (3,177,655)              | 25,630,346           | 4,368,014            |
| Equipment, furniture, and other assets                            | 3,482,800            | (1,613,451)              | 1,869,349            | 374,088              |
| Vehicles  | 73,877               | (45,654)                 | 28,223               | 55,758               |
| Total net position  | <u>\$ 32,639,182</u> | <u>\$ (4,836,760)</u>    | <u>\$ 27,802,422</u> | <u>\$ 20,212,890</u> |

### LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. See Note 6 for more information.

| <b>Table A-6</b><br><b>Lake City Area Schools' Outstanding Long-Term Debt</b> |                      |                      |
|---|----------------------|----------------------|
|   | 2019                 | 2018                 |
| 2016 Building and Site Bonds  | \$ 19,845,000        | \$ 20,190,000        |
| Premium on bonds  | 2,680,896            | 2,780,188            |
| Compensated absences  | 205,160              | 193,837              |
|   | <u>\$ 22,731,056</u> | <u>\$ 23,164,025</u> |

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

There are several factors that could significantly affect the financial health of the District in the future.

- The American Federation of Teachers (teachers) had its annual wage and benefit opener. This year the Teachers' salaries (steps) were rectified with their years of experience; the contract expires June 2020. In addition, the Lake City Paraprofessional Federation also settled their contract with an impact of \$50,000 increase to salaries between the two groups.
- The 2019-20 General Fund budget was approved by the Board at their June meeting and reflects a stable and proposed increase in student enrollment. It is believed that enrollment will be stable based on upgrades to facilities. The budget also reflects an increase in state aid of \$180 per student; increasing the per pupil amount to \$8,051.
- The District is completing a \$23 million construction project. There were additions to the Elementary School (old middle school) that included doubling the size of the facility and adding a Cafetorium. The Middle School and High School have added an additional Gymnasium/Community Center and office area that have additional costs for technology, security and operations/maintenance costs. Sinking Funds will be utilized to complete additional projects. Completed and future projects include Middle School classroom renovations with updates to lighting and technology, roofing projects at the Middle and High School, and completing upgrades to classrooms at the Elementary building.

## **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, 2019**

|  | Governmental<br>Activities |
|--|----------------------------|
| <b>ASSETS</b>  |                            |
| Current assets   |                            |
| Cash and cash equivalents  | \$ 2,688,952               |
| Investments  | 2,038,283                  |
| Due from other governmental units  | 1,521,923                  |
| Inventories  | 12,028                     |
| Prepays  | 6,200                      |
|  | <hr/>                      |
| Total current assets   | 6,267,386                  |
| Noncurrent assets  |                            |
| Capital assets not being depreciated                                       | 274,504                    |
| Capital assets, net of accumulated depreciation                            | 27,527,918                 |
|  | <hr/>                      |
| Total noncurrent assets  | 27,802,422                 |
|  | <hr/>                      |
| TOTAL ASSETS   | 34,069,808                 |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                      |                            |
| Related to pensions  | 6,149,788                  |
| Related to other postemployment benefits                                   | 928,709                    |
|  | <hr/>                      |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES                                       | 7,078,497                  |
| <b>LIABILITIES</b>   |                            |
| Current liabilities  |                            |
| Accounts payable   | 1,231,561                  |
| Accrued payroll  | 598,422                    |
| Accrued retirement   | 283,881                    |
| Other accrued liabilities  | 214,585                    |
| Accrued interest payable   | 145,683                    |
| Unearned revenue   | 4,663                      |
| Current portion of compensated absences                                    | 30,774                     |
| Current portion of long-term debt  | 474,292                    |
|  | <hr/>                      |
| Total current liabilities  | 2,983,861                  |
| Noncurrent liabilities   |                            |
| Noncurrent portion of compensated absences                                 | 174,386                    |
| Net pension liability  | 18,753,372                 |
| Net other postemployment benefits liability                                | 4,942,689                  |
| Noncurrent portion of long-term debt                                       | 22,051,604                 |
|  | <hr/>                      |
| Total noncurrent liabilities   | 45,922,051                 |
|  | <hr/>                      |
| TOTAL LIABILITIES  | 48,905,912                 |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                       |                            |
| Related to pensions  | 1,510,116                  |
| Related to other postemployment benefits                                   | 1,127,969                  |
| Related to state aid funding for pension and other postemployment benefits | 687,365                    |
|  | <hr/>                      |
| TOTAL DEFERRED INFLOWS OF RESOURCES  | 3,325,450                  |
| <b>NET POSITION</b>  |                            |
| Net investment in capital assets   | 6,406,155                  |
| Restricted for debt service  | 341,771                    |
| Restricted for capital projects  | 856,300                    |
| Unrestricted   | (18,687,283)               |
|  | <hr/>                      |
| TOTAL NET POSITION   | \$ (11,083,057)            |
|  | <hr/>                      |

See notes to financial statements.

**LAKE CITY AREA SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

| Functions/Programs                       | Expenses             | Program Revenues        |  |  | Governmental<br>Activities                                 |
|--|----------------------|-------------------------|--|--|--|
|  |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position |
| Governmental activities                  |                      |                         |  |  |  |
| Instruction                              | \$ 7,650,344         | \$ -                    | \$ 1,928,121                             | \$ -                                   | \$ (5,722,223)   |
| Supporting services                      | 4,400,297            | 63,000                  | 439,900                                  | 3,450                                  | (3,893,947)  |
| Food service                             | 597,190              | 136,999                 | 480,963                                  | -                                      | 20,772   |
| Interest and costs on long-term debt     | 788,100              | -                       | -  | -                                      | (788,100)  |
| Unallocated depreciation                 | 788,587              | -                       | -  | -                                      | (788,587)  |
| Total governmental activities            | <u>\$ 14,224,518</u> | <u>\$ 199,999</u>       | <u>\$ 2,848,984</u>                      | <u>\$ 3,450</u>                        | <u>(11,172,085)</u>  |
| General revenues                         |                      |                         |  |  |  |
| Property taxes                           |                      |                         |  |  | 4,447,249  |
| State school aid - unrestricted          |                      |                         |  |  | 6,156,116  |
| Investment earnings                      |                      |                         |  |  | 151,931  |
| Intermediate School District allocations |                      |                         |  |  | 208,648  |
| Miscellaneous                            |                      |                         |  |  | <u>138,743</u>   |
| Total general revenues                   |                      |                         |  |  | <u>11,102,687</u>  |
| CHANGE IN NET POSITION                   |                      |                         |  |  | (69,398)   |
| NET POSITION, beginning of year          |                      |                         |  |  | <u>(11,013,659)</u>  |
| NET POSITION, end of year                |                      |                         |  |  | <u>\$ (11,083,057)</u>                                     |

See notes to financial statements.



**LAKE CITY AREA SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2019**

|  | General<br>Fund     | 2016<br>Construction<br>Project<br>Fund | Capital<br>Projects<br>Sinking Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|---|-------------------------------------|-----------------------------------|--------------------------------|
| <b>ASSETS</b>                                  |                     |   |                                     |                                   |                                |
| Cash and cash equivalents                      | \$ 408,453          | \$ 805,981                              | \$ 768,548                          | \$ 705,970                        | \$ 2,688,952                   |
| Investments                                    | 545,501             | 1,483,293                               | -                                   | 9,489                             | 2,038,283                      |
| Due from other funds                           | -                   | 9,093                                   | -                                   | 5,443                             | 14,536                         |
| Due from other governmental units              | 1,521,923           | -                                       | -                                   | -                                 | 1,521,923                      |
| Inventories                                    | -                   | -                                       | -                                   | 12,028                            | 12,028                         |
| Prepays  | 6,200               | -                                       | -                                   | -                                 | 6,200                          |
| <b>TOTAL ASSETS</b>                            | <b>\$ 2,482,077</b> | <b>\$ 2,298,367</b>                     | <b>\$ 768,548</b>                   | <b>\$ 732,930</b>                 | <b>\$ 6,281,922</b>            |
| <b>LIABILITIES AND FUND BALANCES</b>           |                     |   |                                     |                                   |                                |
| <b>LIABILITIES</b>                             |                     |   |                                     |                                   |                                |
| Accounts payable                               | \$ 38,709           | \$ 1,168,688                            | \$ -                                | \$ 24,164                         | \$ 1,231,561                   |
| Accrued payroll                                | 598,422             | -                                       | -                                   | -                                 | 598,422                        |
| Accrued retirement                             | 283,881             | -                                       | -                                   | -                                 | 283,881                        |
| Other accrued liabilities                      | 214,585             | -                                       | -                                   | -                                 | 214,585                        |
| Unearned revenue                               | 4,663               | -                                       | -                                   | -                                 | 4,663                          |
| Due to other funds                             | 5,443               | -                                       | -                                   | 9,093                             | 14,536                         |
| <b>TOTAL LIABILITIES</b>                       | <b>1,145,703</b>    | <b>1,168,688</b>                        | <b>-</b>                            | <b>33,257</b>                     | <b>2,347,648</b>               |
| <b>FUND BALANCES</b>                           |                     |   |                                     |                                   |                                |
| Nonspendable                                   |                     |   |                                     |                                   |                                |
| Prepays and inventories                        | 6,200               | -                                       | -                                   | 12,028                            | 18,228                         |
| Restricted for                                 |                     |   |                                     |                                   |                                |
| Food service                                   | -                   | -                                       | -                                   | 100,266                           | 100,266                        |
| Debt service                                   | -                   | -                                       | -                                   | 487,454                           | 487,454                        |
| Capital projects                               | -                   | 1,129,679                               | 768,548                             | 87,702                            | 1,985,929                      |
| Committed                                      |                     |   |                                     |                                   |                                |
| Capital projects                               | -                   | -                                       | -                                   | 12,223                            | 12,223                         |
| Assigned                                       |                     |   |                                     |                                   |                                |
| Subsequent year's expenditures                 | 327,536             | -                                       | -                                   | -                                 | 327,536                        |
| Unassigned                                     | 1,002,638           | -                                       | -                                   | -                                 | 1,002,638                      |
| <b>TOTAL FUND BALANCES</b>                     | <b>1,336,374</b>    | <b>1,129,679</b>                        | <b>768,548</b>                      | <b>699,673</b>                    | <b>3,934,274</b>               |
| <b>TOTAL LIABILITIES<br/>AND FUND BALANCES</b> | <b>\$ 2,482,077</b> | <b>\$ 2,298,367</b>                     | <b>\$ 768,548</b>                   | <b>\$ 732,930</b>                 | <b>\$ 6,281,922</b>            |

See notes to financial statements.

**LAKE CITY AREA SCHOOLS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

**Total fund balance - governmental funds** **\$ 3,934,274**

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

|   |             |
|---|-------------|
| Deferred outflows of resources - related to pensions  | 6,149,788   |
| Deferred inflows of resources - related to pensions   | (1,510,116) |
| Deferred outflows of resources - related to other postemployment benefits                                   | 928,709     |
| Deferred inflows of resources - related to other postemployment benefits                                    | (1,127,969) |
| Deferred inflows of resources - related to state aid funding for pensions and other postemployment benefits | (687,365)   |

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds:

|                               |                    |            |
|-------------------------------|--------------------|------------|
| The cost of capital assets is | \$ 32,639,182      |            |
| Accumulated depreciation is   | <u>(4,836,760)</u> |            |
|                               |                    | 27,802,422 |

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

|   |                    |
|---|--------------------|
| General obligation bonds  | (19,845,000)       |
| Capitalized bond premium  | (2,680,896)        |
| Compensated absences  | (205,160)          |
| Accrued interest payable is not included as a liability in government funds, it is recorded when paid | (145,683)          |
| Net pension liability   | (18,753,372)       |
| Net OPEB liability  | <u>(4,942,689)</u> |

**Net position of governmental activities** **\$ (11,083,057)**

**LAKE CITY AREA SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2019**

|  | General             | 2016<br>Construction<br>Project<br>Fund | Capital<br>Projects<br>Sinking Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|---|-------------------------------------|-----------------------------------|--------------------------------|
| REVENUES   |                     |   |                                     |                                   |                                |
| Local sources  | \$ 3,155,165        | \$ 94,023                               | \$ 357,741                          | \$ 1,379,870                      | \$ 4,986,799                   |
| State sources  | 7,910,057           | -                                       | -                                   | 25,049                            | 7,935,106                      |
| Federal sources  | 463,042             | -                                       | -                                   | 455,914                           | 918,956                        |
| Interdistrict sources  | 208,648             | -                                       | -                                   | -                                 | 208,648                        |
| <b>TOTAL REVENUES</b>  | <b>11,736,912</b>   | <b>94,023</b>                           | <b>357,741</b>                      | <b>1,860,833</b>                  | <b>14,049,509</b>              |
| EXPENDITURES   |                     |   |                                     |                                   |                                |
| Current  |                     |   |                                     |                                   |                                |
| Instruction  | 7,372,281           | -                                       | -                                   | -                                 | 7,372,281                      |
| Supporting services  | 4,812,002           | -                                       | -                                   | -                                 | 4,812,002                      |
| Food service   | -                   | -                                       | -                                   | 733,455                           | 733,455                        |
| Debt service   | -                   | -                                       | -                                   | 1,234,692                         | 1,234,692                      |
| Capital outlay   | -                   | 7,583,278                               | 93,350                              | 32,247                            | 7,708,875                      |
| <b>TOTAL EXPENDITURES</b>                                    | <b>12,184,283</b>   | <b>7,583,278</b>                        | <b>93,350</b>                       | <b>2,000,394</b>                  | <b>21,861,305</b>              |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER (UNDER) EXPENDITURES | (447,371)           | (7,489,255)                             | 264,391                             | (139,561)                         | (7,811,796)                    |
| OTHER FINANCING SOURCES (USES)                               |                     |   |                                     |                                   |                                |
| Transfers from other funds                                   | 158,726             | -                                       | -                                   | -                                 | 158,726                        |
| Transfers to other funds                                     | -                   | -                                       | -                                   | (158,726)                         | (158,726)                      |
| <b>TOTAL OTHER FINANCING<br/>SOURCES (USES)</b>              | <b>158,726</b>      | <b>-</b>                                | <b>-</b>                            | <b>(158,726)</b>                  | <b>-</b>                       |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>(288,645)</b>    | <b>(7,489,255)</b>                      | <b>264,391</b>                      | <b>(298,287)</b>                  | <b>(7,811,796)</b>             |
| Fund balances, beginning of year                             | 1,625,019           | 8,618,934                               | 504,157                             | 997,960                           | 11,746,070                     |
| Fund balances, end of year                                   | <u>\$ 1,336,374</u> | <u>\$ 1,129,679</u>                     | <u>\$ 768,548</u>                   | <u>\$ 699,673</u>                 | <u>\$ 3,934,274</u>            |

See notes to financial statements.

**LAKE CITY AREA SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

**Net change in fund balances total governmental funds** \$ (7,811,796)

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

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

|   |           |
|---|-----------|
| Depreciation expense                      | (788,587) |
| Capital outlay                            | 8,687,607 |
| (Loss) on disposal of capital assets, net | (309,488) |

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

|   |           |
|---|-----------|
| Accrued interest payable, beginning of the year | 147,983   |
| Accrued interest payable, end of the year       | (145,683) |

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

|                              |         |
|------------------------------|---------|
| Payments on bonded debt      | 345,000 |
| Amortization of bond premium | 99,292  |

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

|   |           |
|---|-----------|
| Accrued compensated absences, beginning of the year | 193,837   |
| Accrued compensated absences, end of the year       | (205,160) |

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

|   |           |
|---|-----------|
| Pension related items                       | (649,643) |
| Other postemployment benefits related items | 261,629   |

Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period:

|   |           |
|---|-----------|
| State aid funding for pension and other postemployment benefits,<br>beginning of the year | 792,976   |
| State aid funding for pension and other postemployment benefits,<br>end of the year       | (687,365) |

|  |                    |
|--|--------------------|
| <b>Change in net position of governmental activities</b> | <b>\$ (69,398)</b> |
|--|--------------------|

**LAKE CITY AREA SCHOOLS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2019**

|                               | Private<br>Purpose<br>Trust Fund | Agency<br>Fund |
|-------------------------------|----------------------------------|----------------|
| <b>ASSETS</b>                 |                                  |                |
| Cash and cash equivalents     | \$ 12,926                        | \$ 119,507     |
| <b>LIABILITIES</b>            |                                  |                |
| Due to individuals and others |                                  |                |
| Band Boosters                 | -                                | 2,755          |
| Central Office                | -                                | 7,323          |
| Elementary                    | -                                | 22,775         |
| Middle School                 | -                                | 7,176          |
| High School                   | -                                | 79,478         |
|                               | <u>-</u>                         | <u>119,507</u> |
| TOTAL LIABILITIES             | <u>-</u>                         | <u>119,507</u> |
| <b>NET POSITION</b>           |                                  |                |
| Restricted for scholarships   | <u>\$ 12,926</u>                 | <u>\$ -</u>    |

See notes to financial statements.

**LAKE CITY AREA SCHOOLS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2019**

|                                  | Private<br>Purpose<br>Trust Fund |
|----------------------------------|----------------------------------|
| ADDITIONS                        |                                  |
| Contributions                    | \$ 1,675                         |
| Interest                         | <u>123</u>                       |
| TOTAL ADDITIONS                  | 1,798                            |
| Net position - beginning of year | <u>11,128</u>                    |
| Net position - end of year       | <u><u>\$ 12,926</u></u>          |

See notes to financial statements.

## LAKE CITY AREA SCHOOLS NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

#### Reporting Entity

Lake City Area Schools (the "District") is governed by the Lake City Area Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

#### Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

#### Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following *major governmental funds*:

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.

The *2016 Construction Project Fund* includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the Revised School Code.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Basis of Presentation - Fund Financial Statements (continued)

The District issued \$20,505,000 of bonds on July 12, 2016. Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2016 Construction Project Fund. The projects for which the 2016 Construction Project Bonds were issued were considered substantially complete on May 31, 2019, and the cumulative expenditures recognized for the construction period were \$22,735,102. The following is a summary of the revenue and expenditures for the 2016 Construction Projects bond activity since inception through the current fiscal year:

|                                     | <u>2019</u>          |
|-------------------------------------|----------------------|
| Revenue and other financing sources | <u>\$ 554,320</u>    |
| Expenditures                        | <u>\$ 22,809,121</u> |

The above revenue figure does not include total bond proceeds and premium of \$20,505,000 and \$2,879,480, respectively.

The *Capital Projects Sinking Fund* accounts for the receipt of property taxes levied for sinking fund and subsequent expenditures of those funds. The District has complied with the applicable provisions of Section 1212 of the Revised School Code.

*Nonmajor Funds*

The *Special Revenue Fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service activities in the special revenue fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the receipt of transfers from the General Fund for the acquisition of capital assets.

*Fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *Private Purpose Trust Fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where interest payments may be spent for student scholarships.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.



**LAKE CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Basis of Presentation - Fund Financial Statements (continued)

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using *the economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Measurement Focus and Basis of Accounting (continued)

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. 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 current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

The private purpose trust fund is reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Budgetary Information

*Budgetary Basis of Accounting*

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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 of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- b. Public hearings are conducted to obtain taxpayer comments.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Budgetary Information (continued)

*Budgetary Basis of Accounting (continued)*

- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). 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 be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- d. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- e. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2019. The District does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

*Cash and Cash Equivalents*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

*Investments*

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

*Inventories and Prepaid Items*

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

*Inventories and Prepaid Items (continued)*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

*Capital Assets*

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land is not depreciated. The other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

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

*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 (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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.

*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.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

*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 qualify 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. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available.

*Net Position Flow Assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

*Fund Balance Flow Assumptions*

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

*Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

*Fund Balance Policies (continued)*

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

*Program Revenues*

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

*Property Taxes*

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2019, the District levied the following amounts per \$1,000 of assessed valuation:

| Fund                                       | Mills |
|--|-------|
| General Fund:                              |       |
| Non-Principal Residence Exemption (PRE)    | 18.00 |
| Commercial Personal Property               | 6.00  |
| Capital Project Sinking fund               |       |
| PRE, Non-PRE, Commercial Personal Property | 1.10  |
| 2016 Building and Site Bonds Fund          |       |
| PRE, Non-PRE, Commercial Personal Property | 3.84  |

*Compensated Absences*

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee leaves, resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenues and Expenditures/Expenses (continued)

*Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

As of June 30, 2019, the District had the following investments:

| Investment type                      | Fair value          | Weighted<br>average<br>maturity | Standard<br>& Poor's<br>rating | %      |
|--------------------------------------|---------------------|---------------------------------|--------------------------------|--------|
| Uncategorized pooled investments     |                     |                                 |                                |        |
| MILAF External Investment Pool - CMC | \$ 23,119           | 0.0027                          | AAAm                           | 1.13%  |
| MILAF External Investment Pool - MAX | <u>2,015,181</u>    | 0.0027                          | AAAm                           | 98.87% |
| Total fair value                     | <u>\$ 2,038,300</u> |                                 |                                |        |
| Portfolio weighted average maturity  |                     | <u>0.0027</u>                   |                                |        |

1 day maturity equals approximately .0027 years.

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

**Interest rate risk.** In accordance with its investment policy, 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.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND INVESTMENTS (continued)**

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2019, the MILAF+ investments were rated AAAM by Standard and Poor's and had a weighted average maturity of one day.

**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 - 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, 2019, \$2,847,379 of the District's bank balance of \$3,097,379 was exposed to custodial credit risk because it not covered by federal depository insurance. The carrying value on the books for deposits at the end of the year was \$2,821,348.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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 allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

**Fair value measurement.** The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

- 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 prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The District does not have any investments subject to the fair value measurement.



**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND INVESTMENTS (continued)**

At June 30, 2019, the carrying amounts are summarized as follows:

Carrying value:

|   |                            |
|---|----------------------------|
| Deposits - including fiduciary funds of \$132,433 | \$ 2,821,348               |
| Petty cash  | 20                         |
| Investments                                       | <u>2,038,300</u>           |
| Total   | <u><u>\$ 4,859,668</u></u> |

The above amounts are reported in the financial statements as follows:

|   |                            |
|---|----------------------------|
| Cash and cash equivalents - District-wide   | \$ 2,688,952               |
| Cash and cash equivalents - fiduciary funds | 132,433                    |
| Investments - District-wide                 | <u>2,038,283</u>           |
| Total                                       | <u><u>\$ 4,859,668</u></u> |

**NOTE 3 - CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

|  | <u>Balance<br/>July 1, 2018</u> | <u>Additions/<br/>Reclassifications</u> | <u>Deletions/<br/>Reclassifications</u> | <u>Balance<br/>June 30, 2019</u> |
|--|---------------------------------|---|---|----------------------------------|
| Governmental activities                |                                 |   |   |                                  |
| Capital assets not being depreciated   |                                 |   |   |                                  |
| Land                                   | \$ 274,504                      | \$ -                                    | \$ -                                    | \$ 274,504                       |
| Construction in progress               | <u>15,140,526</u>               | <u>6,928,148</u>                        | <u>(22,068,674)</u>                     | <u>-</u>                         |
| Subtotal                               | 15,415,030                      | 6,928,148                               | (22,068,674)                            | 274,504                          |
| Capital assets being depreciated       |                                 |   |   |                                  |
| Building and additions                 | 9,582,145                       | 22,068,674                              | (2,842,818)                             | 28,808,001                       |
| Equipment, furniture, and other assets | 1,966,681                       | 1,759,459                               | (243,340)                               | 3,482,800                        |
| Vehicles                               | <u>384,598</u>                  | <u>-</u>                                | <u>(310,721)</u>                        | <u>73,877</u>                    |
| Subtotal                               | 11,933,424                      | 23,828,133                              | (3,396,879)                             | 32,364,678                       |
| Less accumulated depreciation for:     |                                 |   |   |                                  |
| Building and additions                 | (5,214,131)                     | (569,498)                               | 2,605,974                               | (3,177,655)                      |
| Equipment, furniture, and other assets | (1,592,593)                     | (212,180)                               | 191,322                                 | (1,613,451)                      |
| Vehicles                               | <u>(328,840)</u>                | <u>(6,909)</u>                          | <u>290,095</u>                          | <u>(45,654)</u>                  |
| Subtotal                               | <u>(7,135,564)</u>              | <u>(788,587)</u>                        | <u>3,087,391</u>                        | <u>(4,836,760)</u>               |
| Net capital assets being depreciated   | <u>4,797,860</u>                | <u>23,039,546</u>                       | <u>(309,488)</u>                        | <u>27,527,918</u>                |
| Capital assets, net                    | <u><u>\$ 20,212,890</u></u>     | <u><u>\$ 29,967,694</u></u>             | <u><u>\$ (22,378,162)</u></u>           | <u><u>\$ 27,802,422</u></u>      |

Depreciation for the fiscal year ended June 30, 2019 amounted to \$788,587. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables at June 30, 2019 consist of the following:

|                 | <u>Government-wide</u> |
|-----------------|------------------------|
| State Aid       | \$ 1,445,243           |
| Federal Revenue | 73,395                 |
| Other           | <u>3,285</u>           |
|                 | <u>\$ 1,521,923</u>    |

No allowance for doubtful accounts is considered necessary based on previous experience.

**NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE**

During the current year the District was issued a state aid anticipation note in the amount of \$1,400,000 which had an interest rate of 2.19%. Proceeds of the note were used to fund school operations. The note was secured by the full faith and credit of the District as well as pledged as state aid. The District paid off the note in April 2019.

| <u>Balance<br/>July 1, 2018</u> | <u>Additions</u> | <u>Payments</u> | <u>Interest</u> | <u>Balance<br/>June 30, 2019</u> |
|---------------------------------|------------------|-----------------|-----------------|----------------------------------|
| \$ -                            | \$ 1,400,000     | \$ (1,400,000)  | \$ 19,588       | \$ -                             |

**NOTE 6 - LONG-TERM DEBT**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows

The following is a summary of long-term obligations for the District for the year ended June 30, 2019:

|                           | <u>General<br/>Obligation<br/>Bonds</u> | <u>Compensated<br/>Absences</u> | <u>Total</u>         |
|---------------------------|---|---------------------------------|----------------------|
| Balance July, 1, 2018     | \$ 22,970,188                           | \$ 193,837                      | \$ 23,164,025        |
| Additions                 | -                                       | 17,727                          | 17,727               |
| Deletions                 | <u>(444,292)</u>                        | <u>(6,404)</u>                  | <u>(450,696)</u>     |
| Balance June 30, 2019     | 22,525,896                              | 205,160                         | 22,731,056           |
| Due within one year       | <u>(474,292)</u>                        | <u>(30,774)</u>                 | <u>(505,066)</u>     |
| Due in more than one year | <u>\$ 22,051,604</u>                    | <u>\$ 174,386</u>               | <u>\$ 22,225,990</u> |

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (continued)**

Long-term obligation debt at June 30, 2019, is comprised of the following:

**General Obligation Bonds**

\$20,505,000 2016 Construction Project Bonds dated July 12, 2016, due in annual installments ranging from \$375,000 to \$1,190,000 through May 1, 2046, with interest ranging from 4.00 to 5.00 percent, payable semi-annually. \$ 19,845,000

Plus issuance premium 2,680,896

Total general obligation bonds 22,525,896

Compensated absences 205,160

Total general long-term obligations \$ 22,731,056

Interest expense (all funds) for the year ended June 30, 2019 was approximately \$887,900.

The annual requirements to amortize long-term debt outstanding as of June 30, 2019, including interest are as follows:

| Year Ending<br>June 30, | General Obligation Bonds    |                             | Compensated<br>Absences  | Total                       |
|-------------------------|-----------------------------|-----------------------------|--------------------------|-----------------------------|
|                         | Principal                   | Interest                    |                          |                             |
| 2020                    | \$ 375,000                  | \$ 874,100                  | \$ -                     | \$ 1,249,100                |
| 2021                    | 395,000                     | 859,100                     | -                        | 1,254,100                   |
| 2022                    | 415,000                     | 843,300                     | -                        | 1,258,300                   |
| 2023                    | 430,000                     | 826,700                     | -                        | 1,256,700                   |
| 2024                    | 450,000                     | 809,500                     | -                        | 1,259,500                   |
| 2025-2029               | 2,625,000                   | 3,685,000                   | -                        | 6,310,000                   |
| 2030-2034               | 3,355,000                   | 2,960,250                   | -                        | 6,315,250                   |
| 2035-2039               | 4,270,000                   | 2,057,000                   | -                        | 6,327,000                   |
| 2040-2044               | 5,180,000                   | 1,107,200                   | -                        | 6,287,200                   |
| 2045-2046               | <u>2,350,000</u>            | <u>141,600</u>              | <u>-</u>                 | <u>2,491,600</u>            |
|                         | 19,845,000                  | 14,163,750                  | -                        | 34,008,750                  |
| Issuance premium        | 2,680,896                   | -                           | -                        | 2,680,896                   |
| Compensated absences    | <u>-</u>                    | <u>-</u>                    | <u>205,160</u>           | <u>205,160</u>              |
|                         | <u><u>\$ 22,525,896</u></u> | <u><u>\$ 14,163,750</u></u> | <u><u>\$ 205,160</u></u> | <u><u>\$ 36,894,806</u></u> |

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund payable and receivable balances at June 30, 2019 are as follows:

| <u>Receivable Fund</u>    |                  | <u>Payable Fund</u>   |                  |
|---------------------------|------------------|-----------------------|------------------|
| 2016 Construction Project | \$ 9,093         | General Fund          | \$ 5,443         |
| Nonmajor governmental     | <u>5,443</u>     | Nonmajor governmental | <u>9,093</u>     |
|                           | <u>\$ 14,536</u> |                       | <u>\$ 14,536</u> |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The Capital Project fund transferred funds to the General Fund in the amount of \$150,000 to reimburse for costs incurred for capital outlay expenditures. The Food Service Fund transferred funds to the General Fund in the amount of \$8,726 for reimbursement of indirect costs.

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS**

Plan Description

The Michigan Public School Employees' Retirement System (MPERS) (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. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at [www:michigan.gov/ors](http://www.michigan.gov/ors) schools.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT 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:

| <u>Plan Name</u>             | <u>Plan Type</u>     | <u>Plan Status</u> |
|------------------------------|----------------------|--------------------|
| 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%. On 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.

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

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (continued)**

Pension Reform 2012 (continued)

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 Option 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%-person 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 100% 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.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT 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.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (continued)**

Regular Retirement (no reduction factor for age) (continued)

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.

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 Postemployment 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, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

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:

|                                      | <u>Pension</u>  | <u>Other<br/>Postemployment<br/>Benefit</u> |
|--------------------------------------|-----------------|---|
| October 1, 2017 - September 30, 2018 | 13.54% - 19.74% | 7.42% - 7.67%                               |
| October 1, 2018 - September 30, 2019 | 13.39% - 19.59% | 7.57% - 7.93%                               |

The District's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were approximately \$1,652,685, with \$1,626,574 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB benefits were approximately \$478,435, with \$448,157 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).



**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (continued)**

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

*Pension Liabilities*

At June 30, 2019, the District reported a liability of \$18,753,372 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2017 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. At September 30, 2018 and 2017, the District's proportion was 0.06238% and 0.06237%.

| <u>MPERS (Plan) Non-University Employers</u> | <u>September 30, 2018</u> | <u>September 30, 2017</u> |
|--|---------------------------|---------------------------|
| Total Pension Liability                      | \$ 79,863,694,444         | \$ 72,407,218,688         |
| Plan Fiduciary Net Position                  | 49,801,889,205            | 46,492,967,561            |
| Net Pension Liability                        | 30,061,805,239            | 25,914,251,127            |
| Proportionate Share                          | 0.06238%                  | 0.06237%                  |
| Net Pension Liability for the District       | \$ 18,753,372             | \$ 16,163,257             |

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

For the year ended June 30, 2019, the District recognized pension expense of \$2,276,218.

At June 30, 2019, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Changes in proportion and differences between employer contributions and proportionate share of contributions | \$ 190,526                                    | \$ (91,584)                                  |
| Differences between expected and actual experience  | 87,019  | (136,278)                                    |
| Changes of assumptions  | 4,343,265                                     | -  |
| Net differences between projected and actual plan investment earnings   | -   | (1,282,254)                                  |
| Reporting unit's contributions subsequent to the measurement date   | <u>1,528,978</u>                              | <u>-</u>                                     |
|   | <u>\$ 6,149,788</u>                           | <u>\$ (1,510,116)</u>                        |

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (continued)**

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

*Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)*

\$1,528,978, 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.

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

| <u>Year Ending<br/>September 30,</u> | <u>Amount</u> |
|--------------------------------------|---------------|
| 2019                                 | \$ 1,229,969  |
| 2020                                 | 963,837       |
| 2021                                 | 664,261       |
| 2022                                 | 252,627       |

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

*OPEB Liabilities*

At June 30, 2019, the District reported a liability of \$4,942,689 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2017 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, 2018 and 2017, the District's proportion was 0.06218% and 0.06240%.

| <u>MPSERS (Plan) Non-University Employers</u>                  | <u>September 30, 2018</u> | <u>September 30, 2017</u> |
|--|---------------------------|---------------------------|
| Total Other Postemployment Benefit Liability                   | \$ 13,932,170,264         | \$ 13,920,945,991         |
| Plan Fiduciary Net Position                                    | 5,983,218,473             | 5,065,474,936             |
| Net Other Postemployment Benefit Liability                     | 7,948,951,791             | 8,855,471,055             |
| Proportionate Share  | 0.06218%                  | 0.06240%                  |
| Net Other Postemployment Benefit Liability<br>for the District | \$ 4,942,689              | \$ 5,525,956              |

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (continued)**

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

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$186,528.

At June 30, 2019, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Changes in proportion and differences between employer contributions and proportionate share of contributions | \$ 140                               | \$ (18,049)                         |
| Differences between expected and actual experience  | -                                    | (919,961)                           |
| Changes of assumptions  | 523,433                              | -                                   |
| Net differences between projected and actual plan investment earnings   | -                                    | (189,959)                           |
| Reporting unit's contributions subsequent to the measurement date   | 405,136                              | -                                   |
|   | <u>\$ 928,709</u>                    | <u>\$ (1,127,969)</u>               |

\$405,136, 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<br>September 30, | Amount       |
|------------------------------|--------------|
| 2019                         | \$ (148,719) |
| 2020                         | (148,719)    |
| 2021                         | (148,719)    |
| 2022                         | (109,975)    |
| 2023                         | (48,264)     |

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (continued)**

Actuarial Assumptions

**Investment Rate of Return for Pension** - 7.05% 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** - 7.15% a year, compounded annually net of investment and administrative expenses.

**Salary Increases** - The rate of pay increase used for individual members is 2.75%.

**Inflation** - 3.0%.

**Mortality Assumptions:**

*Retirees* - RP-2014 Male and Female Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

*Active* - RP-2014 Male and Female Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

*Disabled Retirees* - RP-2014 Male and Female Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

**Experience Study** - The annual actuarial valuation report of the System used for these statements is dated September 30, 2017. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liabilities beginning with the September 30, 2017 valuation.

**The Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments** - The pension rate was 7.05% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.15%, 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 3.0% to year 12.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (continued)**

Actuarial Assumptions (continued)

**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.

The target asset allocation at September 30, 2018 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Investment Category</u>           | <u>Target<br/>Allocation</u> | <u>Long-term<br/>Expected Real<br/>Rate of Return*</u> |
|--------------------------------------|------------------------------|--|
| Domestic Equity Pools                | 28.0%                        | 5.7%   |
| Private Equity Pools                 | 18.0%                        | 9.2%   |
| International Equity                 | 16.0%                        | 7.2%   |
| Fixed Income Pools                   | 10.5%                        | 0.5%   |
| Real Estate and Infrastructure Pools | 10.0%                        | 3.9%   |
| Absolute Return Pools                | 15.5%                        | 5.2%   |
| Short Term Investment Pools          | 2.0%                         | 0.0%   |
|                                      | <u>100.0%</u>                |  |

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

**Pension Discount Rate** - A single discount rate of 7.05% used to measure the total pension liability (7.00% for Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 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.

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (continued)**

Actuarial Assumptions (continued)

**OPEB Discount Rate** - A single discount rate of 7.15% 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 7.15%. 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 projected 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 Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.05% (7.0% for Pension Plus Plan and 6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

|   | Pension       |               |               |
|---|---------------|---------------|---------------|
|   | 1% Decrease   | Discount Rate | 1% Increase   |
| District's proportionate share of the net pension liability | \$ 24,621,729 | \$ 18,753,372 | \$ 13,877,721 |

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate** - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what the Reporting Unit'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                  | Discount Rate | 1% Increase  |
| District's proportionate share of the net other postemployment benefit liability | \$ 5,933,598                 | \$ 4,942,689  | \$ 4,109,214 |

**Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates** - The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.0%), as well as what the Reporting Unit'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 |              |              |
|--|------------------------------|--------------|--------------|
|  | Healthcare Cost Trend Rates  |              |              |
|  | 1% Decrease                  |              | 1% Increase  |
| District's proportionate share of the net other postemployment benefit liability | \$ 4,065,307                 | \$ 4,942,689 | \$ 5,949,225 |

**LAKE CITY AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (continued)**

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 2018 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).

**NOTE 9 - 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 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 fiscal years.

**NOTE 10 - SUBSEQUENT EVENTS**

The District has approved borrowing \$1,500,000 for fiscal year 2020 to replace the note payable as described in Note 5.

**NOTE 11 - CONTINGENT LIABILITY**

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

**LAKE CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENTS**

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**LAKE CITY AREA SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2019**

|                              | <u>Budgeted Amounts</u> |              |               | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|------------------------------|-------------------------|--------------|---------------|---|
|                              | <u>Original</u>         | <u>Final</u> | <u>Actual</u> |   |
| REVENUES                     |                         |              |               |   |
| Local sources                | \$ 3,132,495            | \$ 3,171,549 | \$ 3,155,165  | \$ (16,384)   |
| State sources                | 7,810,842               | 7,944,633    | 7,910,057     | (34,576)  |
| Federal sources              | 466,405                 | 506,323      | 463,042       | (43,281)  |
| Interdistrict sources        | 212,000                 | 212,000      | 208,648       | (3,352)   |
| TOTAL REVENUES               | 11,621,742              | 11,834,505   | 11,736,912    | (97,593)  |
| EXPENDITURES                 |                         |              |               |   |
| INSTRUCTION                  |                         |              |               |   |
| Basic programs               |                         |              |               |   |
| Elementary                   | 2,742,095               | 2,742,579    | 2,657,211     | 85,368  |
| Middle School                | 1,452,645               | 1,472,906    | 1,438,004     | 34,902  |
| High School                  | 1,984,950               | 2,152,051    | 2,109,926     | 42,125  |
| Summer School                | 10,110                  | 12,794       | 6,312         | 6,482   |
| Total basic programs         | 6,189,800               | 6,380,330    | 6,211,453     | 168,877   |
| Added needs                  |                         |              |               |   |
| Special education            | 899,725                 | 881,623      | 824,298       | 57,325  |
| Compensatory education       | 293,080                 | 325,858      | 336,530       | (10,672)  |
| Total added needs            | 1,192,805               | 1,207,481    | 1,160,828     | 46,653  |
| TOTAL INSTRUCTION            | 7,382,605               | 7,587,811    | 7,372,281     | 215,530   |
| SUPPORTING SERVICES          |                         |              |               |   |
| Student services             |                         |              |               |   |
| Guidance services            | 352,815                 | 361,211      | 363,398       | (2,187)   |
| Social work services         | 77,635                  | 77,635       | 76,515        | 1,120   |
| Other pupil support          | 57,995                  | 95,554       | 79,217        | 16,337  |
| Total student services       | 488,445                 | 534,400      | 519,130       | 15,270  |
| Instructional staff          |                         |              |               |   |
| Improvement of instruction   | 232,144                 | 236,630      | 221,894       | 14,736  |
| Media services               | 182,975                 | 188,405      | 183,726       | 4,679   |
| Total instructional staff    | 415,119                 | 425,035      | 405,620       | 19,415  |
| General administration       |                         |              |               |   |
| Board of education           | 70,110                  | 159,210      | 140,746       | 18,464  |
| Executive administration     | 315,030                 | 307,770      | 302,273       | 5,497   |
| Total general administration | 385,140                 | 466,980      | 443,019       | 23,961  |

**LAKE CITY AREA SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND (continued)  
YEAR ENDED JUNE 30, 2019**

|  | <u>Budgeted Amounts</u> |                   | <u>Actual</u>       | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--|-------------------------|-------------------|---------------------|---|
|  | <u>Original</u>         | <u>Final</u>      |                     |   |
| EXPENDITURES (continued)                         |                         |                   |                     |   |
| SUPPORTING SERVICES (continued)                  |                         |                   |                     |   |
| School administration                            | \$ 899,335              | \$ 846,180        | \$ 779,072          | \$ 67,108   |
| Business   |                         |                   |                     |   |
| Fiscal services                                  | 146,775                 | 159,985           | 150,479             | 9,506   |
| Other business services                          | <u>39,500</u>           | <u>46,600</u>     | <u>38,390</u>       | <u>8,210</u>  |
| Total business                                   | 186,275                 | 206,585           | 188,869             | 17,716  |
| Operations and maintenance                       | 1,142,055               | 1,210,954         | 1,169,317           | 41,637  |
| Transportation                                   | 836,970                 | 770,388           | 758,098             | 12,290  |
| Other supporting services                        |                         |                   |                     |   |
| Athletics  | 261,205                 | 265,305           | 250,619             | 14,686  |
| Central services                                 | 228,785                 | 245,385           | 199,805             | 45,580  |
| Community activities                             | <u>94,785</u>           | <u>113,460</u>    | <u>98,453</u>       | <u>15,007</u>   |
| Total other supporting services                  | <u>584,775</u>          | <u>624,150</u>    | <u>548,877</u>      | <u>75,273</u>   |
| TOTAL SUPPORTING SERVICES                        | <u>4,938,114</u>        | <u>5,084,672</u>  | <u>4,812,002</u>    | <u>272,670</u>  |
| TOTAL EXPENDITURES                               | <u>12,320,719</u>       | <u>12,672,483</u> | <u>12,184,283</u>   | <u>488,200</u>  |
| (DEFICIENCY) OF REVENUES<br>(UNDER) EXPENDITURES | (698,977)               | (837,978)         | (447,371)           | 390,607   |
| OTHER FINANCING SOURCES (USES)                   |                         |                   |                     |   |
| Transfers from other funds                       | <u>160,000</u>          | <u>160,000</u>    | <u>158,726</u>      | <u>(1,274)</u>  |
| NET CHANGE IN FUND BALANCE                       | (538,977)               | (677,978)         | (288,645)           | 389,333   |
| Fund balance, beginning of year                  | <u>1,625,019</u>        | <u>1,625,019</u>  | <u>1,625,019</u>    | <u>-</u>  |
| Fund balance, end of year                        | <u>\$ 1,086,042</u>     | <u>\$ 947,041</u> | <u>\$ 1,336,374</u> | <u>\$ 389,333</u>   |

**LAKE CITY AREA SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN  
LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

|  | 2018          | 2017          | 2016          | 2015          | 2014          |
|--|---------------|---------------|---------------|---------------|---------------|
| Lake City Area Schools' proportion of net pension liability (%)  | 0.06238%      | 0.06237%      | 0.06096%      | 0.06137%      | 0.06248%      |
| Lake City Area Schools' proportionate share of net pension liability   | \$ 18,753,372 | \$ 16,163,257 | \$ 15,208,647 | \$ 14,990,784 | \$ 13,761,827 |
| Lake City Area Schools' covered employee payroll   | \$ 5,296,806  | \$ 5,289,649  | \$ 5,162,361  | \$ 4,870,308  | \$ 5,492,224  |
| Lake City Area Schools' proportionate share of net pension liability as a percentage of its covered employee payroll | 354.05%       | 305.56%       | 294.61%       | 307.80%       | 250.57%       |
| Plan fiduciary net position as a percentage of total pension liability   | 62.36%        | 64.21%        | 63.27%        | 63.17%        | 66.20%        |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

**LAKE CITY AREA SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE REPORTING PENSION CONTRIBUTIONS  
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN  
LAST 10 FISCAL YEARS (DETERMINED AS OF  
THE YEAR ENDED JUNE 30)**

|  | <u>2019</u>      | <u>2018</u>      | <u>2017</u>      | <u>2016</u>      | <u>2015</u>      |
|--|------------------|------------------|------------------|------------------|------------------|
| Statutorily required contributions                                 | \$ 1,626,574     | \$ 1,734,140     | \$ 1,397,282     | \$ 1,349,031     | \$ 1,133,325     |
| Contributions in relation to<br>statutorily required contributions | <u>1,626,574</u> | <u>1,734,140</u> | <u>1,397,282</u> | <u>1,349,031</u> | <u>1,133,325</u> |
| Contribution deficiency (excess)                                   | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| Lake City Area Schools' covered<br>employee payroll                | \$ 5,368,402     | \$ 5,326,237     | \$ 5,396,951     | \$ 5,084,131     | \$ 5,093,721     |
| Contributions as a percentage of<br>covered employee payroll       | 30.30%           | 32.56%           | 25.89%           | 26.53%           | 22.25%           |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

**LAKE CITY AREA SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE REPORTING UNIT'S  
PROPORTIONATE SHARE OF THE OPEB LIABILITY  
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN  
LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED SEPTEMBER 30)**

|   | <u>2018</u>  | <u>2017</u>  |
|---|--------------|--------------|
| Lake City Area Schools' proportion of net OPEB liability (%)  | 0.06218%     | 0.06240%     |
| Lake City Area Schools' proportionate share of net OPEB liability   | \$ 4,942,689 | \$ 5,525,956 |
| Lake City Area Schools' covered employee payroll  | 5,296,806    | 5,289,649    |
| Lake City Area Schools' proportionate share of net OPEB liability as a percentage of its covered employee payroll | 93.31%       | 104.47%      |
| Plan fiduciary net position as a percentage of total OPEB liability   | 42.95%       | 36.39%       |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

**LAKE CITY AREA SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS  
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN  
LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)**

|  | <u>2019</u>    | <u>2018</u>    |
|--|----------------|----------------|
| Statutorily required contributions                                 | \$ 448,157     | \$ 372,945     |
| Contributions in relation to<br>statutorily required contributions | <u>448,157</u> | <u>372,945</u> |
| Contribution deficiency (excess)                                   | <u>\$ -</u>    | <u>\$ -</u>    |
| Lake City Area Schools' covered<br>employee payroll                | \$ 5,368,402   | \$ 5,326,237   |
| Contributions as a percentage of<br>covered employee payroll       | 8.35%          | 7.00%          |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

**LAKE CITY AREA SCHOOLS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2019**

**NOTE 1 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of amounts appropriated.

The approved budgets of the District have been adopted at the functional level for the General Fund and the total expenditure level for the Food Service Fund.

During the year ended June 30, 2019, the District incurred expenditures in excess of the amounts appropriated as follows:

|                   | <u>Amounts<br/>Appropriated</u> | <u>Amounts<br/>Expended</u> | <u>Variance</u> |
|-------------------|---------------------------------|-----------------------------|-----------------|
| Food Service Fund | \$ 691,995                      | \$ 742,181                  | \$ 50,186       |

**NOTE 2 - PENSION INFORMATION**

Benefit changes - there were no changes of benefit terms in 2018.

Changes of assumptions - the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate for MIP and Basic plans decreased to 7.05% from 7.50%.

Projected salary increases decreased to 2.75%-11.55%, including wage inflation at 2.75% from 3.50-12.30%, including wage inflation of 3.50%.

Mortality assumptions were updated to the RP-2014 Male and Female Healthy Annuitant table from the RP-2000 Combined Healthy Life Mortality table.

**NOTE 3 - OPEB INFORMATION**

Benefit changes - there were no changes of benefit terms in 2018.

Changes of assumptions - the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate decreased to 7.15% from 7.50%.

Projected salary increases decreased to 2.75%-11.55%, including wage inflation at 2.75% from 3.50-12.30%, including wage inflation of 3.50%.

Healthcare cost trend rate decreased to 7.50% Year 1 graded to 3.00% Year 12 from 7.50% Year 1 graded to 3.50% Year 12.

Mortality assumptions were updated to the RP-2014 Male and Female Healthy Annuitant table from the RP-2000 Combined Healthy Life Mortality table.



## **ADDITIONAL SUPPLEMENTARY INFORMATION**

**LAKE CITY AREA SCHOOLS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES  
JUNE 30, 2019**

|  | Special<br>Revenue<br>Fund | Debt Service<br>Fund       | Capital Projects Funds |                  |                   |
|--|----------------------------|----------------------------|------------------------|------------------|-------------------|
|  |                            | 2016                       | General                | Legacy           |                   |
|  | Food Service               | Building and<br>Site Bonds | Capital<br>Projects    | Fund             | Total             |
| <b>ASSETS</b>                                  |                            |                            |                        |                  |                   |
| Cash and cash equivalents                      | \$ 128,080                 | \$ 478,834                 | \$ 11,354              | \$ 87,702        | \$ 705,970        |
| Investments                                    | -                          | 8,620                      | 869                    | -                | 9,489             |
| Due from other funds                           | 5,443                      | -                          | -                      | -                | 5,443             |
| Inventories                                    | 12,028                     | -                          | -                      | -                | 12,028            |
| <b>TOTAL ASSETS</b>                            | <b>\$ 145,551</b>          | <b>\$ 487,454</b>          | <b>\$ 12,223</b>       | <b>\$ 87,702</b> | <b>\$ 732,930</b> |
| <b>LIABILITIES</b>                             |                            |                            |                        |                  |                   |
| Accounts payable                               | \$ 24,164                  | \$ -                       | \$ -                   | \$ -             | \$ 24,164         |
| Due to Other Funds                             | 9,093                      | -                          | -                      | -                | 9,093             |
| <b>TOTAL LIABILITIES</b>                       | <b>33,257</b>              | <b>-</b>                   | <b>-</b>               | <b>-</b>         | <b>33,257</b>     |
| <b>FUND BALANCES</b>                           |                            |                            |                        |                  |                   |
| Nonspendable                                   |                            |                            |                        |                  |                   |
| Inventories                                    | 12,028                     | -                          | -                      | -                | 12,028            |
| Restricted                                     |                            |                            |                        |                  |                   |
| Food service                                   | 100,266                    | -                          | -                      | -                | 100,266           |
| Debt service                                   | -                          | 487,454                    | -                      | -                | 487,454           |
| Capital projects                               | -                          | -                          | -                      | 87,702           | 87,702            |
| Committed                                      |                            |                            |                        |                  |                   |
| Capital projects                               | -                          | -                          | 12,223                 | -                | 12,223            |
| <b>TOTAL FUND BALANCES</b>                     | <b>112,294</b>             | <b>487,454</b>             | <b>12,223</b>          | <b>87,702</b>    | <b>699,673</b>    |
| <b>TOTAL LIABILITIES<br/>AND FUND BALANCES</b> | <b>\$ 145,551</b>          | <b>\$ 487,454</b>          | <b>\$ 12,223</b>       | <b>\$ 87,702</b> | <b>\$ 732,930</b> |

**LAKE CITY AREA SCHOOLS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2019**

|   | Special<br>Revenue<br>Fund | Debt Service<br>Fund       | Capital Projects Funds |                  |                   |
|---|----------------------------|----------------------------|------------------------|------------------|-------------------|
|   |                            | 2016                       | General                | Legacy           |                   |
|   | Food Service               | Building and<br>Site Bonds | Capital<br>Projects    | Fund             | Total             |
| REVENUES  |                            |                            |                        |                  |                   |
| Local sources   | \$ 138,698                 | \$ 1,231,802               | \$ 5,062               | \$ 4,308         | \$ 1,379,870      |
| State sources   | 25,049                     | -                          | -                      | -                | 25,049            |
| Federal sources   | 455,914                    | -                          | -                      | -                | 455,914           |
| <b>TOTAL REVENUES</b>   | <b>619,661</b>             | <b>1,231,802</b>           | <b>5,062</b>           | <b>4,308</b>     | <b>1,860,833</b>  |
| EXPENDITURES  |                            |                            |                        |                  |                   |
| Current   |                            |                            |                        |                  |                   |
| Food service  | 733,455                    | -                          | -                      | -                | 733,455           |
| Debt service  | -                          | 1,234,692                  | -                      | -                | 1,234,692         |
| Capital outlay  | -                          | -                          | 32,247                 | -                | 32,247            |
| <b>TOTAL EXPENDITURES</b>                                       | <b>733,455</b>             | <b>1,234,692</b>           | <b>32,247</b>          | <b>-</b>         | <b>2,000,394</b>  |
| EXCESS (DEFICIENCY) OF<br>REVENUES OVER (UNDER)<br>EXPENDITURES | (113,794)                  | (2,890)                    | (27,185)               | 4,308            | (139,561)         |
| OTHER FINANCING (USES)  |                            |                            |                        |                  |                   |
| Transfers to other funds  | (8,726)                    | -                          | (150,000)              | -                | (158,726)         |
| NET CHANGE IN<br>FUND BALANCES                                  | (122,520)                  | (2,890)                    | (177,185)              | 4,308            | (298,287)         |
| Fund balances, beginning of year                                | 234,814                    | 490,344                    | 189,408                | 83,394           | 997,960           |
| Fund balances, end of year                                      | <u>\$ 112,294</u>          | <u>\$ 487,454</u>          | <u>\$ 12,223</u>       | <u>\$ 87,702</u> | <u>\$ 699,673</u> |

**LAKE CITY AREA SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

| Federal Grantor / Pass-Through Grantor<br>Program Title                                      | CFDA<br>Number | Pass-Through<br>Grantor's<br>Number | Restated<br>Program<br>or Award<br>Amount | (Memo Only)<br>Prior Years'<br>Expenditures | Balance<br>July 1, 2018<br>Accrued or<br>(Unearned)<br>Revenue | Cash<br>Receipts<br>In-Kind<br>Payments | Expenditures | Balance<br>June 30, 2019<br>Accrued or<br>(Unearned)<br>Revenue |
|--|----------------|-------------------------------------|---|---|--|---|--------------|---|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>  |                |                                     |   |   |  |   |              |   |
| Passed through Michigan Department of Education  |                |                                     |   |   |  |   |              |   |
| Child Nutrition Cluster  |                |                                     |   |   |  |   |              |   |
| School Breakfast Program   |                |                                     |   |   |  |   |              |   |
| 2017-18 Cash assistance  | 10.553         | 181970                              | \$ 141,096                                | \$ 128,623                                  | \$ -   | \$ 12,473                               | \$ 12,473    | \$ -  |
| 2018-19 Cash assistance  | 10.553         | 191970                              | 93,297                                    | -   | -  | 93,297                                  | 93,297       | -   |
| Total CFDA #10.553   |                |                                     | 234,393                                   | 128,623                                     | -  | 105,770                                 | 105,770      | -   |
| National School Lunch Program  |                |                                     |   |   |  |   |              |   |
| 2017-18 Cash assistance  | 10.555         | 181960, 181980                      | 300,271                                   | 268,201                                     | -  | 32,070                                  | 32,070       | -   |
| 2018-19 Cash assistance  | 10.555         | 191960, 191980                      | 270,314                                   | -   | -  | 249,792                                 | 270,314      | 20,522  |
| 2018-19 Noncash assistance - Entitlement   | 10.555         | 57020                               | 47,760                                    | -   | -  | 47,760                                  | 47,760       | -   |
| Total CFDA #10.555   |                |                                     | 618,345                                   | 268,201                                     | -  | 329,622                                 | 350,144      | 20,522  |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE<br>AND CHILD NUTRITION CLUSTER                          |                |                                     | 852,738                                   | 396,824                                     | -  | 435,392                                 | 455,914      | 20,522  |
| <b>U.S. DEPARTMENT OF EDUCATION</b>  |                |                                     |   |   |  |   |              |   |
| Passed through Michigan Department of Education  |                |                                     |   |   |  |   |              |   |
| E.S.E.A. Title I   |                |                                     |   |   |  |   |              |   |
| 2017-18 Part A   | 84.010         | 1815301718                          | 391,285                                   | 323,674                                     | 66,692   | 89,905                                  | 23,213       | -   |
| 2018-19 Part A   | 84.010         | 1915301819                          | 382,054                                   | -   | -  | 269,397                                 | 312,858      | 43,461  |
| Total CFDA #84.010   |                |                                     | 773,339                                   | 323,674                                     | 66,692   | 359,302                                 | 336,071      | 43,461  |
| Title V  |                |                                     |   |   |  |   |              |   |
| 2018-19 Part B   | 84.358         | 1906601819                          | 21,256                                    | -   | -  | 21,256                                  | 21,256       | -   |
| Improving Teacher Quality  |                |                                     |   |   |  |   |              |   |
| 2018-19  | 84.367         | 1905201819                          | 78,229                                    | 80,531                                      | -  | 73,108                                  | 78,229       | 5,121   |
| Student Support and Academic Enrichment  |                |                                     |   |   |  |   |              |   |
| 2018-2019  | 84.424         | 1907501819                          | 22,784                                    | -   | -  | 20,735                                  | 25,026       | 4,291   |
| TOTAL U.S. DEPARTMENT OF EDUCATION   |                |                                     | 895,608                                   | 404,205                                     | 66,692   | 474,401                                 | 460,582      | 52,873  |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>  |                |                                     |   |   |  |   |              |   |
| Passed through Michigan Department of Health<br>and Human Services and Wexford-Missaukee ISD |                |                                     |   |   |  |   |              |   |
| Medicaid Administrative Outreach   | 93.778         | N/A                                 | 2,460                                     | -   | -  | 2,460                                   | 2,460        | -   |
| TOTAL FEDERAL AWARDS   |                |                                     | \$ 1,750,806                              | \$ 801,029                                  | \$ 66,692  | \$ 912,253                              | \$ 918,956   | \$ 73,395   |

**LAKE CITY AREA SCHOOLS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Lake City Area Schools under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Lake City Area Schools, it is not intended to and does not present the financial position or changes in net position of Lake City Area Schools.

The District qualifies for low-risk auditee status. Management has utilized the Cash Management System and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards. The District does not pass-through federal funding.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Lake City Area Schools has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 3 - RECONCILIATION WITH AUDITED FINANCIAL STATEMENTS**

Federal expenditures are reported as revenue in the following funds in the financial statements:

|                             |                          |
|-----------------------------|--------------------------|
| General Fund                | \$ 463,042               |
| Nonmajor governmental funds | <u>455,914</u>           |
|                             | <u><u>\$ 918,956</u></u> |

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
Lake City Area Schools

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake City Area Schools as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Lake City Area Schools' basic financial statements and have issued our report thereon dated September 23, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Lake City Area Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lake City Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Lake City Area Schools' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lake City Area Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maney Costerian PC*

September 23, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education  
Lake City Area Schools

**Report on Compliance for Each Major Federal Program**

We have audited Lake City Area Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lake City Area Schools' major federal programs for the year ended June 30, 2019. Lake City Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Lake City Area Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lake City Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of Lake City Area Schools' compliance.



### ***Opinion on Each Major Federal Program***

In our opinion, Lake City Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

### **Report on Internal Control over Compliance**

Management of Lake City Area Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lake City Area Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lake City Area Schools' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Maney Costeiran PC*

September 23, 2019

**LAKE CITY AREA SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**Section I - Summary of Auditor's Results**

---

***Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

|   |       |     |              |               |
|---|-------|-----|--------------|---------------|
| Material weakness(es) identified?                     | _____ | Yes | <u>  X  </u> | No            |
| Significant deficiency(ies) identified?               | _____ | Yes | <u>  X  </u> | None reported |
| Noncompliance material to financial statements noted? | _____ | Yes | <u>  X  </u> | No            |

***Federal Awards***

Internal control over major Federal programs:

|   |       |     |              |               |
|---|-------|-----|--------------|---------------|
| Material weakness(es) identified?       | _____ | Yes | <u>  X  </u> | No            |
| Significant deficiency(ies) identified? | _____ | Yes | <u>  X  </u> | None reported |

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes   X   No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.010                | E.S.E.A. Title I, Part A                  |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

---

None noted.

**Section III - Federal Award Findings and Questioned Costs**

---

None noted.

**LAKE CITY AREA SCHOOLS  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings required to be reported on this schedule for the previous year.

## **OTHER FINANCIAL INFORMATION**

## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Lake City Area Schools

### ***Report on the Financial Statements***

We have audited the accompanying balance sheet and statement of revenues, expenditures, and changes in fund balance for the 2016 Construction Project Fund of Lake City Area Schools (the District), thirty-four month and nineteen-day period ended May 31, 2019.

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

An audit 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. When 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 opinion.

### ***Emphasis of Matter***

The accompanying financial statements were prepared for the purpose of complying with the provisions of the Revised School Code, Public Act 451 of 1976 as described in Note 1 to the financial statements. The presentation is not intended to be a presentation of Lake City Area Schools' total revenues and expenditures.

### ***Opinion***

In our opinion, the statements referred to above present fairly, in all material respects, the financial position of the 2016 Construction Project Fund of Lake City Area Schools at May 31, 2019, and changes in its financial position for the thirty-four month and nineteen day period then ended, in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2019, 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.

*Maney Costeian PC*

September 23, 2019

**LAKE CITY AREA SCHOOLS  
2016 CONSTRUCTION PROJECT FUND  
BALANCE SHEET  
MAY 31, 2019**

**ASSETS**

|                           |              |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 741,682   |
| Investments               | 1,680,185    |
| Due from other funds      | <u>9,093</u> |

|              |                            |
|--------------|----------------------------|
| TOTAL ASSETS | <u><u>\$ 2,430,960</u></u> |
|--------------|----------------------------|

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

|                   |                |
|-------------------|----------------|
| Accounts payable  | \$ 393,305     |
| Retainage payable | <u>837,702</u> |

|                   |           |
|-------------------|-----------|
| TOTAL LIABILITIES | 1,231,007 |
|-------------------|-----------|

**FUND BALANCES**

|                                 |                  |
|---------------------------------|------------------|
| Restricted for capital projects | <u>1,199,953</u> |
|---------------------------------|------------------|

|  |                            |
|--|----------------------------|
| TOTAL LIABILITIES<br>AND FUND BALANCES | <u><u>\$ 2,430,960</u></u> |
|--|----------------------------|

**LAKE CITY AREA SCHOOLS  
2016 CONSTRUCTION PROJECT FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
THIRTY-FOUR MONTH AND NINETEEN DAY PERIOD ENDED MAY 31, 2019**

|  |                            |
|--|----------------------------|
| REVENUES                                   |                            |
| Local sources                              | \$ 521,146                 |
| EXPENDITURES                               |                            |
| Capital outlay                             | <u>22,735,102</u>          |
| EXCESS OF REVENUES<br>(UNDER) EXPENDITURES | <br>(22,213,956)           |
| OTHER FINANCING SOURCES                    |                            |
| Transfers from other funds                 | 29,429                     |
| Bond proceeds                              | 20,505,000                 |
| Bond premium                               | <u>2,879,480</u>           |
| TOTAL OTHER FINANCING SOURCES              | <u>23,413,909</u>          |
| NET CHANGE IN FUND BALANCE                 | 1,199,953                  |
| Fund balance, beginning of period          | <u>-</u>                   |
| Fund balance, end of period                | <u><u>\$ 1,199,953</u></u> |