

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED
JUNE 30, 2018



SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Lake Schools (the "School District") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Lake Schools as of June 30, 2018 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 10 to the financial statements, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement required the School District to record its proportionate share of the Michigan Public School Employees Retirement System's net OPEB liability in the district-wide financial statements and enhance the related note disclosure of the Plan. The School District's net position has been restated as of July 1, 2017 as a result of this change in accounting principle. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the School District has a General Fund unassigned deficit of \$1,368,950 at June 30, 2018. The School District is currently operating under an approved Deficit Elimination Plan. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2018 on our consideration of South Lake Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Lake Schools' internal control over financial reporting and compliance.



Certified Public Accountants

October 24, 2018

This section of South Lake Schools’ (the “School District”) annual financial report presents our discussion and analysis of the School District’s financial performance during the year ended June 30, 2018. Please read it in conjunction with the School District’s financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand South Lake Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District’s finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. These statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District’s operations in more detail than the district-wide financial statements by providing information about the School District’s most significant funds, the General Fund, the 2017 Construction Fund, and the 2018 Construction Fund, with all other funds presented in one column as non-major funds. The remaining Statement of Fiduciary Assets and Liabilities presents financial information about student activities for which the School District acts solely as an agent for the benefit of students/parents.

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

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Financial Statements

Required Supplementary Information

General Fund Budgetary Comparison Schedule

Pension and OPEB System Schedules

Other Supplementary Information

Combining Statements

Budgetary Information for Food Service and Latchkey Funds

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

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

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

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

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

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

Governmental funds – All of the School District’s services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District’s programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliations on pages 13 and 15.

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

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

The School District as a Whole

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

TABLE I

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>Restated 2017</u>
Assets		
Current and other assets	\$ 17,847,461	\$ 13,773,951
Capital assets, net of accumulated depreciation	<u>42,604,863</u>	<u>37,352,222</u>
Total Assets	<u>60,452,324</u>	<u>51,126,173</u>
Deferred Outflows of Resources	<u>7,684,954</u>	<u>5,569,915</u>
Liabilities		
Current liabilities	6,747,775	5,357,498
Non-current liabilities	<u>78,723,026</u>	<u>74,358,645</u>
Total Liabilities	<u>85,470,801</u>	<u>79,716,143</u>
Deferred Inflows of Resources	<u>6,349,347</u>	<u>2,832,828</u>
Net Position		
Net investment in capital assets	20,249,117	18,788,309
Restricted	390,177	718,916
Unrestricted	<u>(44,322,164)</u>	<u>(45,360,108)</u>
Total Net Position	<u>\$(23,682,870)</u>	<u>\$(25,852,883)</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table II) of the School District’s governmental activities is discussed below. The School District’s net position (deficit) was \$(23.68) million at June 30, 2018. Net investment in capital assets of \$20.25 million compares the original cost, less depreciation of the School District’s capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of \$0.39 million is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District’s ability to use those net positions for day-to-day operations. The remaining amount of net position of \$(44.32) million was an unrestricted deficit.

The \$(44.32) million unrestricted deficit of governmental activities represents the *accumulated* results of all past years’ operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year’s operations for the School District as a whole are reported in the statement of activities (see Table II), which shows the changes in net position for fiscal year 2018 and 2017:

TABLE II

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenue		
Program Revenue:		
Charges for services	\$ 753,814	\$ 527,295
Operating grants and contributions	4,850,983	4,745,354
Capital grants and contributions	255,960	-
General Revenue:		
Property taxes	7,964,139	7,702,523
State Aid, unrestricted	10,762,095	10,919,012
Interest and investment earnings	97,347	39,114
Total Revenue	<u>24,684,338</u>	<u>23,933,298</u>
Functions/Program Expenses		
Instruction	11,467,492	12,575,916
Support services	8,319,031	8,051,746
Community services	644,219	560,581
Food services	842,099	869,825
Latchkey	116,054	110,660
Outgoing transfers and other transactions	5,280	5,940
Interest on long-term debt	<u>1,120,150</u>	<u>722,510</u>
Total Expenses	<u>22,514,325</u>	<u>22,897,178</u>
Change in Net Position	2,170,013	1,036,120
Net Position at Beginning of Year	(25,852,883)	(15,677,374)
Restatement for Implementation of GASB Statement No. 75	<u>-</u>	<u>(11,211,629)</u>
Net Position at End of Year	<u>\$(23,682,870)</u>	<u>\$(25,852,883)</u>

As reported in the statement of activities, the cost of all of our *governmental activities* this year was \$22.51 million. Certain activities were partially funded from those who benefited from the programs of \$0.75 million or by other governments and organizations that subsidized certain programs with grants, categoricals, and contributions of \$5.11 million. We paid for the remaining “public benefit” portion of our governmental activities with \$7.96 million in taxes, \$10.76 million in State Aid, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position of \$2,170,013. The increase in net position differs from the change in fund balance and the reconciliation appears on page 15.

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

The School District’s Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$11,303,829, which is an increase of \$2,507,212 from last year. The primary reason for the increase was due to a new bond in the amount of \$8,945,000 for the 2018 Construction Fund, net capital outlay in the 2017 Construction Fund of \$6,231,241. In the General Fund, our principal operating fund, the fund balance increased by \$20,258 to \$(1,261,820). Overall, General Fund expenses were within \$301,374 of budgeted amounts. The 2017 Construction Fund balance decreased by \$5,901,216 due to capital expenditures during the year. The 2018 Construction Fund balance increased by \$8,785,381 due to a sale of a bond in 2018.

General Fund Budgetary Highlights

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

- Budgeted revenues were increased by \$211,306. The overall change was 1.07%.
- Budgeted expenditures increased by \$811,726. The overall change was 4.21% due to corrections needed from the original budget.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the School District had \$62.42 million invested in a broad range of capital assets before accumulated depreciation, including land, buildings, vehicles, and equipment. This amount represents an increase of capital assets of \$6,597,795 or 11.82% over last year related to bond expenditures including building and facility improvements, technology, buses, and other capital improvement.

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

Long-term Debt

At the end of this year, the School District had a debt of \$35.19 million versus \$28.55 million in the previous year – an increase of 23.26% due primarily to the issuance of a new bond in 2018.

The School District’s General Obligation Bond rating is tied to the State’s credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District’s boundaries. If the School District issues “qualified debt,” (i.e., debt backed by the State) such obligations are not subject to this debt limit. The School District’s outstanding qualified general obligation debt of \$32.50 million is significantly below the statutorily imposed limit for unqualified debt.

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

Economic Factors and Next Year’s Budgets and Rates

Our elected officials and administration considered many factors when setting the School District’s 2018-2019 fiscal year budget. The two most important factors affecting the budget are student count and foundation revenue. The School District’s foundation revenue is composed of State Aid and local property taxes. State Aid is determined by multiplying the student count by the foundation allowance per pupil, and then subtracting local non-homestead property taxes. The student count is a blended count made up of 10% for the February 2018 count and 90% for the October 2018 count.

The 2018-2019 fiscal year budget was adopted in June 2018 and reflected the Deficit Elimination Plan approved by the Michigan Department of Education. The School District has filed a five-year Deficit Elimination Plan with the State, which has been approved.

In 2017-2018, the School District saw, for the second year in a row, revenues exceeding expenditures. Although a small excess of revenues again in 2017-2018, it validates that the structural issue of expenditures exceeding revenues that began in the 2008-2009 school year has been eliminated. The School District is committed to maintaining the structural balance between revenues and expenditures, while at the same time eliminating the remaining deficit.

For the 2018-2019 school year, the State's School Aid funding increased by \$120 per student (1.33% increase), but enrollment is expected to have a modest decline. As a result, all employee groups will maintain current wage reductions from the 2016-2017 school year.

As a result of the State's reduction of the foundation allowance in 2012 by \$470 per pupil, and even with the \$120 increase in 2018-2019, the School District is still operating with a foundation per student equivalent to the amount in 2007-2008. Unfortunately, inflation has increased well beyond the 0.63% cumulative increase in foundation received since 2012. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, the School District's funding is heavily dependent of the State's ability to fund local school operations, which has not kept pace with the rate of inflation. School District funding is also heavily dependent of student enrollment. School District enrollment has declined by an average of 75 full-time equivalents over the last five years. The combination of foundation revenues below inflation increases and declining enrollment continues to challenge the School District in eliminating the existing deficit, while at the same time retaining and attracting staff.

Salary and benefits were 82.16% to 81.33% of the School District's budget in 2016-2017 and 2017-2018, respectively, with pension costs remaining the biggest benefit expense for employees. Even with the State reforms to the retirement system, the retirement rate for the 2018-2019 school year will increase from 36.88% to 38.39% of payroll. This rate is based on the Basic/MIP with Premium Subsidy plan, which is one out of seven plans provided to employees, with the lowest rate being 33.17% of payroll. The State is helping schools pay for this increase by allocating additional funding to be used toward the retirement rate increase. With this additional funding, the retirement rate schools will pay this year is artificially reduced to 20.96%-26.18%, but is still an increase over 2017-2018 rates.

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

Contacting the School District's Financial Management

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

BASIC FINANCIAL STATEMENTS

SOUTH LAKE SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 15,074,183
Accounts receivable	29,293
Due from other governmental units -	
State	2,470,494
Local	166,361
Prepaid expenses	107,130
Capital assets (net of accumulated depreciation)	
Assets not being depreciated	993,421
Assets being depreciated	41,611,442
Total Assets	<u>60,452,324</u>
Deferred Outflows of Resources:	
Deferred charge on refunding	438,003
Related to the pension plan	6,584,494
Related to the OPEB plan	662,457
Total Deferred Outflows of Resources	<u>7,684,954</u>
Liabilities:	
Accounts payable	1,052,362
Accrued payroll and payroll fringes	1,675,592
Accrued interest	249,648
Due to other governmental units	34,309
State aid note	3,500,000
Unearned revenue	235,864
Non-current liabilities -	
Bonds payable due within one year	2,364,974
Bonds payable due more than one year	32,320,406
Due to employees due more than one year	505,549
Net pension liability	32,418,959
Net OPEB liability	11,113,138
Total Liabilities	<u>85,470,801</u>
Deferred Inflows of Resources:	
Related to the pension plan	5,973,642
Related to the OPEB plan	375,705
Total Deferred Inflows of Resources	<u>6,349,347</u>
Net Position:	
Net investment in capital assets	20,249,117
Restricted - Debt service	390,177
Unrestricted	<u>(44,322,164)</u>
Total Net Position	<u><u>\$(23,682,870)</u></u>

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

SOUTH LAKE SCHOOLS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	Expenses	Program Revenue			Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 11,467,492	\$ 102,747	\$ 3,393,557	\$ -	\$(7,971,188)
Support Services	8,319,031	331,750	642,579	255,960	(7,088,742)
Community Services	644,219	-	73,706	-	(570,513)
Food Services	842,099	188,882	707,923	-	54,706
Latchkey	116,054	130,435	-	-	14,381
Outgoing Transfers and Other Transactions	5,280	-	-	-	(5,280)
Interest on Long-term Debt	1,120,150	-	33,218	-	(1,086,932)
	<u>\$ 22,514,325</u>	<u>\$ 753,814</u>	<u>\$ 4,850,983</u>	<u>\$ 255,960</u>	<u>(16,653,568)</u>
General Revenues:					
Property taxes -					
Levied for general purposes					4,578,641
Levied for debt service					3,385,498
State aid, unrestricted					10,762,095
Interest and investment earnings					97,347
Total general revenues					<u>18,823,581</u>
Change in Net Position					2,170,013
Net Position at beginning of year, as restated					<u>(25,852,883)</u>
Net Position at end of year					<u>\$(23,682,870)</u>

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

SOUTH LAKE SCHOOLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General	2017 Construction	2018 Construction	Other Non-major Governmental Funds	Total
Assets:					
Cash and cash equivalents	\$ 1,817,985	\$ 3,227,252	\$ 9,263,070	\$ 765,876	\$ 15,074,183
Accounts receivable	28,562	-	-	731	29,293
Due from other funds	55,779	268,722	-	49,488	373,989
Due from other governmental units -					
State	2,440,765	-	-	29,729	2,470,494
Local	166,361	-	-	-	166,361
Prepaid expenditures/deposits	107,130	-	-	-	107,130
Total Assets	\$ 4,616,582	\$ 3,495,974	\$ 9,263,070	\$ 845,824	\$ 18,221,450
Liabilities:					
Accounts payable	\$ 130,408	\$ 442,055	\$ 477,689	\$ 2,210	\$ 1,052,362
Accrued interest	45,505	-	-	-	45,505
Accrued payroll and payroll fringes	1,675,592	-	-	-	1,675,592
Due to other governmental units	34,309	-	-	-	34,309
Due to other funds	263,007	42,441	-	68,541	373,989
Unearned revenue	229,581	-	-	6,283	235,864
State aid note	3,500,000	-	-	-	3,500,000
Total Liabilities	5,878,402	484,496	477,689	77,034	6,917,621
Fund Balances (Deficit):					
Nonspendable	107,130	-	-	-	107,130
Restricted -					
Debt service	-	-	-	390,177	390,177
Capital projects	-	3,011,478	8,785,381	94,772	11,891,631
Food service	-	-	-	207,191	207,191
Committed - Latchkey	-	-	-	76,650	76,650
Unassigned (Deficit)	(1,368,950)	-	-	-	(1,368,950)
Total Fund					
Balances (Deficit)	(1,261,820)	3,011,478	8,785,381	768,790	11,303,829
Total Liabilities					
and Fund Balances	\$ 4,616,582	\$ 3,495,974	\$ 9,263,070	\$ 845,824	\$ 18,221,450

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

SOUTH LAKE SCHOOLS

**RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Fund Balances - total governmental funds	\$ 11,303,829
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>	
Capital assets	62,422,429
Accumulated depreciation	(19,817,566)
<p>Certain pension/OPEB contributions and changes in pension/OPEB plan liabilities are reported as deferred outflows (inflows) of resources in the statement of net position.</p>	
Deferred outflows of resources	7,246,951
Deferred inflows of resources	(6,349,347)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.</p>	
Bonds payable	(32,500,000)
Accrued interest on bonds payable	(204,143)
Accrued compensated absence	(437,994)
Accrued contracts payable	(67,555)
Net pension liability	(32,418,959)
Net OPEB liability	(11,113,138)
<p>Deferred charges on refunding are not reported in the governmental funds, whereas they are capitalized and amortized from net position</p>	
	438,003
<p>Premiums on bonds are reported as other financing sources in the governmental funds, whereas they are capitalized and amortized from net position (netted against bonds payable)</p>	
	<u>(2,185,380)</u>
Net Position of governmental activities	<u><u>\$(23,682,870)</u></u>

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

SOUTH LAKE SCHOOLS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General	2017 Construction	2018 Construction	Other Non-major Governmental Funds	Total
Revenues:					
Local sources	\$ 5,013,632	\$ 330,025	\$ 14,445	\$ 3,713,158	\$ 9,071,260
State sources	13,263,838	-	-	65,819	13,329,657
Federal sources	816,035	-	-	637,803	1,453,838
Interdistrict sources	632,445	-	-	-	632,445
Total Revenues	<u>19,725,950</u>	<u>330,025</u>	<u>14,445</u>	<u>4,416,780</u>	<u>24,487,200</u>
Expenditures:					
Current -					
Instruction	10,832,119	-	-	-	10,832,119
Support services	8,283,878	-	-	2,537	8,286,415
Community services	672,415	-	-	-	672,415
Food services	-	-	-	837,059	837,059
Latchkey	-	-	-	120,825	120,825
Outgoing transfers and other transactions	5,280	-	-	-	5,280
Capital outlay	-	6,231,241	348,490	13,662	6,593,393
Debt service	-	-	179,183	3,751,908	3,931,091
Total Expenditures	<u>19,793,692</u>	<u>6,231,241</u>	<u>527,673</u>	<u>4,725,991</u>	<u>31,278,597</u>
Revenues under expenditures	<u>(67,742)</u>	<u>(5,901,216)</u>	<u>(513,228)</u>	<u>(309,211)</u>	<u>(6,791,397)</u>
Other Financing Sources (Uses):					
Bond proceeds	-	-	8,945,000	-	8,945,000
Premium on bonds	-	-	353,609	-	353,609
Transfers from other funds	88,000	-	-	387,162	475,162
Transfers to other funds	-	-	-	(475,162)	(475,162)
Total Other Financing Sources (Uses)	<u>88,000</u>	<u>-</u>	<u>9,298,609</u>	<u>(88,000)</u>	<u>9,298,609</u>
Net Change in Fund Balances (Deficit)	20,258	(5,901,216)	8,785,381	(397,211)	2,507,212
Fund Balances (Deficit) at beginning of year	<u>(1,282,078)</u>	<u>8,912,694</u>	<u>-</u>	<u>1,166,001</u>	<u>8,796,617</u>
Fund Balances (Deficit) at end of year	<u>\$(1,261,820)</u>	<u>\$ 3,011,478</u>	<u>\$ 8,785,381</u>	<u>\$ 768,790</u>	<u>\$ 11,303,829</u>

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

SOUTH LAKE SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net change in fund balances - total governmental funds \$ 2,507,212

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

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

Capital outlay	6,597,795
Depreciation expense	(1,345,154)

The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net position.

Bond proceeds	(8,945,000)
Principal payment on bonds	2,445,000
Bond premium	(353,609)
Amortization of bond premium	221,206
Amortization of deferred charge on refunding	(31,286)

Change in pension/OPEB contributions made subsequent to the measurement date	(170,904)
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Revenue in support of pension/OPEB contributions made subsequent to the measurement date	197,138
--	---------

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

Increase in compensated absences	(26,837)
Decrease in accrued contracts payable	17,743
Decrease in net pension liability	1,668,355
Decrease in net OPEB liability	608,761
Change in pension/OPEB expense related to deferred items related to the pension/OPEB plan	(1,396,428)
Decrease in accrued interest	176,021

Change in net position of governmental activities	<u><u>\$ 2,170,013</u></u>
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The accompanying notes are an integral part of these financial statements.

SOUTH LAKE SCHOOLS

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND - STUDENT ACTIVITIES
JUNE 30, 2018**

Assets:	
Cash and cash equivalents	<u><u>\$ 321,881</u></u>
 Liabilities:	
Accounts payable	\$ 197
Due to student groups	<u>321,684</u>
 Total Liabilities	 <u><u>\$ 321,881</u></u>

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

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

South Lake Schools (the "School District"), located in St. Clair Shores, Michigan, was established under the Constitution and statutes of the State of Michigan (the "State"). South Lake Schools is one of twenty-one (21) school districts located in Macomb County, Michigan, each of which is a separate governmental entity. The School District operates under an elected School Board (seven members) and provides services to its 1,800-student population in many areas, including basic education, special education, vocational education, adult education, athletics, food services, and latchkey services.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations is a part of the School District's reporting entity and which organizations are legally separate component units of the School District. Based on these criteria, the School District had no component units.

B. District-wide and Fund Financial Statements -

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

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

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

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

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. (The Agency fund, a type of fiduciary fund, is unlike all other funds, reporting only assets and liabilities. Agency funds cannot be said to have a measurement focus. They do, however, use the *accrual basis of accounting* to recognize receivables and payables). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

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

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

The School District reports the following major governmental funds:

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

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

2018 Construction Fund - is used to record bond proceeds from the 2018 Bond Issuance and expenditures in connection with remodeling, re-equipping, and refurbishing school buildings, and other facilities, equipment, technology, and school buses.

Additionally, the School District reports the following fund types:

Governmental Fund Types -

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

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

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

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Fiduciary Fund Type -

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

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

Deposits and Investments -

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

Receivables and Payables -

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

Prepaid Items -

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

Property Tax Calendar -

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

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

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Capital Assets -

Capital assets, which include property, buildings, equipment, and vehicles, are reported in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of \$5,000 or more and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized. The School District does not have infrastructure type assets.

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

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

Compensated Absences -

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

Long-term Obligations -

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

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

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Deferred Outflows/Inflows of Resources -

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The School District reports deferred outflows of resources for deferred charges on debt refunding for the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of either the refunded or refunding debt. The School District also reports deferred outflows of resources related to the pension and other postemployment benefit (OPEB) liabilities.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District reports deferred inflows of resources related to revenues in support of pension contributions made subsequent to the measurement date and deferred inflows of resources related to pension and other postemployment benefit liabilities.

Fund Balance -

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

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

Restricted fund balance - the portion of fund balance that has limitations imposed by external sources.

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

Assigned fund balance - the portion of fund balance that reflects the School District's intended use of resources. Such intent currently must be determined by the Director of Business Operations. Also, amounts in excess of nonspendable, restricted, and committed fund balance in funds other than the General Fund is reported as assigned.

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

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

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Estimates -

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

Federal Programs -

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

Upcoming Accounting Pronouncements -

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

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

GASB Statement No. 87, *Leases*, was issued in June 2017 and will become effective for the School District's June 30, 2021 fiscal year. The objective of the statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use of an 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 the School District's leasing activities.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Compliance -

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

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

The departments, in conjunction with the School District Business Manager, prepare and submit their proposed operating budgets for the fiscal year commencing July 1. The budgets include proposed expenditures and resources to finance them.

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

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

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

Expenditures at the above legally adopted levels in excess of the amounts budgeted are a violation of the Budgetary Act. For the year ended June 30, 2018, the School District's expenditures at legally adopted levels did not have any significant budget overages.

Deficit -

Under Michigan laws, school districts are required to maintain a positive fund balance in all funds. As of June 30, 2018, the School District's General Fund ended the year with an unassigned fund balance deficit of \$1,368,950. As required, the School District filed and is under a Deficit Elimination Plan with the Michigan Departments of Treasury and Education. The current approved plan calls for the deficit to be eliminated by June 30, 2018.

Bond Compliance -

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

2017 Construction Fund -

The accumulated costs as of June 30, 2018 are \$7,034,832.

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

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

2018 Construction Fund -

The accumulated costs as of June 30, 2018 are \$527,673.

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

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2018, the carrying amounts of the deposits and investments are as follows:

	Governmental Activities	Fiduciary Funds	Total
Cash on Hand - Petty Cash	\$ 5,445	\$ -	\$ 5,445
Deposits with Financial Institutions	2,469,649	321,881	2,791,530
Investments - Investment Pools	12,599,089	-	12,599,089
Grand Total - Reported as Cash and Cash Equivalents	\$ 15,074,183	\$ 321,881	\$ 15,396,064

Custodial Credit Risk - Deposits -

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

As of June 30, 2018, the carrying amount of the School District deposits is \$2,791,530 and the bank balance is \$3,403,641, of which \$376,325 is insured by depository insurance and \$3,027,316 is uninsured and uncollateralized.

Investments -

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

- a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- b) Certificates of deposit issued by a state or national bank, savings account of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in the State.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- e) United States government or federal agency obligation repurchase agreements.
- f) Bankers' acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
- h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

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

The School District utilized MILAF, a comprehensive cash management service program developed exclusively for Michigan school districts and municipalities. MILAF is not subject to regulatory oversight and is not registered within the SEC, however, does issue a separate financial statement which can be obtained at www.milaf.org. MILAF is rated AAAM by Standard & Poors. The portfolio is managed to maintain a dollar-weighted average portfolio maturity of 60 days or less and seeks to maintain a constant share value of \$1. MILAF invests primarily in U.S. governmental securities, commercial paper, and repurchase agreements. MILAF is considered a money market fund, as defined by the GASB, and as such is recorded at amortized cost, which approximates fair value. The fair value of the School District's investment is the same as the value of the pool shares. This fund is not subject to the fair value disclosure. As of June 30, 2018, the School District has \$12,599,089 (fair value) in the external investment pool with an average of one day to mature.

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

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

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

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 - CAPITAL ASSETS:

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Assets, not being depreciated:				
Land	\$ 580,332	\$ -	\$ -	\$ 580,332
Construction in progress	<u>623,281</u>	<u>413,089</u>	<u>623,281</u>	<u>413,089</u>
Total assets not being depreciated	<u>1,203,613</u>	<u>413,089</u>	<u>623,281</u>	<u>993,421</u>
Capital assets, being depreciated:				
Building and improvements	50,590,612	5,851,630	-	56,442,242
Buses and other vehicles	993,190	-	-	993,190
Furniture and equipment	<u>3,037,219</u>	<u>956,357</u>	<u>-</u>	<u>3,993,576</u>
Total capital assets being depreciated	<u>54,621,021</u>	<u>6,807,987</u>	<u>-</u>	<u>61,429,008</u>
Less accumulated depreciation for:				
Building and improvements	15,544,568	1,090,104	-	16,634,672
Buses and other vehicles	726,372	25,484	-	751,856
Furniture and equipment	<u>2,201,472</u>	<u>229,566</u>	<u>-</u>	<u>2,431,038</u>
Total accumulated depreciation	<u>18,472,412</u>	<u>1,345,154</u>	<u>-</u>	<u>19,817,566</u>
Total capital assets being depreciated, net	<u>36,148,609</u>	<u>5,462,833</u>	<u>-</u>	<u>41,611,442</u>
Total capital assets	<u>\$ 37,352,222</u>	<u>\$ 5,875,922</u>	<u>\$ 623,281</u>	<u>\$ 42,604,863</u>

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

Governmental Activities -	
Instruction	\$ 1,059,416
Support services	264,206
Food service	<u>21,532</u>
	<u>\$ 1,345,154</u>

The book value of Pare Elementary (idle asset) at June 30, 2018 is \$1,072,872, which approximates fair value.

Construction Contract Commitments -

The School District has construction activities reported in the 2018 Construction Fund. At June 30, 2018, the School District had committed \$3,020,752 for construction contracts and had expended \$355,040 through the end of the year, leaving \$2,665,712 remaining on the commitments.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances is as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	2015 Issue Fund	\$ 423 (1)
	2008 Issue Fund	141 (1)
	2014 Issue Fund	55 (1)
	2017 Refunding Fund	223 (1)
	Food Service Fund	35,567 (1)
	Latchkey Fund	<u>19,370 (1)</u>
		55,779
2017 Construction Fund	General Fund	255,960 (3)
	2014 Construction Fund	12,762 (1)
Food Service Fund	2017 Construction Fund	42,441 (1)
2014 Issue Fund	General Fund	<u>7,047 (3)</u>
		<u>\$ 373,989</u>

Transfers From/To Other Funds:

<u>Receiving Fund</u>	<u>Expending Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 68,000 (2)
	Latchkey Fund	<u>20,000 (2)</u>
		88,000
2017 Refunding Fund	2008 Issue Fund	43,753 (4)
	2015 Issue Fund	<u>343,409 (4)</u>
		<u>387,162</u>
		<u>\$ 475,162</u>

(1) Reimbursement of expenditures

(2) Charge for indirect costs

(3) Reclassifying revenues

(4) To close out funds

NOTE 6 - SHORT-TERM BORROWINGS:

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

	<u>Balance</u>		<u>Balance</u>
	<u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>
2017 State Aid Note	\$ -	\$ 3,500,000	\$ -
2016 State Aid Note	<u>2,600,000</u>	<u>-</u>	<u>2,600,000</u>
	<u>\$ 2,600,000</u>	<u>\$ 3,500,000</u>	<u>\$ 2,600,000</u>
			<u>\$ 3,500,000</u>

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

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

In August 2017, the School District issued a State Aid Note for \$3,500,000 with interest of 1.49% to assist with operating cash flow. The State Aid Note and interest were payable August 20, 2018. The Note was paid in full in August 2018.

NOTE 7 - LONG-TERM DEBT:

The following is a summary of changes in the long-term debt (including current portions) for the year ended June 30, 2018:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2018</u>	Due Within <u>One Year</u>
District-wide Financial Statements -					
Bonds payable	\$ 26,000,000	\$ 8,945,000	\$ 2,445,000	\$ 32,500,000	\$ 2,215,000
Issuance Premium	2,052,977	353,609	221,206	2,185,380	149,974
Accrued vacation/sick leave	411,157	26,837	-	437,994	-
Accrued contracts payable	<u>85,298</u>	<u>-</u>	<u>17,743</u>	<u>67,555</u>	<u>-</u>
	<u>\$ 28,549,432</u>	<u>\$ 9,325,446</u>	<u>\$ 2,683,949</u>	<u>\$ 35,190,929</u>	<u>\$ 2,364,974</u>

Bonds Payable -

South Lake Schools issued Building and Site Bonds for the purposes of acquiring land, erecting and remodeling and furnishing and equipping various schools. The bonds are being paid from ad-valorem taxes levied without limitation as to rate or amount as provided by the Michigan Constitution. The bonds payable at June 30, 2018, per respective issue, are as follows:

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

\$ 6,360,000

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

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

\$ 17,195,000

2018 Building and Site Bonds for remodeling, equipping, re-equipping, furnishing, and refurbishing school buildings and other facilities to enhance security and for other purposes; acquiring and installing technology equipment and technology infrastructure in school buildings and other facilities; constructing additions to school buildings including entrances to enhance security and the construction of a storage facility; preparing, developing, and improving sites at school buildings and other facilities; the purchase of school buses; and paying the costs of issuing the Bonds dated May 29, 2018 for \$8,945,000. The Bonds are due May 1 and November 1 with principal payments beginning November 1, 2020 and interest ranging from 3.125% to 4.000%, due semi-annually.

8,945,000

\$ 32,500,000

The Debt Service Funds have \$390,177 available at June 30, 2018 to service the Building and Site Bonds.

Accrued Vacation and Sick Leave -

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

\$ 437,994

Accrued Contracts Payable -

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

\$ 67,555

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Annual Debt Requirements -

The annual requirements to pay the debt outstanding at June 30, 2018 (excluding vacation and sick and accrued contracts payable) are as follows:

	Bonds	
	Principal	Interest
2019	\$ 2,215,000	\$ 1,333,511
2020	2,270,000	1,256,174
2021	2,915,000	1,148,925
2022	1,875,000	1,040,025
2023	2,130,000	929,875
2024-2028	11,575,000	3,122,877
2029-2033	7,535,000	915,198
2034-2038	940,000	291,598
2039-2043	925,000	116,153
2044	120,000	3,600
	\$ 32,500,000	\$ 10,157,936

NOTE 8 - PENSION PLANS AND POSTEMPLOYMENT BENEFITS:

Plan Description -

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

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

Benefits Provided -

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

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

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

Depending on the Plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25%-1.50%. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50% for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

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

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

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

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. MPSERS 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 MPSERS with the balance deducted from the monthly pension of each retiree healthcare 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 (OPEB), 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, set at the maximum subsidy at 80% beginning January 1, 2013 and 90% for those who are Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Public Act 300 of 2012 granted all active members of MPSERS who earned service credit in the 12 months ended 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.

Member and Employer Contributions -

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

Employer contributions to MPSERS for pension benefits are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 20-year period for the Plan's 2017 fiscal year. Employer contributions ranged from 15.27% to 19.03% for the period July 1 through September 30, 2017 and 13.54% to 19.74% for the period October 1, 2017 through June 30, 2018. In addition, the State contributes stabilization revenues to all school districts to use exclusively for retirement benefits, which was 8.53% for the period July 1 through September 30, 2017 and 11.32% for the period October 1, 2017 through June 30, 2018. The School District's contributions for July 1, 2017 to June 30, 2018 amounted to \$2,970,092, of which \$1,738,484 was district funded and \$1,231,608 was State funded.

Depending on the Plan selected by the participant, member contributions range from 0% to 7% of wages.

The MPSERS Board also annually sets the employer contribution rate for OPEB benefits, which participatory employees are required to contribute. Employer contributions range from 5.69% to 5.91% for the period July 1 through September 30, 2017 and 7.42% to 7.67% for the period October 1, 2017 through June 30, 2018. In addition, the State contributed revenues to the School District to use exclusively for OPEB benefits, which was approximately 3.17% for the period July 1 through September 30, 2017. The School District's funded contributions for July 1, 2017 to June 30, 2018 amounted to \$774,377.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Members electing the Personal Healthcare Fund will be automatically enrolled to provide a 2% employee contribution into their 457 account as of their transition date and create an obligation for the School District to provide a 2% employer match into the employee's 403(b) account. For the year ended June 30, 2018, the School District's contributions were approximately \$28,000.

Payable to the Plan -

At June 30, 2018, the School District reported a payable of \$394,769 to the Plan for pension benefits required for the remaining pays related to the year ended June 30, 2018 and State Section 147c revenues.

At June 30, 2018, the School District reported a payable of \$73,873 to the Plan for OPEB benefits required for the remaining payments related to the year ended June 30, 2018.

Long-term Expected Return on Plan Assets -

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

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

* Long-term expected real rate of return is net of administrative expenses and 2.3% inflation.

Proportionate Share Net Pension Liability -

At June 30, 2018, the School District reported net pension liability of \$32,418,959 for its proportionate share of MPSERS' net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all of the School District's statutorily required contributions for the measurement period. At September 30, 2017, the School District's proportionate share percent was 0.12510089 percent and 0.13662700 percent as of September 30, 2016.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

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

For the year ended June 30, 2018, the recognized total pension expense in the district-wide financial statements was \$2,303,763. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 3,551,755	\$ -
Net difference between projected and actual earnings on Plan investments	-	1,549,840
Changes in proportion and differences between School District contributions and proportionate share of contributions	2,865	3,033,121
Difference between expected and actual experience	<u>281,743</u>	<u>159,073</u>
	3,836,363	4,742,034
Contributions made subsequent to the measurement date	2,748,131	-
147c Pension revenue related to contributions made subsequent to the measurement date	<u>-</u>	<u>1,231,608</u>
Total	<u>\$ 6,584,494</u>	<u>\$ 5,973,642</u>

Amounts reported as deferred outflows or inflows of resources related to pensions resulting from contributions made subsequent to the measurement date and the related State contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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 Ended June 30,</u>	
2019	\$(465,897)
2020	158,694
2021	(214,968)
2022	<u>(383,500)</u>
	<u>\$(905,671)</u>

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Actuarial Valuations and Assumptions -

The total pension liability was determined by an actuarial valuation as of September 30, 2016 using updated procedures to roll forward the liability to September 30, 2017. The valuation was based on the most recent study of Plan experience covering the period of October 1, 2007 through September 30, 2012. Significant assumptions used in the latest valuation were:

Actuarial Cost Method	Entry Age, Normal
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	7.5%
- Pension Plus Plan (Hybrid)	7.0%
Projected Salary Increases	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments	3.0% Annual Non-Compounded for MIP Members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Discount Rate -

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus Plan, a hybrid plan). This discount rate was based on the long term expected rate of return on Plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine this discount rate assumed that Plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 7.5% (7.0% for the Pension Plus Plan), as well as what the reporting unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
<u>(6.5%/6.0%)</u>	<u>(7.5%/7.0%)</u>	<u>(8.5%/8.0%)</u>
<u>\$ 42,231,120</u>	<u>\$ 32,418,959</u>	<u>\$ 24,157,744</u>

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Proportionate Share Net OPEB Liability -

At June 30, 2018, the School District reported a liability of \$11,113,138 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportionate share of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017 and 2016, the School District's proportionate share was 0.1254946 percent.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB -

For the year ended June 30, 2018, the School District recognized OPEB expense in the district-wide financial statements of \$744,711. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 118,322
Net difference between projected and actual earnings on OPEB plan investments	-	257,383
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>6,175</u>	<u>-</u>
	6,175	375,705
Employer contributions subsequent to the measurement date	<u>656,282</u>	<u>-</u>
Total	<u>\$ 662,457</u>	<u>\$ 375,705</u>

Amounts reported as deferred outflows or inflows of resources related to OPEB resulting from contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	
2019	\$(89,410)
2020	(89,410)
2021	(89,410)
2022	(89,410)
2023	<u>(11,890)</u>
	<u>\$(369,530)</u>

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Actuarial Valuations and Assumptions -

The total OPEB liability was determined by an actuarial valuation as of September 30, 2016 using updated procedures to roll forward the liability to September 30, 2017. The valuation was based on the most recent study of Plan experience covering the period of October 1, 2007 through September 30, 2012. Significant assumptions used in the latest valuation were:

Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate	3.5%
Investment Rate of Return	7.5%
Projected Salary Increases	3.5 - 12.3%, including wage inflation of 3.5%
Healthcare Cost Trend Rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.
Opt Out Assumptions	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 coverages continuing after the retiree's death.
Coverage Election at Retirement	70% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Discount Rate -

A discount rate of 7.5% was used to measure the total OPEB liability. The discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 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.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate -

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
\$ <u>13,016,697</u>	\$ <u>11,113,138</u>	\$ <u>9,497,613</u>

Sensitivity to the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate -

The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease <u>(6.5%)</u>	Current Healthcare Cost Trend Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
\$ <u>9,411,334</u>	\$ <u>11,113,138</u>	\$ <u>13,045,418</u>

NOTE 9 - RISK MANAGEMENT:

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

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

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLE:

The School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement required the School District to record its proportionate share of the Michigan Public School Employees Retirement System's net OPEB liability in the district-wide financial statements and enhanced accountability and transparency through the related note disclosures and required supplementary information. The standards require this change to be applied retroactively. As a result, the July 1, 2017 net position was decreased by \$11,211,629.

NOTE 11 - SUBSEQUENT EVENT:

In August 2018, the School District issued State Aid Revenue Notes, Series 2018, through the Michigan Finance Authority in the amount of \$3,000,000 with interest of 2.50% due August 20, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH LAKE SCHOOLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues:				
Local sources	\$ 4,902,452	\$ 5,633,378	\$ 5,013,632	\$(619,746)
State sources	13,134,505	13,551,870	13,263,838	(288,032)
Federal sources	1,015,922	863,311	816,035	(47,276)
Interdistrict sources	784,374	-	632,445	632,445
Total Revenues	<u>19,837,253</u>	<u>20,048,559</u>	<u>19,725,950</u>	<u>(322,609)</u>
Expenditures:				
Current -				
Instruction -				
Basic programs	8,811,704	9,223,201	9,130,561	92,640
Added needs	1,991,629	1,722,164	1,701,558	20,606
Support Services -				
Pupil	2,015,537	2,045,187	2,078,068	(32,881)
Instructional staff	1,120,349	1,241,128	1,166,729	74,399
General administration	489,567	481,328	494,622	(13,294)
School administration	944,899	1,122,739	1,131,593	(8,854)
Business services	507,896	353,960	356,508	(2,548)
Operation and maintenance	1,912,756	2,265,575	2,233,369	32,206
Pupil transportation services	392,252	486,064	467,407	18,657
Central	116,496	72,518	71,492	1,026
Athletics	289,091	264,734	284,090	(19,356)
Community Services	672,761	811,188	672,415	138,773
Outgoing Transfers	18,403	5,280	5,280	-
Total Expenditures	<u>19,283,340</u>	<u>20,095,066</u>	<u>19,793,692</u>	<u>301,374</u>
Revenues over (under) expenditures	553,913	(46,507)	(67,742)	(21,235)
Other Financing Sources:				
Transfers from other funds	<u>51,000</u>	<u>51,000</u>	<u>88,000</u>	<u>37,000</u>
Net Change in Fund Deficit	604,913	4,493	20,258	15,765
Fund Deficit at beginning of year	<u>(1,282,078)</u>	<u>(1,282,078)</u>	<u>(1,282,078)</u>	<u>-</u>
Fund Deficit at end of year	<u><u>\$(677,165)</u></u>	<u><u>\$(1,277,585)</u></u>	<u><u>\$(1,261,820)</u></u>	<u><u>\$ 15,765</u></u>

SOUTH LAKE SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
PENSION BENEFITS**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PLAN FISCAL YEARS**

	Year Ended September 30,			
	2017	2016	2015	2014
Proportion of net pension liability	0.125101%	0.136627%	0.139222%	0.144760%
Proportionate share of net pension liability	\$ 32,418,959	\$ 34,087,314	\$ 34,004,950	\$ 31,885,482
Covered Payroll	\$ 10,013,948	\$ 11,413,253	\$ 11,560,805	\$ 12,748,583
Proportionate share of net pension liability as a percentage of covered payroll	323.74%	298.66%	294.14%	250.11%
Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%

**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
DISTRICT'S FISCAL YEARS**

	Year Ended June 30,			
	2018	2017	2016	2015
Statutorily required contributions	\$ 2,970,092	\$ 2,987,013	\$ 3,010,911	\$ 2,673,474
Contributions in relation to statutorily required contribution	2,970,092	2,987,013	3,010,911	2,673,474
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 9,959,644	\$ 10,161,173	\$ 10,907,092	\$ 11,808,693
Contributions as a Percentage of Covered Employee Payroll	29.82%	29.40%	27.61%	22.64%

* GASB No. 68 was implemented for fiscal year ended June 30, 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

SOUTH LAKE SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
PLAN FISCAL YEARS**

	Year ended September 30, 2017
Proportion of net OPEB liability	0.125495%
Proportionate share of net OPEB liability	\$ 11,113,138
Covered Payroll	\$ 10,013,948
Proportionate share of net OPEB liability as a percentage of covered payroll	110.98%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%

**SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
DISTRICT'S FISCAL YEARS**

	Year ended June 30, 2018
Statutorily required contributions	\$ 774,377
Contributions in relation to statutorily required contribution	774,377
Contribution Excess	\$ -
Covered Payroll	\$ 9,959,644
Contributions as a Percentage of Covered Employee Payroll	7.78%

* GASB No. 75 was implemented for fiscal year ended June 30, 2018. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

OTHER SUPPLEMENTARY INFORMATION

SOUTH LAKE SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>	
	<u>Food Service</u>	<u>Latchkey</u>	<u>2008 Issue</u>	<u>2014 Issue</u>
Assets:				
Cash and cash equivalents	\$ 176,140	\$ 96,020	\$ 141	\$ 85,014
Accounts receivable	731	-	-	-
Due from other governmental units - State	29,729	-	-	-
Due from other funds	42,441	-	-	7,047
	<u>249,041</u>	<u>96,020</u>	<u>141</u>	<u>92,061</u>
Total Assets	<u>\$ 249,041</u>	<u>\$ 96,020</u>	<u>\$ 141</u>	<u>\$ 92,061</u>
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	35,567	19,370	141	55
Unearned revenues	6,283	-	-	-
Total Liabilities	<u>41,850</u>	<u>19,370</u>	<u>141</u>	<u>55</u>
Fund Balances:				
Restricted -				
Debt service	-	-	-	92,006
Food service	207,191	-	-	-
Capital projects	-	-	-	-
Committed - Latchkey	-	76,650	-	-
Total Fund Balances	<u>207,191</u>	<u>76,650</u>	<u>-</u>	<u>92,006</u>
Total Liabilities and Fund Balances	<u>\$ 249,041</u>	<u>\$ 96,020</u>	<u>\$ 141</u>	<u>\$ 92,061</u>

<u>Debt Service Funds</u>		<u>Capital Project Fund</u>	
<u>2015</u>	<u>2017</u>	<u>2014</u>	<u>Total</u>
<u>Issue</u>	<u>Issue</u>	<u>Construction</u>	
\$ 423	\$ 298,394	\$ 109,744	\$ 765,876
-	-	-	731
-	-	-	29,729
-	-	-	49,488
<u>\$ 423</u>	<u>\$ 298,394</u>	<u>\$ 109,744</u>	<u>\$ 845,824</u>
\$ -	\$ -	\$ 2,210	\$ 2,210
423	223	12,762	68,541
-	-	-	6,283
<u>423</u>	<u>223</u>	<u>14,972</u>	<u>77,034</u>
-	298,171	-	390,177
-	-	-	207,191
-	-	94,772	94,772
-	-	-	76,650
<u>-</u>	<u>298,171</u>	<u>94,772</u>	<u>768,790</u>
<u>\$ 423</u>	<u>\$ 298,394</u>	<u>\$ 109,744</u>	<u>\$ 845,824</u>

SOUTH LAKE SCHOOLS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Special Revenue Funds		Debt Service Funds	
	Food Service	Latchkey	2008 Issue	2014 Issue
Revenues:				
Local Sources	\$ 188,882	\$ 130,435	\$ 565,943	\$ 224,330
State Sources	32,601	-	4,374	8,767
Federal Sources	637,803	-	-	-
Total Revenues	859,286	130,435	570,317	233,097
Expenditures:				
Current -				
Support services	-	-	255	97
Food services	837,059	-	-	-
Latchkey	-	120,825	-	-
Capital Outlay	-	-	-	-
Debt Service -				
Principal retirement	-	-	600,000	-
Interest and fiscal charges	-	-	25,500	247,094
Total Expenditures	837,059	120,825	625,755	247,191
Revenues over (under) expenditures	22,227	9,610	(55,438)	(14,094)
Other Financing Sources (Uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	(68,000)	(20,000)	(43,753)	-
Total Other Financing Sources (Uses)	(68,000)	(20,000)	(43,753)	-
Net Change in Fund Balances	(45,773)	(10,390)	(99,191)	(14,094)
Fund Balances at beginning of year	252,964	87,040	99,191	106,100
Fund Balances at end of year	\$ 207,191	\$ 76,650	\$ -	\$ 92,006

<u>Debt Service Funds</u>		<u>Capital Project Fund</u>	
<u>2015</u>	<u>2017</u>	<u>2014</u>	<u>Total</u>
<u>Issue</u>	<u>Issue</u>	<u>Construction</u>	
\$ 1,705,223	\$ 896,992	\$ 1,353	\$ 3,713,158
13,160	6,917	-	65,819
-	-	-	637,803
<u>1,718,383</u>	<u>903,909</u>	<u>1,353</u>	<u>4,416,780</u>
1,299	886	-	2,537
-	-	-	837,059
-	-	-	120,825
-	-	13,662	13,662
1,845,000	-	-	2,445,000
42,300	992,014	-	1,306,908
<u>1,888,599</u>	<u>992,900</u>	<u>13,662</u>	<u>4,725,991</u>
<u>(170,216)</u>	<u>(88,991)</u>	<u>(12,309)</u>	<u>(309,211)</u>
-	387,162	-	387,162
<u>(343,409)</u>	<u>-</u>	<u>-</u>	<u>(475,162)</u>
<u>(343,409)</u>	<u>387,162</u>	<u>-</u>	<u>(88,000)</u>
(513,625)	298,171	(12,309)	(397,211)
<u>513,625</u>	<u>-</u>	<u>107,081</u>	<u>1,166,001</u>
<u>\$ -</u>	<u>\$ 298,171</u>	<u>\$ 94,772</u>	<u>\$ 768,790</u>

SOUTH LAKE SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Local sources	\$ 210,298	\$ 210,298	\$ 188,882	\$(21,416)
State sources	34,708	34,708	32,601	(2,107)
Federal sources	655,575	655,575	637,803	(17,772)
Total Revenues	<u>900,581</u>	<u>900,581</u>	<u>859,286</u>	<u>(41,295)</u>
Expenditures:				
Food Service -				
Salaries			274,288	
Payroll taxes, retirement, etc.			126,483	
Insurance			8,461	
Purchased services			23,965	
Cost of goods sold			364,745	
Other expenditures			39,056	
Capital Outlay			61	
Total Expenditures	<u>888,611</u>	<u>888,611</u>	<u>837,059</u>	<u>51,552</u>
Revenues over expenditures	11,970	11,970	22,227	10,257
Other Financing Uses:				
Transfers to other funds	<u>(31,000)</u>	<u>(31,000)</u>	<u>(68,000)</u>	<u>(37,000)</u>
Net Change in Fund Balance	(19,030)	(19,030)	(45,773)	(26,743)
Fund Balance at beginning of year	<u>252,964</u>	<u>252,964</u>	<u>252,964</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 233,934</u>	<u>\$ 233,934</u>	<u>\$ 207,191</u>	<u>\$(26,743)</u>

SOUTH LAKE SCHOOLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LATCHKEY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Local sources -				
Tuition	\$ 130,648	\$ 130,648	\$ 130,435	\$(213)
Expenditures:				
Latchkey -				
Salaries			72,626	
Payroll taxes, retirement, etc.			32,643	
Insurance			234	
Other expenditures			15,322	
Total Expenditures	117,320	117,320	120,825	(3,505)
Revenues over (under) expenditures	13,328	13,328	9,610	(3,718)
Other Financing Uses:				
Transfers to other funds	(20,000)	(20,000)	(20,000)	-
Net Change in Fund Balance	(6,672)	(6,672)	(10,390)	(3,718)
Fund Balance at beginning of year	87,040	87,040	87,040	-
Fund Balance at end of year	\$ 80,368	\$ 80,368	\$ 76,650	\$(3,718)