

SCHOOL DISTRICT OF THE CITY OF EAST LANSING

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

YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
School District of the City of East Lansing

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 School District of the City of East Lansing as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of East Lansing as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise School District of the City of East Lansing's basic financial statements. The additional supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2016 on our consideration of School District of the City of East Lansing's 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 School District of the City of East Lansing's internal control over financial reporting and compliance.

Maney Costeiran PC

September 7, 2016

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

The School District of the City of East Lansing is a K-12 public school district located in Ingham and Clinton Counties, Michigan. The Management's Discussion and Analysis (MD&A) is intended to be the School District of the City of East Lansing's management's review of financial performance for the year ended June 30, 2016. The MD&A is recommended to be read in conjunction with the District's financial statements. Prior year information is provided for comparative analysis.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The government-wide financial statements provide information about the *governmental activities* of the entire District, presenting both an aggregate view of the District's finances and a long-term view of those finances. The fund financial statements provide information about how *governmental funds* were financed in the short-term as well as what remains for future spending and looks at the District's operations by providing information about the District's most significant funds and with all other funds presented in one column as "non-major funds". The fiduciary funds statements present financial information about activities for which the District acts solely as an agent for the benefit of mostly student groups. The required supplemental information provide budget to actual comparisons of the general fund. The remaining statements are provided for additional analysis.

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

In the business arena a commonly asked question is, "is the entity as a whole better or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report financial information about the District as a whole and its activities in a way that helps the reader answer this question. These statements are prepared using the full accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. They report all of the District's assets, deferred outflows, deferred inflows and liabilities, both short and long-term, and 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 District's net position (the difference between assets, deferred outflows, deferred inflows and liabilities), as reported in the Statement of Net Position, as one way to measure the District's financial health, or financial position.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

Over time, increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide educational services to 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 District.

The governmental-wide financial statements report the governmental activities of the District, which encompass all of the District's services. Local property taxes, state per pupil foundation allowance, and state and federal grants finance the majority of these activities.

Fund Financial Statements - Reporting the School District's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds of the District - not the District as a whole. Certain funds are required to be established by State law or by bond covenants. Others funds are created in order to help control and manage their activities. The fund level statements of the District use an accounting method called modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows in and out of funds and the balances remaining at year-end that are available for appropriation. Governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. The information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's educational programs. Differences between governmental activities, as reported in the government-wide statements, and governmental funds, as reported in the fund financial statements, are presented in a reconciliation statement.

Fiduciary Statements - Reporting the School District's Trustee Responsibility

The District is the trustee, or fiduciary for its student activity funds. All of the District's fiduciary activities are aggregated and reported in the Statement of Fiduciary Assets and Liabilities. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

The School District as a Whole - Summary of Net position

The Statement of Net Position provides the perspective of the District as a whole. The following schedule summarizes the net position as of June 30, 2016.

	2016	2015
ASSETS:		
Current and other assets	\$ 12,919,538	\$ 12,178,340
Noncurrent assets	71,485,825	73,566,011
Total assets	84,405,363	85,744,351
DEFERRED OUTFLOWS:		
Deferred charge on refunding	1,058,935	1,134,573
Related to pensions	5,868,862	5,301,610
Total deferred outflows	6,927,797	6,436,183
LIABILITIES:		
Current liabilities	5,412,605	6,031,801
Noncurrent liabilities	45,188,469	49,126,626
Net pension liability	52,465,688	48,496,759
Total liabilities	103,066,762	103,655,186
DEFERRED INFLOWS:		
Related to pensions	1,174,723	5,361,336
Related to state aid funding for pension	1,431,041	-
	2,605,764	5,361,336
NET POSITION:		
Net investment in capital assets	28,954,657	27,792,238
Restricted	650,653	456,988
Unrestricted	(43,944,676)	(45,085,214)
Total net position	\$(14,339,366)	\$(16,835,988)

Analysis of Financial Position

For the fiscal year ended June 30, 2016 the District's net position as of June 30, 2016 totaled (\$14,332,402) which was an increase over the June 30, 2015 balance of (\$16,835,988). A few of the more significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

The District is required to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net position.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

The District records depreciation expense on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, when applicable. For the fiscal year ended June 30, 2016, the following was recorded as depreciation expense:

	2016	2015
Land improvements	\$ 533,121	\$ 531,815
Building and improvements	2,377,047	1,821,813
Furniture and equipment	429,301	491,195
Vehicles	10,688	10,688
Total	<u>\$ 3,350,157</u>	<u>\$ 2,855,511</u>

One approach of interpreting depreciation expense is that in order to maintain net position at a constant level the District would have to capitalize assets equal to the annual depreciation expense. However, when taking into consideration factors such as, inflation and repairs and maintenance, the actual investment in capital outlay would have to exceed the depreciation expense in order to maintain assets at the same level of value and functionality.

2. Capital Outlay Acquisition

For the fiscal year ended June 30, 2016 \$1,269,971 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets are depreciated over time as explained above.

The net effect of capital asset additions, deletions, and the current year's depreciation expense is a decrease to capital assets in the amount of \$2,080,186 for the fiscal year ended June 30, 2016.

3. Long-Term Debt

The District's total general long-term debt for the fiscal year ended June 30, 2016 decreased by \$3,937,563. The majority of the decrease is a result of the District making payments on its various debt obligations.

Results of Operations

The results of this year's operations for the School District as a whole are reported in the Statement of Activities, which shows the changes in net position.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

For the fiscal year ended June 30, 2016 and June 30, 2015, the District-wide results of operation were:

	2016	% of total	2015	% of total
General revenues:				
Property taxes, levied for general operations	\$ 8,520,164	19.2	\$ 8,468,998	17.9
Property taxes, levied for debt service	5,668,816	12.7	8,244,771	17.4
Property taxes, levied for sinking fund	1,337,054	3.0	1,307,618	2.8
Investment earnings	4,588	-	8,610	-
State sources	20,085,389	45.1	19,217,044	40.6
County special education allocation	3,534,515	7.9	3,429,244	7.2
Gain/(loss) on sale of capital assets	11,157	-	7,724	-
Other	289,803	0.7	341,054	0.7
Total general revenues	39,451,486	88.6	41,025,063	86.6
Program revenues:				
Charges for services	645,476	1.5	735,166	1.6
Operating grants	4,398,453	9.9	5,571,834	11.8
Total revenues	\$ 44,495,415	100.0	\$ 47,332,063	100.0
Function/program expenses:				
Instruction	\$ 21,865,393	52.0	\$ 22,104,159	52.8
Support services	13,542,391	32.2	14,295,464	34.2
Community services	22,568	0.1	29,299	0.1
Outgoing transfers and other transactions	-	-	23,238	0.1
Food services	1,053,225	2.5	1,090,216	2.6
Interest on long-term debt	2,165,059	5.2	1,435,655	3.4
Unallocated depreciation	3,350,157	8.0	2,855,511	6.8
Total expenses	\$ 41,998,793	100.0	\$ 41,833,542	100.0

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies various millages on property taxes for general operations, debt service, and building and site repairs. Each millage, except those for debt service, is subject to mandatory reductions as required by the Headlee Amendment. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annual taxable valuation increases are capped at the rate of the prior year's Consumer Price Index or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is approximately 50% of the property's market value.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

The District receives settlements from Ingham and Clinton counties on all outstanding *real* property taxes at the end of each fiscal year. The amount of unpaid *personal* property taxes at June 30, 2016 was approximately \$95,000, or 1.09% of the total General Fund levy.

The following schedule summarizes the millages levied for the past five years.

Fiscal year	All property supplemental operating mills levied	Non-PRE (comm. personal) operating mills levied	All property debt service mills levied	All property sinking fund mills levied
2015 - 2016	0.0000	18.0000	5.4560	1.2860
2014 - 2015	0.0000	18.0000	8.0950	1.2860
2013 - 2014	0.0000	18.0000	8.1200	1.2860
2012 - 2013	0.0000	18.0000	7.0000	1.2860
2011 - 2012	0.0000	18.0000	7.0000	1.2802

The following schedule summarizes the property taxes generated for the past five years:

Fiscal year	All property supplemental operating mills levied	Non-PRE (comm personal) operating mills levied	All property debt service mills levied	All property building & site mills levied
2015 - 2016	\$ -	\$ 8,700,547	\$ 5,667,892	\$ 1,330,229
2014 - 2015	-	8,493,110	8,205,064	1,300,716
2013 - 2014	-	8,168,877	8,085,819	1,271,222
2012 - 2013	-	8,076,732	7,033,919	1,282,869
2011 - 2012	-	8,263,591	7,279,392	1,321,976

2. State Sources

Per the State School Aid Act the State of Michigan funds school districts on a per pupil allowance based on a blended student enrollment. The blended enrollment consists of 90% of the current fiscal year's fall count (the first Wednesday of October) and 10% of the previous fiscal year's supplemental count (the second Wednesday of February). The District's per pupil allowance for fiscal year 2016 was \$8,169.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

The following schedule summarizes the District's per pupil allowance over the past five years:

<u>Fiscal year</u>	<u>Per pupil allowance</u>	<u>\$ increase (decrease) from prior year</u>
2015 - 2016	\$ 8,169	\$ 70
2014 - 2015	8,099	50
2013 - 2014	8,049	30
2012 - 2013	8,019	-
2011 - 2012	8,019	(118)

Non-resident pupils that attend the District via School of Choice (SOC) program are funded at the per pupil allowance of their resident district. The majority of the District's SOC pupils are funded at a lower per pupil amount than the \$8,169 the District receives for its resident pupils.

3. Student Enrollment

The District's student enrollment figures have increased over the past several years. The following schedule summarizes the blended enrollment for each of the past five fiscal years:

<u>Fiscal year</u>	<u>Actual blended student FTE</u>	<u>FTE change from prior year</u>
2015 - 2016	3,615	112
2014 - 2015	3,503	7
2013 - 2014	3,496	(42)
2012 - 2013	3,538	61
2011 - 2012	3,477	10

4. County Special Education Allocation

The District receives an allocation, based on a funding system, from Ingham Intermediate School District to assist with the education of students with special needs. For the fiscal year June 30, 2016 ended the District received \$2,481,599. This amount represents an increase of \$235,400 over the prior fiscal year.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

5. Expenditure Comparison By Function

The following schedule provides a comparison of fund expenditures and other financing sources for fiscal years 2015 - 2016 and 2014 - 2015:

Function	2015-2016 fiscal year	%	2014-2015 fiscal year	%
Basic programs	\$ 18,415,374	50.7	\$ 18,119,587	50.3
Special education	2,933,290	8.1	2,998,142	8.3
Compensatory education	1,165,160	3.2	1,122,058	3.1
Total instruction	22,513,824	62.0	22,239,787	61.7
Pupil support services	2,530,217	7.0	2,498,707	7.0
Instructional staff support services	2,256,779	6.2	2,605,433	7.2
School administration	2,300,763	6.4	2,152,351	6.0
Total instructional support	7,087,759	19.6	7,256,491	20.2
General administration	359,527	1.0	375,393	1.0
Business office	383,968	1.1	416,110	1.2
Operations and maintenance	3,550,418	9.8	3,406,888	9.5
Pupil transportation	967,660	2.7	1,031,940	2.9
Central	666,016	1.8	530,729	1.5
Athletics	677,105	1.9	642,426	1.8
Community services	22,568	0.1	29,299	0.1
Outgoing transfers and other transactions	-	-	23,238	0.1
Total general fund	36,228,845	100.0	35,952,301	100.0
Food service fund	1,061,074		1,091,078	
Debt service funds	5,628,559		4,300,521	
2005 Series B debt fund	-		4,453,742	
Sinking fund	1,143,389		2,928,658	
2012 capital projects fund	91,718		351,710	
2013 capital projects fund	538,338		965,134	
Total	\$ 44,691,923		\$ 50,043,144	

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education adopt the original budget for the upcoming fiscal year prior to the start of the fiscal year on July 1. Amendments made to the original budgets must be adopted by the Board of Education prior to the close of the fiscal year on June 30.

The District budgets according to the Michigan School Accounting Manual Bulletin 1022. It is standard practice to amend its budget semi-annually, usually December and May.

The following schedule shows a five-year comparison of the general fund revenue and other financing sources final budget versus actual results:

Fiscal year	Revenues and Other Financing Sources		
	Budget	Actual	Variance
2015 - 2016	\$ 38,308,085	\$ 37,993,016	-0.82%
2014 - 2015	36,557,701	36,319,908	-0.65%
2013 - 2014	35,257,879	35,287,711	0.08%
2012 - 2013	35,673,954	35,717,808	0.12%
2011 - 2012	34,370,926	34,296,757	-0.22%
Five year average actual over (under) budget			-0.30%

The following schedule shows a five-year comparison of the general fund expenditures and other financing uses final budget versus actual results:

Fiscal year	Expenditures and Other Financing Uses		
	Budget	Actual	Variance
2015 - 2016	\$ 36,753,131	\$ 36,228,845	-1.43%
2014 - 2015	36,398,110	35,952,301	-1.22%
2013 - 2014	36,186,893	36,106,849	-0.22%
2012 - 2013	35,136,047	35,041,867	-0.27%
2011 - 2012	35,339,702	35,239,143	-0.28%
Five year average actual over (under) budget			-0.68%

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

Capital and Intangible Assets and Debt Administration

1. Capital Assets

At June 30, 2016 the District had \$71,485,825 invested in a broad range of capital assets, including land, construction in progress, land improvements, buildings, various furniture and equipment, and vehicles. This amount represents a net decrease of \$2,080,186 due to fiscal year capital asset additions and the sale of assets exceeding depreciation and disposals.

The following schedule shows the net book value of the District's capital assets by class type:

	2016			2015
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 266,493	\$ -	\$ 266,493	\$ 266,493
Construction in progress	601,608	-	601,608	23,694
Land improvements	11,892,597	6,446,737	5,445,860	5,971,191
Building and additions	95,814,459	32,809,157	63,005,302	64,811,011
Furniture and equipment	7,171,729	5,115,819	2,055,910	2,458,430
Transportation equipment	302,656	192,004	110,652	35,192
Total	<u>\$ 116,049,542</u>	<u>\$ 44,563,717</u>	<u>\$ 71,485,825</u>	<u>\$ 73,566,011</u>

2. Long-term Debt

At June 30, 2016 the District had \$44,235,860 in general obligation debt outstanding versus \$48,092,441 June 30, 2015.

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. The District's outstanding general obligation debt is significantly below this statutorily imposed limit.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

Factors Bearing on the District's Future

Our elected officials and administration consider many factors when developing the District's fiscal year budget. The following items could significantly impact the District's financial health in the future:

- **Student Enrollment:** State Aid Foundation revenue received is driven by the District's blended student count. A total of 90% of the blended count is not known until the first Wednesday of October 2016. The District is projecting a modest enrollment growth for fiscal year 2016-2017.
- **Foundation Allowance:** The per pupil foundation allowance the District receives from the State is projected to increase \$60 per pupil for the fiscal year 2016-2017. District operations is reliant on of State funding as approximately 65% of total General Fund revenue is from State sources.
- **Health Insurance:** The trend of increasing costs of health insurance and the financial impact of the Affordable Care Act is a concern.
- **Retirement Rate:** The Michigan Public School Employees Retirement system now has seven different rates for active employees and another seven rates for retirees and former qualified participants who return to work. The State retirement rate that is most applicable to District employees is 24.94%, effective October 1, 2016, that is charged to districts to fund the retirement system. This represents 0.84 percentage points decrease from the rate ending September 30, 2016. In addition, the State charges and funds a stabilization rate which is projected to be 11.70% for fiscal year 2016-2017. This represents 1.17 percentage points increase over fiscal year 2015-2016. The ability of the State to continue to subsidize the stabilization rate is a concern.
- **Employee Contracts:** The District has four collectively bargained contracts. Two of those contracts were unsettled as of June 30, 2016. Overall, total employee compensation represents approximately 79% of total General Fund expenditures.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances. If you have questions about this report, or need additional financial information, please contact the Business Office, School District of the City of East Lansing, 501 Burcham Drive, East Lansing, MI 48823.

BASIC FINANCIAL STATEMENTS

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental activities
ASSETS:	
Cash and cash equivalents	\$ 5,441,214
Receivables:	
Accounts receivable	12,703
Taxes receivable	93,332
Intergovernmental	5,009,331
Inventories	36,891
Prepays	168,309
Restricted cash - capital projects	2,157,758
Capital assets not being depreciated	868,101
Capital assets, net of accumulated depreciation	<u>70,617,724</u>
TOTAL ASSETS	<u>84,405,363</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charges on refunding	1,058,935
Related to pensions	<u>5,868,862</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>6,927,797</u>
LIABILITIES:	
Accounts payable	1,027,279
Accrued salaries and related items	2,463,848
Accrued retirement	1,233,866
Accrued interest	307,350
Unearned revenue	216,049
Due to other governmental units	164,213
Noncurrent obligations:	
Due within one year	3,584,705
Due in more than a year	41,603,764
Net pension liability	<u>52,465,688</u>
TOTAL LIABILITIES	<u>103,066,762</u>
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	1,174,723
Related to state aid funding for pension	<u>1,431,041</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,605,764</u>
NET POSITION:	
Net investment in capital assets	28,954,657
Restricted for capital projects (sinking fund)	650,653
Unrestricted	<u>(43,944,676)</u>
TOTAL NET POSITON	<u>\$ (14,339,366)</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	\$ 21,865,393	\$ -	\$ 3,554,480	\$ (18,310,913)
Support services	13,542,391	185,760	150,148	(13,206,483)
Community services	22,568	-	13,732	(8,836)
Food services	1,053,225	459,716	680,093	86,584
Interest on long-term debt	2,165,059	-	-	(2,165,059)
Unallocated depreciation	3,350,157	-	-	(3,350,157)
Total governmental activities	<u>\$ 41,998,793</u>	<u>\$ 645,476</u>	<u>\$ 4,398,453</u>	<u>(36,954,864)</u>
General revenues:				
Property taxes, levied for general purposes				8,520,164
Property taxes, levied for debt service				5,668,816
Property taxes, levied for sinking fund				1,337,054
Investment earnings				4,588
State sources				20,085,389
Intermediate sources				3,534,515
Gain on sale of assets				11,157
Other				289,803
Total general revenues				<u>39,451,486</u>
CHANGE IN NET POSITION				2,496,622
NET POSITION, beginning of year				<u>(16,835,988)</u>
NET POSITION, end of year				<u><u>\$ (14,339,366)</u></u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General fund	Capital projects sinking fund	2012 Capital projects fund	2013 Capital projects fund	Total nonmajor funds	Total governmental funds
ASSETS:						
Cash and cash equivalents	\$ 4,042,392	\$ 942,702	\$ -	\$ -	\$ 456,120	\$ 5,441,214
Restricted cash and cash equivalents	-	-	1,347,683	810,075	-	2,157,758
Receivables:						
Property taxes receivable	51,670	7,870	-	-	33,792	93,332
Accounts receivable	12,395	-	-	-	308	12,703
Intergovernmental	4,981,549	-	-	-	27,782	5,009,331
Inventories	5,751	-	-	-	31,140	36,891
Prepays	159,302	-	-	-	9,007	168,309
TOTAL ASSETS	\$ 9,253,059	\$ 950,572	\$ 1,347,683	\$ 810,075	\$ 558,149	\$ 12,919,538
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 528,819	\$ 293,424	\$ 1,370	\$ 164,318	\$ 39,348	\$ 1,027,279
Accrued salaries and related items	2,463,848	-	-	-	-	2,463,848
Accrued retirement	1,233,866	-	-	-	-	1,233,866
Due to other governmental units	116,835	6,495	-	-	40,883	164,213
Unearned revenue	180,813	-	-	-	35,236	216,049
TOTAL LIABILITIES	4,524,181	299,919	1,370	164,318	115,467	5,105,255
DEFERRED INFLOWS OF RESOURCES:						
Unavailable revenue	147,285	-	-	-	-	147,285
FUND BALANCES:						
Nonspendable:						
Inventories	5,751	-	-	-	31,140	36,891
Prepays	159,302	-	-	-	9,007	168,309

See notes to financial statements.

	<u>General fund</u>	<u>Capital projects sinking fund</u>	<u>2012 Capital projects fund</u>	<u>2013 Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
FUND BALANCES (Concluded):						
Restricted for:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 271,971	\$ 271,971
Capital outlay	-	650,653	-	645,757	-	1,296,410
Food service					130,564	130,564
Committed:						
2012 Capital projects fund	-	-	175,000	-	-	175,000
Assigned:						
Capital projects	-	-	1,171,313	-	-	1,171,313
Unassigned general fund	4,416,540	-	-	-	-	4,416,540
TOTAL FUND BALANCES	<u>4,581,593</u>	<u>650,653</u>	<u>1,346,313</u>	<u>645,757</u>	<u>442,682</u>	<u>7,666,998</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 9,253,059</u>	<u>\$ 950,572</u>	<u>\$ 1,347,683</u>	<u>\$ 810,075</u>	<u>\$ 558,149</u>	<u>\$ 12,919,538</u>
Total governmental fund balances						<u>\$ 7,666,998</u>
Amounts reported for governmental activities in the statement of net position are different because:						
Deferred charges on refunding						1,058,935
Deferred outflows of resources - related to pensions						5,868,862
Deferred inflows of resources - related to pensions						(1,174,723)
Deferred inflows of resources - related to state pension funding						(1,431,041)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:						
The cost of the capital assets is					\$ 116,049,542	
Accumulated depreciation is					<u>(44,563,717)</u>	
						71,485,825
Revenue not recorded in the funds due to not being collected until after September 1st:						
Deferred inflows - Special education payment due from IISD						100,000
Balance of taxes receivable at June 30th less allowance for doubtful accounts expected to be collected after September 1st						47,285
Long-term liabilities are not due and payable in the current period and are not reported in the funds:						
Bonds payable						(44,235,860)
Compensated absences and termination benefits						(952,609)
Accrued interest is not included as a liability in government funds, it is recorded when paid						(307,350)
Net pension liability						<u>(52,465,688)</u>
Net position of governmental activities						<u>\$ (14,339,366)</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Capital projects sinking fund</u>	<u>2012 Capital projects fund</u>	<u>2013 Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:						
Local sources:						
Property taxes	\$ 8,524,083	\$ 1,337,054	\$ -	\$ -	\$ 5,668,816	\$ 15,529,953
Tuition	5,765	-	-	-	-	5,765
Investment earnings	-	-	-	-	4,588	4,588
Food sales and athletics	84,319	-	-	-	459,716	544,035
Other	321,492	-	-	-	-	321,492
Total local sources	8,935,659	1,337,054	-	-	6,133,120	16,405,833
State sources	24,692,002	-	-	-	43,253	24,735,255
Federal sources	756,122	-	-	-	636,840	1,392,962
Incoming transfers and other	3,598,076	-	-	-	-	3,598,076
Total revenues	37,981,859	1,337,054	-	-	6,813,213	46,132,126
EXPENDITURES:						
Current:						
Instruction	22,513,824	-	-	-	-	22,513,824
Supporting services	13,692,453	-	-	-	-	13,692,453
Food service activities	-	-	-	-	1,044,394	1,044,394
Community service activities	22,568	-	-	-	-	22,568
Capital outlay	-	1,143,389	91,718	538,338	16,680	1,790,125

See notes to financial statements.

	<u>General Fund</u>	<u>Capital projects sinking fund</u>	<u>2012 Capital projects fund</u>	<u>2013 Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):						
Debt service:						
Principal repayment	\$ -	\$ -	\$ -	\$ -	\$ 3,210,000	\$ 3,210,000
Interest	-	-	-	-	2,290,564	2,290,564
Payment to school loan revolving fund	-	-	-	-	127,045	127,045
Other costs	-	-	-	-	950	950
Total expenditures	<u>36,228,845</u>	<u>1,143,389</u>	<u>91,718</u>	<u>538,338</u>	<u>6,689,633</u>	<u>44,691,923</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,753,014</u>	<u>193,665</u>	<u>(91,718)</u>	<u>(538,338)</u>	<u>123,580</u>	<u>1,440,203</u>
OTHER FINANCING SOURCES (USES):						
Proceeds from sale of capital assets	<u>11,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,157</u>
NET CHANGE IN FUND BALANCES	<u>1,764,171</u>	<u>193,665</u>	<u>(91,718)</u>	<u>(538,338)</u>	<u>123,580</u>	<u>1,451,360</u>
FUND BALANCES:						
Beginning of year	<u>2,817,422</u>	<u>456,988</u>	<u>1,438,031</u>	<u>1,184,095</u>	<u>319,102</u>	<u>6,215,638</u>
End of year	<u>\$ 4,581,593</u>	<u>\$ 650,653</u>	<u>\$ 1,346,313</u>	<u>\$ 645,757</u>	<u>\$ 442,682</u>	<u>\$ 7,666,998</u>

See notes to financial statements.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net change in fund balances total governmental funds	\$ 1,451,360
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(3,350,157)
Capital outlay	1,269,971
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	432,261
Accrued interest payable, end of the year	(307,350)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items are as follows:	
Payments on debt	3,337,045
Amortization of bond premium	519,536
Net change in deferred charges on refunding	(75,638)
Long-term interest on school loan revolving fund, beginning of the year	594
Long-term interest on school loan revolving fund, end of the year	-
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred inflows - Unavailable revenue, beginning of the year	(363,162)
Deferred inflows - Unavailable revenue, end of the year	147,285
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences and termination benefits, beginning of the year	1,033,591
Accrued compensated absences and termination benefits, end of the year	(952,609)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Pension related items	784,936
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:	
State aid funding for pension	(1,431,041)
Change in net position of governmental activities	\$ 2,496,622

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2016**

	<u>Agency Funds</u>
ASSETS:	
Cash	\$ 476,096
Accounts receivable	<u>178</u>
Total assets	<u><u>\$ 476,274</u></u>
LIABILITIES:	
Accounts payable	\$ 11,438
Due to student and other groups	<u>464,836</u>
Total liabilities	<u><u>\$ 476,274</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

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

C. Basis of Presentation - Government-wide Financial Statements

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

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

D. Basis of Presentation - Fund Financial Statements

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Continued)

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The capital projects *sinking fund* records capital project activities funded with sinking fund millage and other sources. For the sinking fund, the District has complied with the applicable provision of §1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

The *2012 capital projects fund* accounts for the receipt of proceeds from the sale of a building and the acquisition of fixed assets or construction of major capital projects.

The *2013 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The 2013 capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

Revenue, not including proceeds	\$ <u> -</u>
Expenditures and transfers	\$ <u>4,674,716</u>

The above revenue figure does not include total 2013 bond proceeds and premium of \$5,320,473.

Other Non-major Funds

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

The *2013 debt service fund* and the *2015 refunding debt service fund* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

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

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

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

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

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts.

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

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

Budgetary basis of accounting:

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

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

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30, 2016. The District does not consider these amendments to be significant.

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

1. Cash and cash equivalents

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

2. Investments

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

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

3. Inventories and prepaid items

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Inventories and prepaid items (Concluded)

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

4. Capital assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress if any are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Buildings and additions	20 - 50
Furniture and equipment	5 - 20

5. Defined benefit plan

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance
(Continued)**

6. Deferred outflows/inflows of resources

Deferred outflows:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are the deferred charge on refunding and pension related items reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension related items. These amounts are expensed in the plan year in which they apply.

Deferred inflows:

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. The first item arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year end. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available. The second item is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are expensed over a period determined by the actuary. The third item is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

7. Net position flow assumption

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

8. Fund balance flow assumptions

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

9. Fund balance policies

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

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

9. Fund balance policies (Concluded)

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

The District has committed and adopted a minimum fund balance policy. In the general fund, the District strives to maintain a fund balance to be 10% of the actual GAAP basis expenditures and other financing uses.

H. Revenues and Expenditures/Expenses

1. Program revenues

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

2. Property taxes

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

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

2. Property taxes (Concluded)

For the year ended June 30, 2016 the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund:	
Non-Principal Residence Exemption (PRE)	18.0000
Commercial Personal Property	6.0000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	5.4560
Sinking fund:	
PRE, Non-PRE, Commercial Personal Property	1.2860

3. Compensated absences

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

4. Long-term obligations

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

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2016, the District had no investments.

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

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2016 \$8,349,561 of the District's bank balance of \$8,599,561 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

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

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

At June 30, 2016, the carrying amounts are as follows:

Cash on hand	\$ 1,124
Deposits including fiduciary funds of \$476,096	<u>8,073,944</u>
	<u><u>\$ 8,075,068</u></u>

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

Cash - agency fund	\$ 476,096
Cash - district-wide	5,441,214
Restricted cash - capital projects	<u>2,157,758</u>
	<u><u>\$ 8,075,068</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Receivables at June 30, 2016 consist of the following:

Intergovernmental:	
State aid	\$ 4,532,119
Federal revenue	294,273
Ingham Intermediate School District	<u>182,939</u>
	<u><u>\$ 5,009,331</u></u>

No allowance for doubtful accounts is considered necessary.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets at June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Reclassifications/ deletions	Balance June 30, 2016
Assets not being depreciated:				
Land	\$ 266,493	\$ -	\$ -	\$ 266,493
Construction in progress	23,694	577,914	-	601,608
	<u>290,187</u>	<u>577,914</u>	<u>-</u>	<u>868,101</u>
Other capital assets:				
Land improvements	11,884,807	7,790	-	11,892,597
Buildings and additions	95,243,121	571,338	-	95,814,459
Furniture and equipment	7,144,948	26,781	-	7,171,729
Vehicles	249,396	86,148	32,888	302,656
Total other capital assets	<u>114,522,272</u>	<u>692,057</u>	<u>32,888</u>	<u>115,181,441</u>
Accumulated depreciation:				
Land improvements	5,913,616	533,121	-	6,446,737
Building and improvements	30,432,110	2,377,047	-	32,809,157
Furniture and equipment	4,686,518	429,301	-	5,115,819
Vehicles	214,204	10,688	32,888	192,004
Total accumulated depreciation	<u>41,246,448</u>	<u>3,350,157</u>	<u>32,888</u>	<u>44,563,717</u>
Net other capital assets	<u>73,275,824</u>	<u>(2,658,100)</u>	<u>-</u>	<u>70,617,724</u>
Net capital assets	<u><u>\$ 73,566,011</u></u>	<u><u>\$ (2,080,186)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 71,485,825</u></u>

Depreciation for the fiscal year ended June 30, 2016 amounted to \$3,350,157. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT

The following is a summary of long-term obligations for the District for the year ended June 30, 2016.

	Compensated absences and termination benefits	School loan revolving fund	Bonds and other debt	Total
Balance, July 1, 2015	\$ 1,033,591	\$ 127,045	\$ 47,965,396	\$ 49,126,032
Additions	29,778	-	-	29,778
Deletions	(110,760)	(127,045)	(3,729,536)	(3,967,341)
Balance, June 30, 2016	952,609	-	44,235,860	45,188,469
Due within one year	(14,705)	-	(3,570,000)	(3,584,705)
Due in more than one year	<u>\$ 937,904</u>	<u>\$ -</u>	<u>\$ 40,665,860</u>	<u>\$ 41,603,764</u>

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation debts currently outstanding at June 30, 2016 are as follows:

2013 general obligation bonds due in annual installments of \$1,045,000 to \$1,075,000 through May 1, 2018, with interest of 3.00%.	\$ 2,120,000
2015 refunding general obligation bonds due in annual installments of \$2,405,000 to \$2,620,000 through May 1, 2030, with interest at 5.00%.	35,610,000
Plus: Premiums on issuance of debt	<u>6,505,860</u>
Total general obligation	44,235,860
Employee compensated absences and termination benefits	<u>952,609</u>
Total general long-term debt	<u>\$ 45,188,469</u>

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2016 \$41,425,000 of bonds outstanding are considered defeased.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize the long-term obligations as of June 30, 2016 including interest of \$13,360,600 are as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ 3,570,000	\$ 1,844,100	\$ 5,414,100
2018	3,630,000	1,686,500	5,316,500
2019	2,540,000	1,526,500	4,066,500
2020	2,565,000	1,399,500	3,964,500
2021	2,585,000	1,271,250	3,856,250
2022 - 2026	12,965,000	4,407,000	17,372,000
2027 - 2030	9,875,000	1,225,750	11,100,750
	37,730,000	13,360,600	51,090,600
Unamortized premium on bond issuance	6,505,860	-	6,505,860
Accumulated compensated absences and termination benefits	952,609	-	952,609
	<u>\$ 45,188,469</u>	<u>\$ 13,360,600</u>	<u>\$ 58,549,069</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpsers-cafr>.

Benefits Provided

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

<u>Plan name</u>	<u>Plan Type</u>	<u>Plan status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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

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

Pension Reform 2010

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement (no reduction factor for age)

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

Annual Amount - Total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

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

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (Member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

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

March 10, 2015 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - September 30, 2016	14.56% - 18.95%

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$4,900,000, with \$4,700,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. (69.45% for pension and 30.55% for OPEB)

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

Pension Liabilities

At June 30, 2016, the District reported a liability of \$52,465,688 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was 0.21480 and 0.22017 percent.

<i>MPERS (Plan) Non-university employers</i>	September 30, 2015	September 30, 2014
Total Pension Liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan Fiduciary Net Position	\$ 41,887,015,147	\$ 43,134,384,072
Net Pension Liability	\$ 24,425,026,755	\$ 22,026,503,110
Proportionate share	0.21480%	0.22017%
Net Pension liability for the District	\$ 52,465,688	\$ 48,496,759

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

For the year ended June 30, 2016, the District recognized pension expense of \$2,460,832. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2016.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

At June 30, 2016, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Changes of assumptions	\$ 1,291,816	\$ -
Net difference between projected and actual pension plan investments earnings	267,795	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	752	(1,000,941)
Differences between expected and actual experience	-	(173,782)
Reporting Unit's contributions subsequent to the measurement date	4,308,499	-
	<u>\$ 5,868,862</u>	<u>\$ (1,174,723)</u>

\$4,308,499, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year ended September 30,	Amount
2016	\$ (121,931)
2017	(121,931)
2018	(191,987)
2019	821,489

Actuarial Assumptions

Investment rate of return - 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

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

Inflation - 2.5%

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

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

The long-term expected rate of return on pension plan investments - The rate was **8% (7% Pension Plus Plan)** net of investment and administrative expenses was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%
	<u>100.00%</u>	

* Long term rate of return does not include 2.1% inflation.

Discount rate - The discount rate used to measure the total pension liability was **8% (7% for Pension Plus Plan)**. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for 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 than the current rate:

	1% Lower (6.0 - 7.0%)	Discount Rate (7.0 - 8.0%)	1% Higher (8.0 - 9.0%)
Reporting Unit's proportionate share of the net pension liability	<u>\$ 67,641,721</u>	<u>\$ 52,465,688</u>	<u>\$ 39,671,670</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

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

Benefit Provisions - Other Postemployment

Introduction

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012

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

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

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015, and 2014 were approximately \$1,760,000, \$2,400,000, and \$1,360,000.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - RISK MANAGEMENT (Concluded)

In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2016 or any of the prior three years.

NOTE 8 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued by the GASB in June 2015 and will be effective for the District's 2018 fiscal year. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 year end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients.
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This Statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 9,201,112	\$ 9,284,703	\$ 8,935,659	\$ (349,044)
State sources	23,595,747	24,421,067	24,692,002	270,935
Federal sources	619,996	909,435	756,122	(153,313)
Incoming transfers and other	3,402,271	3,609,180	3,598,076	(11,104)
Total revenues	<u>36,819,126</u>	<u>38,224,385</u>	<u>37,981,859</u>	<u>(242,526)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	18,641,321	18,447,297	18,415,374	31,923
Added needs	4,329,846	4,219,231	4,098,450	120,781
Total instruction	<u>22,971,167</u>	<u>22,666,528</u>	<u>22,513,824</u>	<u>152,704</u>
Supporting services:				
Pupil	2,491,624	2,511,889	2,530,217	(18,328)
Instructional staff	2,439,177	2,410,212	2,256,779	153,433
General administration	380,061	411,344	359,527	51,817
School administration	2,326,253	2,329,513	2,300,763	28,750
Business	422,742	424,286	383,968	40,318
Operation/maintenance	3,570,170	3,612,026	3,550,418	61,608
Pupil transportation	1,031,311	1,011,701	967,660	44,041
Central	604,002	655,524	666,016	(10,492)
Athletics	668,758	665,261	677,105	(11,844)
Total supporting services	<u>13,934,098</u>	<u>14,031,756</u>	<u>13,692,453</u>	<u>339,303</u>
Community services	<u>41,272</u>	<u>54,847</u>	<u>22,568</u>	<u>32,279</u>
Total expenditures	<u>36,946,537</u>	<u>36,753,131</u>	<u>36,228,845</u>	<u>524,286</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(127,411)</u>	<u>1,471,254</u>	<u>1,753,014</u>	<u>281,760</u>
OTHER FINANCING SOURCES (USES):				
Sale of school property	7,000	20,000	11,157	(8,843)
Transfers in	-	63,700	-	(63,700)
Total other financing sources (uses)	<u>7,000</u>	<u>83,700</u>	<u>11,157</u>	<u>(72,543)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (120,411)</u>	<u>\$ 1,554,954</u>	<u>1,764,171</u>	<u>\$ 209,217</u>
FUND BALANCE:				
Beginning of year			2,817,422	
End of year			<u>\$ 4,581,593</u>	

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 9/30 OF EACH FISCAL YEAR)**

	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.21480%	0.22017%
Reporting unit's proportionate share of net pension liability	\$ 52,465,688	\$ 48,496,759
Reporting unit's covered-employee payroll	\$ 17,927,386	\$ 18,712,153
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	292.66%	259.17%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 6/30 OF EACH FISCAL YEAR)**

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 4,676,809	\$ 3,817,387
Contributions in relation to statutorily required contributions	<u>4,676,809</u>	<u>3,817,387</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 16,608,983	\$ 18,107,753
Contributions as a percentage of covered-employee payroll	28.16%	21.08%

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF NET PENSION LIABILITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

Changes of benefits terms: There were no changes of benefits terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

ADDITIONAL SUPPLEMENTARY INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
YEAR ENDED JUNE 30, 2016**

	Final budget	Actual	Variance with final budget
LOCAL SOURCES:			
Property taxes	\$ 8,847,197	\$ 8,524,083	\$ (323,114)
Tuition	1,710	5,765	4,055
Other local revenue	358,118	321,492	(36,626)
Athletics	77,678	84,319	6,641
TOTAL LOCAL SOURCES	9,284,703	8,935,659	(349,044)
STATE SOURCES:			
Foundation grant	14,604,514	14,795,394	190,880
Special education	1,251,124	1,251,124	-
Other state revenue	8,565,429	8,645,484	80,055
TOTAL STATE SOURCES	24,421,067	24,692,002	270,935
FEDERAL SOURCES:			
Title I	537,455	457,904	(79,551)
Title II - improving teacher quality	216,600	198,034	(18,566)
Title III - immigrant	51,549	14,292	(37,257)
Other federal revenue	103,831	85,892	(17,939)
TOTAL FEDERAL SOURCES	909,435	756,122	(153,313)
INCOMING TRANSFERS AND OTHER TRANSACTIONS:			
Special education	3,543,553	3,514,605	(28,948)
Other	65,627	83,471	17,844
TOTAL INCOMING TRANSFERS AND OTHER TRANSACTIONS	3,609,180	3,598,076	(11,104)
TOTAL REVENUES	38,224,385	37,981,859	(242,526)
OTHER FINANCING SOURCES:			
Sale of school property	20,000	11,157	(8,843)
Transfers in	63,700	-	(63,700)
TOTAL OTHER FINANCING SOURCES	83,700	11,157	(72,543)
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 38,308,085	\$ 37,993,016	\$ (315,069)

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2016**

	Final budget	Actual	Variance with final budget
INSTRUCTION:			
Basic programs:			
Elementary:			
Salaries	\$ 4,937,611	\$ 4,969,652	\$ (32,041)
Benefits	3,044,136	3,113,839	(69,703)
Purchased services	41,163	11,675	29,488
Supplies and materials	323,057	144,745	178,312
Capital outlay	24,709	12,359	12,350
Other expenses	115,159	109,398	5,761
Total elementary	<u>8,485,835</u>	<u>8,361,668</u>	<u>124,167</u>
Middle school:			
Salaries	2,228,829	2,246,798	(17,969)
Benefits	1,414,719	1,448,974	(34,255)
Purchased services	19,354	15,735	3,619
Supplies and materials	68,051	78,834	(10,783)
Capital outlay	16,136	7,498	8,638
Other expenses	49,242	47,448	1,794
Total middle school	<u>3,796,331</u>	<u>3,845,287</u>	<u>(48,956)</u>
High school:			
Salaries	3,274,836	3,299,842	(25,006)
Benefits	2,068,135	2,107,556	(39,421)
Purchased services	48,559	49,605	(1,046)
Supplies and materials	135,817	136,633	(816)
Capital outlay	27,497	19,296	8,201
Other expenses	348,736	348,570	166
Total high school	<u>5,903,580</u>	<u>5,961,502</u>	<u>(57,922)</u>
Pre-school:			
Salaries	134,538	123,861	10,677
Benefits	103,267	97,654	5,613
Supplies and materials	8,712	5,137	3,575
Other expenses	2,128	7,864	(5,736)
Total pre-school	<u>248,645</u>	<u>234,516</u>	<u>14,129</u>
Summer school:			
Salaries	8,910	8,716	194
Benefits	3,996	3,685	311
Total summer school	<u>12,906</u>	<u>12,401</u>	<u>505</u>
Total basic programs	<u>18,447,297</u>	<u>18,415,374</u>	<u>31,923</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2016**

	Final budget	Actual	Variance with final budget
INSTRUCTION (Concluded):			
Added needs:			
Special education:			
Salaries	\$ 1,325,429	\$ 1,313,373	\$ 12,056
Benefits	1,036,298	1,020,837	15,461
Purchased services	44,352	39,673	4,679
Supplies and materials	7,920	2,771	5,149
Capital outlay	1,485	1,666	(181)
Other expenses	560,715	554,970	5,745
Total special education	2,976,199	2,933,290	42,909
Compensatory education:			
Salaries	732,822	688,529	44,293
Benefits	454,011	433,700	20,311
Purchased services	9,049	-	9,049
Supplies and materials	45,171	42,308	2,863
Other expenses	1,979	623	1,356
Total compensatory education	1,243,032	1,165,160	77,872
Total added needs	4,219,231	4,098,450	120,781
TOTAL INSTRUCTION	22,666,528	22,513,824	152,704
SUPPORTING SERVICES:			
Pupil services:			
Salaries	1,298,106	1,315,837	(17,731)
Benefits	838,127	848,195	(10,068)
Purchased services	26,235	24,311	1,924
Supplies and materials	24,205	23,345	860
Capital outlay	7,425	1,958	5,467
Other expenses	317,791	316,571	1,220
Total pupil services	2,511,889	2,530,217	(18,328)

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2016**

	Final budget	Actual	Variance with final budget
SUPPORTING SERVICES (Continued) :			
Instructional staff services:			
Salaries	\$ 1,209,562	\$ 1,196,747	\$ 12,815
Benefits	746,221	736,015	10,206
Purchased services	152,537	97,345	55,192
Supplies and materials	152,763	124,576	28,187
Capital outlay	12,735	1,660	11,075
Other expenses	136,394	100,436	35,958
Total instructional staff services	<u>2,410,212</u>	<u>2,256,779</u>	<u>153,433</u>
General administration:			
Salaries	153,074	154,546	(1,472)
Benefits	93,231	91,790	1,441
Purchased services	132,660	86,887	45,773
Supplies and materials	10,296	8,020	2,276
Capital outlay	2,475	1,361	1,114
Other expenses	19,608	16,923	2,685
Total general administration	<u>411,344</u>	<u>359,527</u>	<u>51,817</u>
School administration:			
Salaries	1,384,120	1,389,093	(4,973)
Benefits	863,191	850,604	12,587
Purchased services	30,687	21,406	9,281
Supplies and materials	29,502	23,393	6,109
Capital outlay	8,450	4,982	3,468
Other expenses	13,563	11,285	2,278
Total school administration	<u>2,329,513</u>	<u>2,300,763</u>	<u>28,750</u>
Business services:			
Salaries	207,367	184,467	22,900
Benefits	126,421	113,943	12,478
Purchased services	72,001	71,505	496
Supplies and materials	5,742	6,451	(709)
Capital outlay	1,188	41	1,147
Other expenses	11,567	7,561	4,006
Total business services	<u>424,286</u>	<u>383,968</u>	<u>40,318</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2016**

	Final budget	Actual	Variance with final budget
SUPPORTING SERVICES (Concluded):			
Operations and maintenance:			
Salaries	\$ 305,889	\$ 274,560	\$ 31,329
Benefits	203,567	186,573	16,994
Purchased services	1,782,943	1,815,427	(32,484)
Supplies and materials	1,257,756	1,248,275	9,481
Capital outlay	54,767	20,263	34,504
Other expenses	7,104	5,320	1,784
Total operations and maintenance	<u>3,612,026</u>	<u>3,550,418</u>	<u>61,608</u>
Transportation:			
Purchased services	8,910	2,036	6,874
Supplies and materials	63,234	38,985	24,249
Other expenses	939,557	926,639	12,918
Total transportation	<u>1,011,701</u>	<u>967,660</u>	<u>44,041</u>
Central services:			
Salaries	228,328	224,727	3,601
Benefits	129,496	125,721	3,775
Purchased services	225,877	218,579	7,298
Supplies and materials	6,395	6,913	(518)
Capital outlay	31,126	39,879	(8,753)
Other expenses	34,302	50,197	(15,895)
Total central services	<u>655,524</u>	<u>666,016</u>	<u>(10,492)</u>
Athletics:			
Salaries	369,418	375,075	(5,657)
Benefits	180,408	173,486	6,922
Purchased services	59,350	62,151	(2,801)
Supplies and materials	52,322	61,474	(9,152)
Capital outlay	-	1,724	(1,724)
Other expenses	3,763	3,195	568
Total athletics	<u>665,261</u>	<u>677,105</u>	<u>(11,844)</u>
TOTAL SUPPORTING SERVICES	<u>14,031,756</u>	<u>13,692,453</u>	<u>339,303</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2016**

	Final budget	Actual	Variance with final budget
COMMUNITY SERVICES:			
Purchased services	\$ 44,959	\$ 17,226	\$ 27,733
Supplies and materials	9,888	5,342	4,546
TOTAL COMMUNITY SERVICES	54,847	22,568	32,279
TOTAL EXPENDITURES	\$ 36,753,131	\$ 36,228,845	\$ 524,286

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2016**

	Food Service Special revenue	Debt service	Total nonmajor funds
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 177,058	\$ 279,062	\$ 456,120
Accounts receivable	308	-	308
Delinquent taxes receivable	-	33,792	33,792
Intergovernmental	27,782	-	27,782
Prepays	8,715	292	9,007
Inventories	31,140	-	31,140
TOTAL ASSETS	\$ 245,003	\$ 313,146	\$ 558,149
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 39,348	\$ -	\$ 39,348
Due to other governmental units	-	40,883	40,883
Unearned revenue	35,236	-	35,236
TOTAL LIABILITIES	74,584	40,883	115,467
FUND BALANCES:			
Nonspendable:			
Prepays	8,715	292	9,007
Inventories	31,140	-	31,140
Restricted for debt service	-	271,971	271,971
Restricted for food service	130,564	-	130,564
TOTAL FUND BALANCES	170,419	272,263	442,682
TOTAL LIABILITIES AND FUND BALANCES	\$ 245,003	\$ 313,146	\$ 558,149

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2016**

	Food Service Special revenue	Debt service	Total nonmajor funds
REVENUES:			
Local sources:			
Property taxes	\$ -	\$ 5,668,816	\$ 5,668,816
Investment earnings	-	4,588	4,588
Food sales	459,716	-	459,716
Total local sources	459,716	5,673,404	6,133,120
State sources	43,253	-	43,253
Federal sources	636,840	-	636,840
Total revenues	1,139,809	5,673,404	6,813,213
EXPENDITURES:			
Current:			
Food service activities	1,044,394	-	1,044,394
Capital outlay	16,680	-	16,680
Debt service:			
Principal repayment	-	3,210,000	3,210,000
Interest expense	-	2,290,564	2,290,564
Payment to refunded bond escrow agent	-	127,045	127,045
Other costs	-	950	950
Total expenditures	1,061,074	5,628,559	6,689,633
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	78,735	44,845	123,580
NET CHANGE IN FUND BALANCES	78,735	44,845	123,580
FUND BALANCES:			
Beginning of year	91,684	227,418	319,102
End of year	\$ 170,419	\$ 272,263	\$ 442,682

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	<u>2013 Debt</u>	<u>2015 Refunding</u>	<u>Total Nonmajor</u>
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 86,877	\$ 192,185	\$ 279,062
Prepaid expenditures	167	125	292
Delinquent taxes receivable	<u>6,540</u>	<u>27,252</u>	<u>33,792</u>
TOTAL ASSETS	<u><u>\$ 93,584</u></u>	<u><u>\$ 219,562</u></u>	<u><u>\$ 313,146</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Due to other governmental units	<u>\$ 7,913</u>	<u>\$ 32,970</u>	<u>\$ 40,883</u>
FUND BALANCES:			
Nonspendable			
Prepays	167	125	292
Restricted for debt service	<u>85,504</u>	<u>186,467</u>	<u>271,971</u>
TOTAL FUND BALANCES	<u>85,671</u>	<u>186,592</u>	<u>272,263</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 93,584</u></u>	<u><u>\$ 219,562</u></u>	<u><u>\$ 313,146</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2016**

	<u>2013 Debt</u>	<u>2015 Refunding</u>	<u>Total Nonmajor</u>
REVENUES:			
Local sources:			
Property taxes	\$ 1,095,441	\$ 4,573,375	\$ 5,668,816
Interest	1,133	3,455	4,588
	<u>1,096,574</u>	<u>4,576,830</u>	<u>5,673,404</u>
Total revenues			
EXPENDITURES:			
Redemption of bonds	1,010,000	2,200,000	3,210,000
Interest on bonded debt	93,900	2,196,664	2,290,564
Payment to school loan revolving fund	-	127,045	127,045
Other costs	341	609	950
	<u>1,104,241</u>	<u>4,524,318</u>	<u>5,628,559</u>
Total expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,667)</u>	<u>52,512</u>	<u>44,845</u>
NET CHANGE IN FUND BALANCES	(7,667)	52,512	44,845
FUND BALANCES:			
Beginning of year	<u>93,338</u>	<u>134,080</u>	<u>227,418</u>
End of year	<u>\$ 85,671</u>	<u>\$ 186,592</u>	<u>\$ 272,263</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINED DEBT SERVICE REQUIREMENTS
JUNE 30, 2016**

Year ending June 30,	2013 Debt	2015 Refunding Debt	Combined
2017	\$ 1,108,600	\$ 4,305,500	\$ 5,414,100
2018	1,107,250	4,209,250	5,316,500
2019	-	4,066,500	4,066,500
2020	-	3,964,500	3,964,500
2021	-	3,856,250	3,856,250
2022	-	3,742,000	3,742,000
2023	-	3,632,000	3,632,000
2024	-	3,486,000	3,486,000
2025	-	3,340,750	3,340,750
2026	-	3,171,250	3,171,250
2027	-	2,998,750	2,998,750
2028	-	2,873,500	2,873,500
2029	-	2,703,250	2,703,250
2030	-	2,525,250	2,525,250
	<u>\$ 2,215,850</u>	<u>\$ 48,874,750</u>	<u>\$ 51,090,600</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2013 DEBT SERIES
JUNE 30, 2016**

Bond issued in order to improve the technology, security, and communications of the District.

2013 Debt Series

Calendar year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2017	\$ 1,045,000	\$ 31,800	\$ 31,800	\$ 1,108,600
2018	1,075,000	16,125	16,125	1,107,250
Total 2013 bonded debt	<u>\$ 2,120,000</u>	<u>\$ 47,925</u>	<u>\$ 47,925</u>	<u>\$ 2,215,850</u>

The amount of the original bond issue was \$5,005,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2015 REFUNDING DEBT SERIES
JUNE 30, 2016**

2015 Debt Series

Calendar year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2017	\$ 2,525,000	\$ 890,250	\$ 890,250	\$ 4,305,500
2018	2,555,000	827,125	827,125	4,209,250
2019	2,540,000	763,250	763,250	4,066,500
2020	2,565,000	699,750	699,750	3,964,500
2021	2,585,000	635,625	635,625	3,856,250
2022	2,600,000	571,000	571,000	3,742,000
2023	2,620,000	506,000	506,000	3,632,000
2024	2,605,000	440,500	440,500	3,486,000
2025	2,590,000	375,375	375,375	3,340,750
2026	2,550,000	310,625	310,625	3,171,250
2027	2,505,000	246,875	246,875	2,998,750
2028	2,505,000	184,250	184,250	2,873,500
2029	2,460,000	121,625	121,625	2,703,250
2030	2,405,000	60,125	60,125	2,525,250
Total 2015 bonded debt	<u>\$ 35,610,000</u>	<u>\$ 6,632,375</u>	<u>\$ 6,632,375</u>	<u>\$ 48,874,750</u>

The amount of the original bond issue was \$37,810,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BORROWINGS – STATE OF MICHIGAN
SCHOOL LOAN REVOLVING FUND
JUNE 30, 2016**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds (payments)	Interest expense	Loan balance (net change)
2013	\$ 389,165	\$ 2,619	\$ 391,784
2014	307,975	15,936	323,911
2015	(570,095)	(17,961)	(588,056)
2016	(127,045)	(594)	(127,639)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
CAPITAL PROJECTS FUND - SINKING FUND
DETAIL OF EXPENDITURES
YEAR ENDED JUNE 30, 2016**

EXPENDITURES:

Donley Elementary	\$ 2,269
Glencairn Elementary	69,232
Marble Elementary	79,824
Pinecrest Elementary	22,371
Red Cedar Elementary	36,229
Whitehills Elementary	33,091
MacDonald Middle School	443,763
East Lansing High School	454,503
Service Center	<u>2,107</u>
 Total expenditures	 <u><u>\$ 1,143,389</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
2012 AND 2013 CAPITAL PROJECTS FUND
DETAIL OF EXPENDITURES
YEAR ENDED JUNE 30, 2016**

2012 Capital Projects

EXPENDITURES:

Donley Elementary	\$ 10,378
Glencairn Elementary	10,378
Marble Elementary	10,378
Pinecrest Elementary	10,378
Red Cedar Elementary	11,748
Whitehills Elementary	12,367
MacDonald Middle School	10,378
East Lansing High School	12,588
Service Center	3,125

Total expenditures	\$ 91,718
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2013 Capital Projects

EXPENDITURES:

Donley Elementary	\$ 11,634
Glencairn Elementary	18,679
Marble Elementary	42,009
Pinecrest Elementary	31,724
Whitehills Elementary	26,221
MacDonald Middle School	209,180
East Lansing High School	198,891

Total expenditures	\$ 538,338
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**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY SCHOOL - AGENCY FUND
YEAR ENDED JUNE 30, 2016**

	Balance 7/1/15	Additions	Deductions	Balance 6/30/16
East Lansing High School	\$ 282,625	\$ 404,691	\$ 407,427	\$ 279,889
MacDonald Middle School	14,552	43,233	33,705	24,080
Donley Elementary School	11,629	13,515	11,385	13,759
Glencairn Elementary School	12,468	12,085	10,063	14,490
Marble Elementary School	14,259	47,714	43,181	18,792
Pinecrest Elementary School	18,770	21,940	21,505	19,205
Red Cedar Elementary School	36,929	50,672	40,204	47,397
Whitehills Elementary School	5,560	7,557	8,688	4,429
Other	48,030	17,024	22,259	42,795
	<u>\$ 444,822</u>	<u>\$ 618,431</u>	<u>\$ 598,417</u>	<u>\$ 464,836</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (unearned) revenue 7/1/2015	Prior year expenditures (memorandum only)	Adjustments	Current year expenditures	Current year receipts	Accrued (unearned) revenue 6/30/2016
<u>U.S. Department of Agriculture:</u>									
Passed through the Michigan Department of Education:									
Child Nutrition Cluster:									
Non-Cash Assistance (Donated Foods):									
National School Lunch Program	10.555								
Entitlement			\$ 70,053	\$ -	\$ -	\$ -	\$ 70,053	\$ 70,053	\$ -
Total Non-Cash Assistance			70,053	-	-	-	70,053	70,053	-
Cash Assistance:									
National School Lunch - Breakfast	10.553	151970	103,553	2,915	94,116	-	9,437	12,352	-
		161970	107,267	-	-	-	107,267	102,633	4,634
			210,820	2,915	94,116	-	116,704	114,985	4,634
National School Lunch	10.555	151960	420,144	8,172	376,989		43,155	51,327	-
		161960	406,928	-	-	-	406,928	391,297	15,631
			827,072	8,172	376,989	-	450,083	442,624	15,631
Total Cash Assistance			1,037,892	11,087	471,105	-	566,787	557,609	20,265
Total Child Nutrition Cluster			1,107,945	11,087	471,105	-	636,840	627,662	20,265
Total U.S. Department of Agriculture			1,107,945	11,087	471,105	-	636,840	627,662	20,265

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (unearned) revenue 7/1/2015	Prior year expenditures (memorandum only)	Adjustments	Current year expenditures	Current year receipts	Accrued (unearned) revenue 6/30/2016
<u>U.S. Department of Education:</u>									
Passed through the Michigan Department of Education:									
Title I Cluster:									
Title I Part A - Improving Basic Programs	84.010	151530 1415	\$ 449,284	\$ 124,302	\$ 433,837	\$ -	\$ -	\$ 124,302	\$ -
		161530 1516	413,153	-	-	-	333,602	177,443	156,159
			862,437	124,302	433,837	-	333,602	301,745	156,159
Title III - Limited English Proficient	84.365A	150580 1415	46,403	10,616	26,566	-	-	10,616	-
		160580 1516	59,053	-	-	-	44,601	15,137	29,464
Title III - Immigrant		150570 1415	56,172	14,292	44,071	-	-	14,292	-
			161,628	24,908	70,637	-	44,601	40,045	29,464
Title II Part A - Improving Teacher Quality	84.367	150520 1415	160,730	54,808	148,748	(8,659)	-	54,808	(8,659)
		160520 1516	161,792	-	-	-	151,885	75,682	76,203
			322,522	54,808	148,748	(8,659)	151,885	130,490	67,544
Total passed through Michigan Department of Education			1,346,587	204,018	653,222	(8,659)	530,088	472,280	253,167
Passed through Ingham Intermediate School District:									
Special Education Cluster:									
IDEA Preschool	84.173	150460 1415	22,401	22,401	22,401	-	-	22,401	-
		160460 1516	20,841	-	-	-	20,841		20,841
Total Special Education Cluster			43,242	22,401	22,401	-	20,841	22,401	20,841
Total U.S. Department of Education			1,389,829	226,419	675,623	(8,659)	550,929	494,681	274,008
<u>U.S. Department of Health and Human Services:</u>									
Passed through Ingham Intermediate School District:									
Medicaid Administrative Outreach	93.778		9,834	-	-	-	9,834	9,834	-
Total Expenditures of Federal Awards			\$ 2,507,608	\$ 237,506	\$ 1,146,728	\$ (8,659)	\$ 1,197,603	\$ 1,132,177	\$ 294,273

The accompanying notes are an integral part of this schedule.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School District of the City of East Lansing under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the School District of the City of East Lansing it is not intended to and does not present the financial position or changes in net position of the School District of the City of East Lansing.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and in OMB Circular A-87, Cost Principles for States, Local and Indian Tribal Governments, wherein certain types of expenditures are now allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The School District of the City of East Lansing has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - RECONCILIATION WITH AUDITED FINANCIAL STATEMENTS

Reconciliation of federal revenues reported on the financial statements with expenditures per the schedule of expenditures of federal awards:

Federal revenue, per financial statements:	
General fund:	
Federal sources	\$ 756,122
Other nonmajor governmental funds:	
Federal sources	636,840
Plus: Adjustments	8,659
Less: Federal reimbursements collected after September 1, 2015	(204,018)
	<u>\$ 1,197,603</u>

An adjustment in the amount of \$8,659 was made to CFDA #84.367 in order to reduce the receivable for questioned costs recaptured by the Michigan Department of Education.

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

To the Board of Education
School District of the City of East Lansing

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of East Lansing as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the School District of the City of East Lansing's basic financial statements and have issued our report thereon dated September 7, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Manes Costeiran PC

September 7, 2016

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

To the Board of Education
School District of the City of East Lansing

Report on Compliance for Each Major Federal Program

We have audited School District of the City of East Lansing's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of School District of the City of East Lansing's major federal programs for the year ended June 30, 2016. School District of the City of East Lansing's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of School District of the City of East Lansing's compliance.

Opinion on Each Major Federal Program

In our opinion, School District of the City of East Lansing complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Maney Costeiran PC

September 7, 2016

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

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

Unmodified

Any audit findings disclosed that are required to be reported with Title 2 CFR Section 200.516(a)?

 Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 & 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs:

 \$ 750,000

Auditee qualified as low-risk auditee?

 X Yes No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016**

There were no findings disclosed for the past two years.