

SCHOOL DISTRICT OF THE CITY OF EAST LANSING

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

YEAR ENDED JUNE 30, 2017

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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, 2017, and the related notes to the financial statements, which collectively comprise the School District of the City of East Lansing'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, 2017, 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 management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 11, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of School District of the City of East Lansing's 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 11, 2017

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2017

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, 2017. 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, 2017

Over time, increases or decreases in the District's net position, as reported in the Statement of Activities, is 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, 2017

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, 2017.

| | 2017 | 2016 |
|--|-----------------|-----------------|
| ASSETS: | | |
| Current and other assets | \$ 79,103,863 | \$ 12,919,538 |
| Noncurrent assets | 69,450,439 | 71,485,825 |
| Total assets | 148,554,302 | 84,405,363 |
| DEFERRED OUTFLOWS: | | |
| Deferred charge on refunding | 983,297 | 1,058,935 |
| Related to pensions | 7,804,331 | 5,868,862 |
| Total deferred outflows | 8,787,628 | 6,927,797 |
| LIABILITIES: | | |
| Current liabilities | 5,370,856 | 5,412,605 |
| Noncurrent liabilities | 108,483,412 | 45,188,469 |
| Net pension liability | 54,481,960 | 52,465,688 |
| Total liabilities | 168,336,228 | 103,066,762 |
| DEFERRED INFLOWS: | | |
| Related to pensions | 998,883 | 1,174,723 |
| Related to state aid funding for pension | 1,695,654 | 1,431,041 |
| | 2,694,537 | 2,605,764 |
| NET POSITION: | | |
| Net investment in capital assets | 29,987,794 | 28,954,657 |
| Restricted | 893,972 | 650,653 |
| Unrestricted | (44,570,601) | (43,944,676) |
| Total net position | \$ (13,688,835) | \$ (14,339,366) |

Analysis of Financial Position

The District's net position as of June 30, 2017 totaled (\$13,688,835) which was an increase over the June 30, 2016 balance of (\$14,339,366). 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, 2017

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, 2017, the following was recorded as depreciation expense:

| | 2017 | 2016 |
|---------------------------|---------------------|---------------------|
| Land improvements | \$ 534,353 | \$ 533,121 |
| Building and improvements | 2,375,153 | 2,377,047 |
| Furniture and equipment | 392,866 | 429,301 |
| Vehicles | 27,815 | 10,688 |
| Total | <u>\$ 3,330,187</u> | <u>\$ 3,350,157</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, 2017 \$1,294,801 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 \$2,035,386 for the fiscal year ended June 30, 2017.

3. Long-Term Debt

The District's total general long-term debt for the fiscal year ended June 30, 2017 increased by \$63,294,943. The increase is a result of a bond issuance incurred in the current year by the District.

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, 2017

For the fiscal year ended June 30, 2017 and June 30, 2016, the District-wide results of operation were:

| | 2017 | % of total | 2016 | % of total |
|---|----------------------|---------------|----------------------|---------------|
| General revenues: | | | | |
| Property taxes, levied for general operations | \$ 8,714,278 | 18.9 | \$ 8,520,164 | 19.2 |
| Property taxes, levied for debt service | 5,495,834 | 11.9 | 5,668,816 | 12.7 |
| Property taxes, levied for sinking fund | 1,355,767 | 2.9 | 1,337,054 | 3.0 |
| Investment earnings | (21,778) | - | 4,588 | - |
| State sources | 19,984,017 | 43.2 | 20,085,389 | 45.1 |
| County special education allocation | 3,507,760 | 7.6 | 3,534,515 | 7.9 |
| Gain/(loss) on sale of capital assets | 4,706 | - | 11,157 | - |
| Other | 321,527 | 0.7 | 289,803 | 0.7 |
| Total general revenues | 39,362,111 | 85.2 | 39,451,486 | 88.6 |
| Program revenues: | | | | |
| Charges for services | 667,189 | 1.4 | 645,476 | 1.5 |
| Operating grants | 6,205,763 | 13.4 | 4,398,453 | 9.9 |
| Total revenues | <u>\$ 46,235,063</u> | <u>100.0</u> | <u>\$ 44,495,415</u> | <u>100.0</u> |
| Function/program expenses: | | | | |
| Instruction | \$ 23,693,112 | 52.0 | \$ 21,865,393 | 52.0 |
| Support services | 15,299,713 | 33.6 | 13,542,391 | 32.2 |
| Community services | 15,079 | - | 22,568 | 0.1 |
| Food services | 1,118,369 | 2.5 | 1,053,225 | 2.5 |
| Interest on long-term debt | 2,128,072 | 4.7 | 2,165,059 | 5.2 |
| Unallocated depreciation | 3,330,187 | 7.3 | 3,350,157 | 8.0 |
| Total expenses | <u>\$ 45,584,532</u> | <u>100.1</u> | <u>\$ 41,998,793</u> | <u>100.0</u> |

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, 2017

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, 2017 was approximately \$142,000, or 1.6% 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 |
|-------------|---|--|---|---|
| 2016 - 2017 | 0.0000 | 18.0000 | 5.2050 | 1.2860 |
| 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 |

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 |
|-------------|---|---|---|--|
| 2016 - 2017 | \$ - | \$ 8,865,403 | \$ 5,487,396 | \$ 1,349,641 |
| 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 |

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 2017 was \$8,229.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2017

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> |
|--------------------|----------------------------|---|
| 2016 - 2017 | \$ 8,229 | \$ 60 |
| 2015 - 2016 | 8,169 | 70 |
| 2014 - 2015 | 8,099 | 50 |
| 2013 - 2014 | 8,049 | 30 |
| 2012 - 2013 | 8,019 | - |

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 \$8,229 the District receives for its resident pupils.

3. Student Enrollment

The District's student enrollment figures have increased overall 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> |
|--------------------|-----------------------------------|-----------------------------------|
| 2016 - 2017 | 3,604 | (11) |
| 2014 - 2015 | 3,615 | 112 |
| 2013 - 2014 | 3,503 | 7 |
| 2012 - 2013 | 3,496 | (42) |
| 2011 - 2012 | 3,538 | 61 |

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, 2017 ended the District received \$2,331,737. This amount represents a decrease of \$149,862 over the prior fiscal year.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2017

5. Expenditure Comparison By Function

The following schedule provides a comparison of fund expenditures and other financing sources for fiscal years 2016-2017 and 2015-2016:

| Function | 2016-2017 fiscal year | % | 2015-2016 fiscal year | % |
|--------------------------------------|--------------------------|-------|--------------------------|-------|
| Basic programs | \$ 19,108,165 | 49.5 | \$ 18,415,374 | 50.7 |
| Special education | 3,230,327 | 8.3 | 2,933,290 | 8.1 |
| Compensatory education | 1,431,068 | 3.7 | 1,165,160 | 3.2 |
| Total instruction | 23,769,560 | 61.5 | 22,513,824 | 62.0 |
| Pupil support services | 2,643,786 | 6.8 | 2,530,217 | 7.0 |
| Instructional staff support services | 2,549,816 | 6.6 | 2,256,779 | 6.2 |
| School administration | 2,368,596 | 6.1 | 2,300,763 | 6.4 |
| Total instructional support | 7,562,198 | 19.5 | 7,087,759 | 19.6 |
| General administration | 470,554 | 1.2 | 359,527 | 1.0 |
| Business office | 428,181 | 1.1 | 383,968 | 1.1 |
| Operations and maintenance | 4,009,746 | 10.5 | 3,550,418 | 9.8 |
| Pupil transportation | 1,023,613 | 2.6 | 967,660 | 2.7 |
| Central | 709,815 | 1.8 | 666,016 | 1.8 |
| Athletics | 705,495 | 1.8 | 677,105 | 1.9 |
| Community services | 15,359 | - | 22,568 | 0.1 |
| Total general fund | 38,694,521 | 100.0 | 36,228,845 | 100.0 |
| Food service fund | 1,127,370 | | 1,061,074 | |
| Debt service funds | 5,414,773 | | 5,628,559 | |
| Sinking fund | 1,139,996 | | 1,143,389 | |
| 2017 capital projects fund | 620,966 | | - | |
| 2012 capital projects fund | 307,594 | | 91,718 | |
| 2013 capital projects fund | - | | 538,338 | |
| Total | \$ 47,305,220 | | \$ 44,691,923 | |

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2017

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 |
| 2016 - 2017 | \$ 38,805,202 | \$ 38,570,132 | -0.61% |
| 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% |
| Five year average actual over (under) budget | | | -0.38% |

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 |
| 2016 - 2017 | \$ 38,938,949 | \$ 38,694,521 | -0.63% |
| 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% |
| Five year average actual over (under) budget | | | -0.75% |

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2017

Capital and Intangible Assets and Debt Administration

1. Capital Assets

At June 30, 2017 the District had \$69,450,439 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 \$2,035,386 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:

| | 2017 | | | 2016 |
|--------------------------|-----------------------|--------------------------|----------------------|----------------------|
| | Cost | Accumulated depreciation | Net book value | Net book value |
| Land | \$ 266,493 | \$ - | \$ 266,493 | \$ 266,493 |
| Construction in progress | 226,678 | - | 226,678 | 601,608 |
| Land improvements | 11,959,672 | 6,981,090 | 4,978,582 | 5,445,860 |
| Building and additions | 97,225,812 | 35,184,310 | 62,041,502 | 63,005,302 |
| Furniture and equipment | 7,296,493 | 5,496,901 | 1,799,592 | 2,055,910 |
| Transportation equipment | 321,819 | 184,227 | 137,592 | 110,652 |
| Total | <u>\$ 117,296,967</u> | <u>\$ 47,846,528</u> | <u>\$ 69,450,439</u> | <u>\$ 71,485,825</u> |

2. Long-term Debt

At June 30, 2017 the District had \$107,543,036 in general obligation debt outstanding versus \$44,235,860 at June 30, 2016.

The state limits the amount of general obligation debt that schools can issue to 15% 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, 2017

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 2017. The District is projecting stable enrollment for fiscal year 2017-2018.
- **Foundation Allowance:** The per pupil foundation allowance the District receives from the State is projected to increase \$60 per pupil for the fiscal year 2017-2018. District operations is reliant on State funding as approximately 65% of total General Fund revenue is from State sources.
- **Health Insurance:** The trend of increasing costs of health insurance 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 25.56%, effective October 1, 2017, that is charged to districts to fund the retirement system. This represents 0.62 percentage points increase from the rate ending September 30, 2017. In addition, the State charges and funds a stabilization rate which is projected to be 11.32% for fiscal year 2017-2018. This represents 0.38 percentage points decrease over fiscal year 2016-2017. The ability of the State to continue to subsidize the stabilization rate is a concern.
- **Employee Contracts:** The District has four collectively bargained contracts. One of those contracts was unsettled as of June 30, 2017. 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, 2017

| | Governmental activities |
|---|------------------------------------|
| ASSETS: | |
| Cash and cash equivalents | \$ 6,431,046 |
| Receivables: | |
| Accounts receivable | 5,627 |
| Interest receivable | 161,077 |
| Taxes receivable | 80,360 |
| Intergovernmental | 4,902,446 |
| Inventories | 32,200 |
| Prepays | 199,488 |
| Restricted cash - capital projects | 8,137,563 |
| Restricted investments - capital projects | 59,154,056 |
| Capital assets not being depreciated | 493,171 |
| Capital assets, net of accumulated depreciation | 68,957,268 |
| TOTAL ASSETS | 148,554,302 |
| DEFERRED OUTFLOWS OF RESOURCES: | |
| Deferred charges on refunding | 983,297 |
| Related to pensions | 7,804,331 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 8,787,628 |
| LIABILITIES: | |
| Accounts payable | 923,749 |
| Accrued salaries and related items | 2,414,147 |
| Accrued retirement | 1,297,716 |
| Accrued interest | 591,322 |
| Unearned revenue | 104,059 |
| Due to other governmental units | 39,863 |
| Noncurrent obligations: | |
| Due within one year | 3,671,553 |
| Due in more than a year | 104,811,859 |
| Net pension liability | 54,481,960 |
| TOTAL LIABILITIES | 168,336,228 |
| DEFERRED INFLOWS OF RESOURCES: | |
| Related to pensions | 998,883 |
| Related to state aid funding for pension | 1,695,654 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 2,694,537 |
| NET POSITION: | |
| Net investment in capital assets | 29,987,794 |
| Restricted for capital projects (sinking fund) | 893,972 |
| Unrestricted | (44,570,601) |
| TOTAL NET POSITON | \$ (13,688,835) |

See notes to financial statements.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

| Functions/programs | Expenses | Program revenues | | Governmental activities |
|---|----------------------|----------------------|---------------------|---|
| | | Charges for services | Operating grants | Net (expense) revenue and changes in net position |
| Governmental activities: | | | | |
| Instruction | \$ 23,693,112 | \$ - | \$ 5,286,663 | \$ (18,406,449) |
| Support services | 15,299,713 | 176,976 | 190,746 | (14,931,991) |
| Community services | 15,079 | - | 14,996 | (83) |
| Food services | 1,118,369 | 490,213 | 713,358 | 85,202 |
| Interest on long-term debt | 2,128,072 | - | - | (2,128,072) |
| Unallocated depreciation | 3,330,187 | - | - | (3,330,187) |
| Total governmental activities | <u>\$ 45,584,532</u> | <u>\$ 667,189</u> | <u>\$ 6,205,763</u> | <u>(38,711,580)</u> |
| General revenues: | | | | |
| Property taxes, levied for general purposes | | | | 8,714,278 |
| Property taxes, levied for debt service | | | | 5,495,834 |
| Property taxes, levied for sinking fund | | | | 1,355,767 |
| Investment earnings (loss) | | | | (21,778) |
| State sources | | | | 19,984,017 |
| Intermediate sources | | | | 3,507,760 |
| Gain on sale of assets | | | | 4,706 |
| Other | | | | <u>321,527</u> |
| Total general revenues | | | | <u>39,362,111</u> |
| CHANGE IN NET POSITION | | | | 650,531 |
| NET POSITION, beginning of year | | | | <u>(14,339,366)</u> |
| NET POSITION, end of year | | | | <u><u>\$ (13,688,835)</u></u> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

| | General fund | Capital projects sinking fund | 2017 capital projects fund | Total nonmajor funds | Total governmental funds |
|---|---------------------|--------------------------------------|-----------------------------------|-----------------------------|---------------------------------|
| ASSETS: | | | | | |
| Cash and cash equivalents | \$ 3,723,735 | \$ 985,841 | \$ - | \$ 1,721,470 | \$ 6,431,046 |
| Receivables: | | | | | |
| Taxes receivable | 78,704 | 325 | - | 1,331 | 80,360 |
| Accounts receivable | 4,516 | - | - | 1,111 | 5,627 |
| Interest receivable | - | - | 161,077 | - | 161,077 |
| Intergovernmental | 4,861,525 | - | - | 40,921 | 4,902,446 |
| Due from other funds | - | - | - | 9,597 | 9,597 |
| Inventories | 5,867 | - | - | 26,333 | 32,200 |
| Prepays | 190,231 | - | - | 9,257 | 199,488 |
| Restricted cash | - | - | 7,755,366 | 382,197 | 8,137,563 |
| Restricted investments | - | - | 59,154,056 | - | 59,154,056 |
| TOTAL ASSETS | \$ 8,864,578 | \$ 986,166 | \$ 67,070,499 | \$ 2,192,217 | \$ 79,113,460 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| LIABILITIES: | | | | | |
| Accounts payable | \$ 425,589 | \$ 82,597 | \$ 325,001 | \$ 90,562 | \$ 923,749 |
| Accrued salaries and related items | 2,407,037 | - | - | 7,110 | 2,414,147 |
| Accrued retirement | 1,297,716 | - | - | - | 1,297,716 |
| Due to other funds | - | 9,597 | - | - | 9,597 |
| Due to other governmental units | 39,863 | - | - | - | 39,863 |
| Unearned revenue | 66,067 | - | - | 37,992 | 104,059 |
| TOTAL LIABILITIES | 4,236,272 | 92,194 | 325,001 | 135,664 | 4,789,131 |
| DEFERRED INFLOWS OF RESOURCES: | | | | | |
| Unavailable revenue | 171,102 | - | - | - | 171,102 |
| FUND BALANCES: | | | | | |
| Nonspendable: | | | | | |
| Inventories | 5,867 | - | - | 26,333 | 32,200 |
| Prepays | 190,231 | - | - | 9,257 | 199,488 |

See notes to financial statements.

| | <u>General fund</u> | <u>Capital projects sinking fund</u> | <u>2017 capital projects fund</u> | <u>Total nonmajor funds</u> | <u>Total governmental funds</u> |
|---|---------------------|--|---------------------------------------|-------------------------------------|---|
| FUND BALANCES (Concluded): | | | | | |
| Restricted for: | | | | | |
| Debt service | \$ - | \$ - | \$ - | \$ 361,252 | \$ 361,252 |
| Capital projects | - | 893,972 | 66,745,498 | 351,596 | 67,991,066 |
| Food service | | | | 211,572 | 211,572 |
| Assigned for capital projects | - | - | - | 1,096,543 | 1,096,543 |
| Unassigned general fund | 4,261,106 | - | - | - | 4,261,106 |
| TOTAL FUND BALANCES | <u>4,457,204</u> | <u>893,972</u> | <u>66,745,498</u> | <u>2,056,553</u> | <u>74,153,227</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u>\$ 8,864,578</u> | <u>\$ 986,166</u> | <u>\$ 67,070,499</u> | <u>\$ 2,192,217</u> | <u>\$ 79,113,460</u> |
| Total governmental fund balances | | | | | \$ 74,153,227 |
| Amounts reported for governmental activities in the statement of net position are different because: | | | | | |
| Deferred charges on refunding | | | | | 983,297 |
| Deferred outflows of resources - related to pensions | | | | | 7,804,331 |
| Deferred inflows of resources - related to pensions | | | | | (998,883) |
| Deferred inflows of resources - related to state pension funding | | | | | (1,695,654) |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds: | | | | | |
| The cost of the capital assets is | | | | \$ 117,296,967 | |
| Accumulated depreciation is | | | | <u>(47,846,528)</u> | |
| | | | | | 69,450,439 |
| 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 | | | | | 71,102 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds: | | | | | |
| Bonds payable | | | | | (107,543,036) |
| Compensated absences and termination benefits | | | | | (940,376) |
| Accrued interest is not included as a liability in government funds, it is recorded when paid | | | | | (591,322) |
| Net pension liability | | | | | <u>(54,481,960)</u> |
| Net position of governmental activities | | | | | <u>\$ (13,688,835)</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, 2017

| | <u>General Fund</u> | <u>Capital projects sinking fund</u> | <u>2017 Capital projects fund</u> | <u>Total nonmajor funds</u> | <u>Total governmental funds</u> |
|------------------------------|---------------------|--|---------------------------------------|---------------------------------|---|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Property taxes | \$ 8,690,461 | \$ 1,355,767 | \$ - | \$ 5,495,834 | \$ 15,542,062 |
| Tuition | 4,209 | - | - | - | 4,209 |
| Investment earnings (loss) | - | - | (30,248) | 8,470 | (21,778) |
| Food sales and athletics | 81,806 | - | - | 490,213 | 572,019 |
| Other | 306,219 | 27,548 | - | - | 333,767 |
| Total local sources | 9,082,695 | 1,383,315 | (30,248) | 5,994,517 | 16,430,279 |
| State sources | 25,081,050 | - | - | 52,513 | 25,133,563 |
| Federal sources | 672,997 | - | - | 672,652 | 1,345,649 |
| Incoming transfers and other | 3,580,504 | - | - | - | 3,580,504 |
| Total revenues | 38,417,246 | 1,383,315 | (30,248) | 6,719,682 | 46,489,995 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction | 23,769,560 | - | - | - | 23,769,560 |
| Supporting services | 14,909,602 | - | - | - | 14,909,602 |
| Food service activities | - | - | - | 1,116,352 | 1,116,352 |
| Community service activities | 15,359 | - | - | - | 15,359 |
| Capital outlay | - | 1,139,996 | 172,095 | 420,202 | 1,732,293 |

See notes to financial statements.

| | General Fund | Capital projects sinking fund | 2017 Capital projects fund | Total nonmajor funds | Total governmental funds |
|--|---------------------|--------------------------------------|-----------------------------------|-----------------------------|---------------------------------|
| EXPENDITURES (Concluded): | | | | | |
| Debt service: | | | | | |
| Principal repayment | \$ - | \$ - | \$ - | \$ 3,570,000 | \$ 3,570,000 |
| Interest | - | - | - | 1,844,100 | 1,844,100 |
| Issuance costs | - | - | 448,871 | - | 448,871 |
| Other costs | - | - | - | 673 | 673 |
| Total expenditures | <u>38,694,521</u> | <u>1,139,996</u> | <u>620,966</u> | <u>6,951,327</u> | <u>47,406,810</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(277,275)</u> | <u>243,319</u> | <u>(651,214)</u> | <u>(231,645)</u> | <u>(916,815)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Proceeds from bond issuance | - | - | 57,960,000 | - | 57,960,000 |
| Premium on bond issuance | - | - | 9,436,712 | - | 9,436,712 |
| Proceeds from sale of capital assets | 4,706 | - | - | 1,626 | 6,332 |
| Transfers in | 148,180 | - | - | - | 148,180 |
| Transfers out | - | - | - | (148,180) | (148,180) |
| Total other financing sources (uses) | <u>152,886</u> | <u>-</u> | <u>67,396,712</u> | <u>(146,554)</u> | <u>67,403,044</u> |
| NET CHANGE IN FUND BALANCES | <u>(124,389)</u> | <u>243,319</u> | <u>66,745,498</u> | <u>(378,199)</u> | <u>66,486,229</u> |
| FUND BALANCES: | | | | | |
| Beginning of year | <u>4,581,593</u> | <u>650,653</u> | <u>-</u> | <u>2,434,752</u> | <u>7,666,998</u> |
| End of year | <u>\$ 4,457,204</u> | <u>\$ 893,972</u> | <u>\$ 66,745,498</u> | <u>\$ 2,056,553</u> | <u>\$ 74,153,227</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, 2017**

Net change in fund balances total governmental funds \$ 66,486,229

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 | (3,330,187) |
| Capital outlay | 1,294,801 |

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 | 307,350 |
| Accrued interest payable, end of the year | (591,322) |

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:

| | |
|---|--------------|
| Proceeds from bond issuance | (57,960,000) |
| Payments on debt | 3,570,000 |
| Premium on issuance of bonds | (9,436,712) |
| Amortization of deferred charges on refunding | (75,638) |
| Amortization of bond premium | 519,536 |

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 | (147,285) |
| Deferred inflows - Unavailable revenue, end of the year | 171,102 |

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 | 952,609 |
| Accrued compensated absences and termination benefits, end of the year | (940,376) |

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 | 95,037 |
|-----------------------|--------|

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 | (264,613) |
|-------------------------------|-----------|

| | |
|--|-------------------|
| Change in net position of governmental activities | \$ 650,531 |
|--|-------------------|

See notes to financial statements.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2017**

| | <u>Agency funds</u> |
|---------------------------------|--------------------------|
| ASSETS: | |
| Cash and cash equivalents | <u>\$ 427,668</u> |
| Total assets | <u><u>\$ 427,668</u></u> |
| LIABILITIES: | |
| Accounts payable | \$ 13,761 |
| Due to student and other groups | <u>413,907</u> |
| Total liabilities | <u><u>\$ 427,668</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, and intergovernmental revenues.

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 *2017 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects funds include 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.

| | 2013 | 2017 |
|---------------------------------|--------------|-------------|
| Revenue, not including proceeds | \$ - | \$ (30,248) |
| Expenditures and transfers | \$ 4,674,716 | \$ 620,966 |

The above revenue figure does not include total 2013 and 2017 bond proceeds and premium of \$5,320,473 and \$67,396,712, respectively.

Other Nonmajor Funds

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

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.

**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 contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances are re-appropriated and become part of the subsequent year's budget.

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

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.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30, 2017. 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 acquisition 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 |
| Land improvements | 15 - 20 |
| Vehicles | 8 |

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, 2017 the District levied the following amounts per \$1,000 of assessed valuation:

| Fund | Mills |
|--|---------|
| General fund: | |
| Non-Principal Residence Exemption (PRE) | 18.0000 |
| Commercial Personal Property | 6.0000 |
| Debt service fund: | |
| PRE, Non-PRE, Commercial Personal Property | 5.2050 |
| 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, 2017, 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, 2017 \$8,478,769 of the District's bank balance of \$8,728,769 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 (Continued)

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's U.S. Treasury Notes are valued at Level 1. The MILAF Term investments, District's Federal Agency Notes and Commercial Paper are valued at Level 2.

As of June 30, 2017, the District had the following investments:

| <u>Investment type</u> | <u>Fair value</u> | <u>Weighted average maturity (years)</u> | <u>Standard & Poor's rating</u> | <u>%</u> |
|--|----------------------|--|---|----------------|
| MILAF External Investment Pool - MIMAX | \$ 6,354,479 | 0.0027 | AAAm | 9.70% |
| MILAF Term | 7,585,000 | 0.4411 | AAAm | 11.58% |
| Federal Agency Notes | 12,533,128 | 2.0935 | Aaa | 19.13% |
| U.S. Treasury Notes | 35,080,882 | 1.5306 | AA+ | 53.55% |
| Commercial Paper | <u>3,955,046</u> | 0.7370 | A-1 | <u>6.04%</u> |
| Total fair value | <u>\$ 65,508,535</u> | | | <u>100.00%</u> |
| Portfolio weighted average maturity | | <u>1.5097</u> | | |

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds, which included money market funds. The pooled investment fund utilized by the District are the Michigan Investment Liquid Asset Fund (MILAF-Max). These are external pooled investment funds of "qualified" investments for Michigan school districts. MILAF-Max is not regulated nor is it registered with the SEC. MILAF reports, as of June 30, 2017, the fair value of the District's investments in MILAF-Max is the same as the value of the pool shares.

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

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

MILAF-Max funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF-Max fund requires notification of redemptions prior to 14 days to avoid penalties. The money market funds are also recorded at amortized cost which approximate fair value. These funds are not subject to the fair value disclosures.

MILAF Term investments are reported at net asset value (NAV), which approximates fair value, and MILAF Managed Account investments are reported at fair value.

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

At June 30, 2017, the carrying amounts are as follows:

| | |
|---|-----------------------------|
| Cash on hand | \$ 1,124 |
| Deposits including fiduciary funds of \$427,668 | 8,640,674 |
| Investments | <u>65,508,535</u> |
| | <u><u>\$ 74,150,333</u></u> |

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

| | |
|---|-----------------------------|
| Cash and cash equivalents - agency fund | \$ 427,668 |
| Cash and cash equivalents - district-wide | 6,431,046 |
| Restricted cash - capital projects | 8,137,563 |
| Restricted investments - capital projects | <u>59,154,056</u> |
| | <u><u>\$ 74,150,333</u></u> |

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Receivables at June 30, 2017 consist of the following:

| | |
|-------------------------------------|----------------------------|
| Intergovernmental: | |
| State aid | \$ 4,508,108 |
| Federal revenue | 224,406 |
| Ingham Intermediate School District | <u>169,932</u> |
| | <u><u>\$ 4,902,446</u></u> |

No allowance for doubtful accounts is considered necessary.

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

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets at June 30, 2017 is as follows:

| | Balance July 1, 2016 | Additions | Reclassifications/ deletions | Balance June 30, 2017 |
|--------------------------------|-------------------------|-----------------------|---------------------------------|--------------------------|
| Assets not being depreciated: | | | | |
| Land | \$ 266,493 | \$ - | \$ - | \$ 266,493 |
| Construction in progress | 601,608 | 226,678 | 601,608 | 226,678 |
| | <u>868,101</u> | <u>226,678</u> | <u>601,608</u> | <u>493,171</u> |
| Other capital assets: | | | | |
| Land improvements | 11,892,597 | 67,075 | - | 11,959,672 |
| Buildings and additions | 95,814,459 | 1,411,353 | - | 97,225,812 |
| Furniture and equipment | 7,171,729 | 136,548 | 11,784 | 7,296,493 |
| Vehicles | 302,656 | 54,755 | 35,592 | 321,819 |
| Total other capital assets | <u>115,181,441</u> | <u>1,669,731</u> | <u>47,376</u> | <u>116,803,796</u> |
| Accumulated depreciation: | | | | |
| Land improvements | 6,446,737 | 534,353 | - | 6,981,090 |
| Building and improvements | 32,809,157 | 2,375,153 | - | 35,184,310 |
| Furniture and equipment | 5,115,819 | 392,866 | 11,784 | 5,496,901 |
| Vehicles | 192,004 | 27,815 | 35,592 | 184,227 |
| Total accumulated depreciation | <u>44,563,717</u> | <u>3,330,187</u> | <u>47,376</u> | <u>47,846,528</u> |
| Net other capital assets | <u>70,617,724</u> | <u>(1,660,456)</u> | <u>-</u> | <u>68,957,268</u> |
| Net capital assets | <u>\$ 71,485,825</u> | <u>\$ (1,433,778)</u> | <u>\$ 601,608</u> | <u>\$ 69,450,439</u> |

Depreciation for the fiscal year ended June 30, 2017 amounted to \$3,330,187. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

| Receivable fund | Amount | Payable fund | Amount |
|---------------------|-----------------|--------------|-------------------|
| Nonmajor debt funds | <u>\$ 9,597</u> | Sinking fund | <u>\$ (9,597)</u> |

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

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

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term obligations for the District for the year ended June 30, 2017.

| | Compensated absences and termination benefits | Bonds and other debt | Total |
|---------------------------|--|-------------------------|-----------------------|
| Balance, July 1, 2016 | \$ 952,609 | \$ 44,235,860 | \$ 45,188,469 |
| Additions | 50,783 | 67,396,712 | 67,447,495 |
| Deletions | (63,016) | (4,089,536) | (4,152,552) |
| Balance, June 30, 2017 | 940,376 | 107,543,036 | 108,483,412 |
| Due within one year | (41,553) | (3,630,000) | (3,671,553) |
| Due in more than one year | <u>\$ 898,823</u> | <u>\$ 103,913,036</u> | <u>\$ 104,811,859</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, 2017 are as follows:

| | |
|---|-----------------------|
| 2013 general obligation bonds due in annual installments of \$1,075,000 through May 1, 2018, with interest of 3.00%. | \$ 1,075,000 |
| 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%. | 33,085,000 |
| 2017 building and site bonds due in annual installments of \$1,030,000 to \$2,920,000 through May 1, 2042, with interest at 4.875%. | 57,960,000 |
| Plus Premiums on issuance of debt | <u>15,423,036</u> |
| Total general obligation | 107,543,036 |
| Employee compensated absences and termination benefits | <u>940,376</u> |
| Total general long-term debt | <u>\$ 108,483,412</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, 2017, \$38,725,000 of bonds outstanding are considered defeased.

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

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize the long-term obligations as of June 30, 2017 including interest of \$53,948,542 are as follows:

| Year ending June 30, | Principal | Interest | Total |
|---|-----------------------|----------------------|-----------------------|
| 2018 | \$ 3,630,000 | \$ 3,979,242 | \$ 7,609,242 |
| 2019 | 3,570,000 | 4,250,550 | 7,820,550 |
| 2020 | 3,795,000 | 4,082,350 | 7,877,350 |
| 2021 | 3,815,000 | 3,904,900 | 7,719,900 |
| 2022 | 4,030,000 | 3,751,050 | 7,781,050 |
| 2023 - 2027 | 22,885,000 | 15,803,200 | 38,688,200 |
| 2028 - 2032 | 21,235,000 | 10,150,250 | 31,385,250 |
| 2033 - 2037 | 14,560,000 | 5,837,000 | 20,397,000 |
| 2038 - 2042 | 14,600,000 | 2,190,000 | 16,790,000 |
| | 92,120,000 | 53,948,542 | 146,068,542 |
| Unamortized premium on bond issuance | 15,423,036 | - | 15,423,036 |
| Accumulated compensated absences and termination benefits | 940,376 | - | 940,376 |
| | <u>\$ 108,483,412</u> | <u>\$ 53,948,542</u> | <u>\$ 162,431,954</u> |

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

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

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

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

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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 7 - 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, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount - 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 7 - 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

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 20-year period for fiscal year 2016.

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:

| | |
|--------------------------------------|-----------------|
| October 1, 2015 - September 30, 2016 | 14.56% - 18.95% |
| October 1, 2016 - September 30, 2017 | 15.27% - 19.03% |

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately \$5,300,000, with \$5,100,000 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. (72.88% for pension and 27.12% for OPEB)

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

NOTE 7 - 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, 2017, the District reported a liability of \$54,481,960 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 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, 2016 and 2015, the District's proportion was 0.21837% and 0.21480%.

| <i>MPERS (Plan) Non-university employers</i> | September 30, 2016 | September 30, 2015 |
|--|--------------------|--------------------|
| Total Pension Liability | \$ 67,917,445,078 | \$ 66,312,041,902 |
| Plan Fiduciary Net Position | \$ 42,968,263,308 | \$ 41,887,015,147 |
| Net Pension Liability | \$ 24,949,181,770 | \$ 24,425,026,755 |
| Proportionate share | 0.21837% | 0.21480% |
| Net Pension liability for the District | \$ 54,481,960 | \$ 52,465,688 |

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

For the year ended June 30, 2017, the District recognized pension expense of \$5,034,875.

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

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

At June 30, 2017, 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 | \$ 851,783 | \$ - |
| Net difference between projected and actual pension plan investments earnings | 905,490 | 869,759 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 665,778 | - |
| Differences between expected and actual experience | 678,989 | 129,124 |
| Reporting Unit's contributions subsequent to the measurement date | 4,702,291 | - |
| | <u>\$ 7,804,331</u> | <u>\$ 998,883</u> |

\$4,702,291 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

| Year ended September 30, | Amount |
|--------------------------|------------|
| 2017 | \$ 305,246 |
| 2018 | 234,026 |
| 2019 | 1,263,072 |
| 2020 | 300,813 |

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 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB for men and women were used.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. 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 building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset 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 discount rate did not change from the prior measurement date. 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 7 - 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% (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:

| | <u>1% Decrease (6.0 - 7.0%)</u> | <u>Discount rate (7.0 - 8.0%)</u> | <u>1% Increase (8.0 - 9.0%)</u> |
|--|-------------------------------------|---------------------------------------|-------------------------------------|
| Reporting unit's proportionate share of the net pension liability | <u>\$ 70,159,051</u> | <u>\$ 54,481,960</u> | <u>\$ 41,264,665</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 2016 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.

Other Information

Discount Rate - Assumed Rate of Return

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

Pension Reform 2017

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended).

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

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

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.

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 February 1, 2013.

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

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

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% to 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 September 30, 2016 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the years ended June 30, 2017, 2016, and 2015 were approximately \$1,720,000, \$1,760,000, and \$2,400,000.

NOTE 8 - 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.

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, 2017 or any of the prior three years.

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

NOTE 9 - TRANSFERS

The transfer of \$148,180 from the 2012 capital projects fund to the general fund was for the reimbursement of capital expenditures paid for by the general fund.

NOTE 10 - TAX ABATEMENTS

Effective for the year ended June 30, 2017 the District is required to disclose significant tax abatements as required by GASB statement 77 (tax abatements).

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly. The property taxes abated for all funds by municipality under these programs are as follows:

| <u>Municipality</u> | <u>Taxes abated</u> |
|---------------------|--------------------------|
| City of Lansing | \$ 34,570 |
| East Lansing | 429,211 |
| Lansing Township | <u>145,628</u> |
| Total | <u><u>\$ 609,409</u></u> |

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District's section 22 funding of the State School Aid Act.

NOTE 11 - 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 No. 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.

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

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS (Concluded)

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

REQUIRED SUPPLEMENTARY INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

| | Original budget | Final budget | Actual | Variance with final budget |
|--|----------------------------|---------------------|---------------------|---|
| REVENUES: | | | | |
| Local sources | \$ 9,230,338 | \$ 9,187,846 | \$ 9,082,695 | \$ (105,151) |
| State sources | 24,839,952 | 25,134,724 | 25,081,050 | (53,674) |
| Federal sources | 597,822 | 746,370 | 672,997 | (73,373) |
| Incoming transfers and other | 3,582,997 | 3,583,082 | 3,580,504 | (2,578) |
| Total revenues | <u>38,251,109</u> | <u>38,652,022</u> | <u>38,417,246</u> | <u>(234,776)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Basic programs | 19,201,853 | 19,211,076 | 19,108,165 | 102,911 |
| Added needs | 4,392,007 | 4,731,647 | 4,661,395 | 70,252 |
| Total instruction | <u>23,593,860</u> | <u>23,942,723</u> | <u>23,769,560</u> | <u>173,163</u> |
| Supporting services: | | | | |
| Pupil | 2,642,895 | 2,704,802 | 2,643,786 | 61,016 |
| Instructional staff | 2,474,965 | 2,704,820 | 2,549,816 | 155,004 |
| General administration | 414,878 | 420,105 | 470,554 | (50,449) |
| School administration | 2,385,830 | 2,382,044 | 2,368,596 | 13,448 |
| Business | 431,156 | 424,104 | 428,181 | (4,077) |
| Operation/maintenance | 3,795,010 | 3,844,352 | 4,009,746 | (165,394) |
| Pupil transportation | 1,029,125 | 1,037,896 | 1,023,613 | 14,283 |
| Central | 722,931 | 727,311 | 709,815 | 17,496 |
| Athletics | 665,593 | 709,935 | 705,495 | 4,440 |
| Total supporting services | <u>14,562,383</u> | <u>14,955,369</u> | <u>14,909,602</u> | <u>45,767</u> |
| Community services | <u>54,847</u> | <u>40,857</u> | <u>15,359</u> | <u>25,498</u> |
| Total expenditures | <u>38,211,090</u> | <u>38,938,949</u> | <u>38,694,521</u> | <u>244,428</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>40,019</u> | <u>(286,927)</u> | <u>(277,275)</u> | <u>9,652</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sale of school property | 5,000 | 5,000 | 4,706 | (294) |
| Transfers in | - | 148,180 | 148,180 | - |
| Total other financing sources (uses) | <u>5,000</u> | <u>153,180</u> | <u>152,886</u> | <u>(294)</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 45,019</u> | <u>\$ (133,747)</u> | <u>(124,389)</u> | <u>\$ 9,358</u> |
| FUND BALANCE: | | | | |
| Beginning of year | | | 4,581,593 | |
| End of year | | | <u>\$ 4,457,204</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>2017</u> | <u>2016</u> | <u>2015</u> |
|---|---------------|---------------|---------------|
| Reporting unit's proportion of net pension liability (%) | 0.21837% | 0.21480% | 0.22017% |
| Reporting unit's proportionate share of net pension liability | \$ 54,481,960 | \$ 52,465,688 | \$ 48,496,759 |
| Reporting unit's covered-employee payroll | \$ 18,594,479 | \$ 17,927,386 | \$ 18,712,153 |
| Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll | 293.00% | 292.66% | 259.17% |
| Plan fiduciary net position as a percentage of total pension liability (Non university employee) | 63.27% | 63.17% | 66.20% |

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

**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>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|------------------|
| Statutorily required contributions | \$ 5,129,913 | \$ 4,676,809 | \$ 3,817,387 |
| Contributions in relation to statutorily required contributions | <u>5,129,913</u> | <u>4,676,809</u> | <u>3,817,387</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Reporting unit's covered-employee payroll | \$ 18,395,718 | \$ 16,608,983 | \$ 18,107,753 |
| Contributions as a percentage of covered-employee payroll | 27.89% | 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 2016.

Changes of assumptions: There were no changes of benefit assumptions in 2016.

ADDITIONAL SUPPLEMENTARY INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
YEAR ENDED JUNE 30, 2017**

LOCAL SOURCES:

| | |
|----------------------------|------------------|
| Property taxes | \$ 8,690,461 |
| Tuition | 4,209 |
| Other local revenue | 306,219 |
| Athletics | 81,806 |
| TOTAL LOCAL SOURCES | <u>9,082,695</u> |

STATE SOURCES:

| | |
|----------------------------|-------------------|
| Foundation grant | 14,559,819 |
| Special education | 1,242,424 |
| Other state revenue | 9,278,807 |
| TOTAL STATE SOURCES | <u>25,081,050</u> |

FEDERAL SOURCES:

| | |
|------------------------------|----------------|
| Title I | 397,850 |
| Title II | 161,057 |
| Title III | 69,855 |
| Other federal revenue | 44,235 |
| TOTAL FEDERAL SOURCES | <u>672,997</u> |

INCOMING TRANSFERS AND OTHER TRANSACTIONS:

| | |
|--|------------------|
| Special education | 3,479,737 |
| Other | 100,767 |
| TOTAL INCOMING TRANSFERS AND OTHER TRANSACTIONS | <u>3,580,504</u> |

TOTAL REVENUES

38,417,246

OTHER FINANCING SOURCES:

| | |
|--------------------------------------|----------------|
| Sale of school property | 4,706 |
| Transfers in | 148,180 |
| TOTAL OTHER FINANCING SOURCES | <u>152,886</u> |

**TOTAL REVENUES AND
OTHER FINANCING SOURCES**

\$ 38,570,132

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2017**

INSTRUCTION:

Basic programs:

Elementary:

| | |
|------------------------|------------------|
| Salaries | \$ 5,068,952 |
| Benefits | 3,228,290 |
| Purchased services | 15,129 |
| Supplies and materials | 401,525 |
| Capital outlay | 34,175 |
| Other expenses | 137,252 |
| Total elementary | <u>8,885,323</u> |

Middle school:

| | |
|------------------------|------------------|
| Salaries | 2,235,454 |
| Benefits | 1,510,347 |
| Purchased services | 14,523 |
| Supplies and materials | 53,344 |
| Capital outlay | 23,717 |
| Other expenses | 58,780 |
| Total middle school | <u>3,896,165</u> |

High school:

| | |
|------------------------|------------------|
| Salaries | 3,322,155 |
| Benefits | 2,123,532 |
| Purchased services | 78,193 |
| Supplies and materials | 67,640 |
| Capital outlay | 28,225 |
| Other expenses | 455,326 |
| Total high school | <u>6,075,071</u> |

Pre-school:

| | |
|------------------------|----------------|
| Salaries | 133,692 |
| Benefits | 105,189 |
| Supplies and materials | 6,072 |
| Other expenses | 4,230 |
| Total pre-school | <u>249,183</u> |

Summer school:

| | |
|---------------------|--------------|
| Salaries | 1,810 |
| Benefits | 613 |
| Total summer school | <u>2,423</u> |

| | |
|----------------------|-------------------|
| Total basic programs | <u>19,108,165</u> |
|----------------------|-------------------|

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2017**

INSTRUCTION (Concluded):

Added needs:

Special education:

| | |
|-------------------------|--------------|
| Salaries | \$ 1,403,435 |
| Benefits | 1,113,060 |
| Purchased services | 49,470 |
| Supplies and materials | 5,917 |
| Capital outlay | 1,516 |
| Other expenses | 656,929 |
| | <hr/> |
| Total special education | 3,230,327 |
| | <hr/> |

Compensatory education:

| | |
|------------------------------|-----------|
| Salaries | 853,080 |
| Benefits | 543,635 |
| Purchased services | 19,029 |
| Supplies and materials | 10,016 |
| Capital outlay | 2,000 |
| Other expenses | 3,308 |
| | <hr/> |
| Total compensatory education | 1,431,068 |
| | <hr/> |

| | |
|-------------------|-----------|
| Total added needs | 4,661,395 |
| | <hr/> |

| | |
|--------------------------|-------------------|
| TOTAL INSTRUCTION | 23,769,560 |
| | <hr/> |

SUPPORTING SERVICES:

Pupil services:

| | |
|------------------------|-----------|
| Salaries | 1,380,559 |
| Benefits | 914,843 |
| Purchased services | 3,363 |
| Supplies and materials | 17,732 |
| Capital outlay | 515 |
| Other expenses | 326,774 |
| | <hr/> |
| Total pupil services | 2,643,786 |
| | <hr/> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2017**

SUPPORTING SERVICES (Continued) :

| | |
|------------------------------------|--------------|
| Instructional staff services: | |
| Salaries | \$ 1,230,255 |
| Benefits | 782,126 |
| Purchased services | 196,723 |
| Supplies and materials | 167,480 |
| Capital outlay | 22,651 |
| Other expenses | 150,581 |
| | <hr/> |
| Total instructional staff services | 2,549,816 |
| | <hr/> |
| General administration: | |
| Salaries | 205,151 |
| Benefits | 124,491 |
| Purchased services | 123,135 |
| Supplies and materials | 8,163 |
| Capital outlay | 275 |
| Other expenses | 9,339 |
| | <hr/> |
| Total general administration | 470,554 |
| | <hr/> |
| School administration: | |
| Salaries | 1,406,139 |
| Benefits | 901,042 |
| Purchased services | 30,905 |
| Supplies and materials | 17,479 |
| Capital outlay | 2,422 |
| Other expenses | 10,609 |
| | <hr/> |
| Total school administration | 2,368,596 |
| | <hr/> |
| Business services: | |
| Salaries | 214,260 |
| Benefits | 132,255 |
| Purchased services | 69,504 |
| Supplies and materials | 7,016 |
| Capital outlay | 89 |
| Other expenses | 5,057 |
| | <hr/> |
| Total business services | 428,181 |
| | <hr/> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2017**

SUPPORTING SERVICES (Concluded):

| | |
|----------------------------------|-------------------|
| Operations and maintenance: | |
| Salaries | \$ 354,061 |
| Benefits | 249,732 |
| Purchased services | 2,000,088 |
| Supplies and materials | 1,378,416 |
| Capital outlay | 21,353 |
| Other expenses | 6,096 |
| | <hr/> |
| Total operations and maintenance | 4,009,746 |
| | <hr/> |
| Transportation: | |
| Purchased services | 5,386 |
| Supplies and materials | 42,264 |
| Other expenses | 975,963 |
| | <hr/> |
| Total transportation | 1,023,613 |
| | <hr/> |
| Central services: | |
| Salaries | 273,981 |
| Benefits | 161,614 |
| Purchased services | 222,837 |
| Supplies and materials | 8,261 |
| Capital outlay | 20,361 |
| Other expenses | 22,761 |
| | <hr/> |
| Total central services | 709,815 |
| | <hr/> |
| Athletics: | |
| Salaries | 378,347 |
| Benefits | 179,386 |
| Purchased services | 70,142 |
| Supplies and materials | 60,491 |
| Capital outlay | 13,809 |
| Other expenses | 3,320 |
| | <hr/> |
| Total athletics | 705,495 |
| | <hr/> |
| TOTAL SUPPORTING SERVICES | 14,909,602 |
| | <hr/> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2017**

COMMUNITY SERVICES:

| | |
|---------------------------------|-----------------------------|
| Purchased services | \$ 14,996 |
| Supplies and materials | <u>363</u> |
| TOTAL COMMUNITY SERVICES | <u>15,359</u> |
| TOTAL EXPENDITURES | <u><u>\$ 38,694,521</u></u> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2017**

| | Food service special revenue | Debt service | Capital projects | Total nonmajor funds |
|--|---|-------------------------|-----------------------------|-------------------------------------|
| ASSETS | | | | |
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 274,603 | \$ 350,324 | \$ 1,096,543 | \$ 1,721,470 |
| Accounts receivable | 1,111 | - | - | 1,111 |
| Taxes receivable | - | 1,331 | - | 1,331 |
| Intergovernmental | 40,921 | - | - | 40,921 |
| Due from other funds | - | 9,597 | - | 9,597 |
| Prepays | 8,715 | 542 | - | 9,257 |
| Inventories | 26,333 | - | - | 26,333 |
| Restricted cash | - | - | 382,197 | 382,197 |
| TOTAL ASSETS | \$ 351,683 | \$ 361,794 | \$ 1,478,740 | \$ 2,192,217 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 59,961 | \$ - | \$ 30,601 | \$ 90,562 |
| Accrued salaries and related items | 7,110 | - | - | 7,110 |
| Unearned revenue | 37,992 | - | - | 37,992 |
| TOTAL LIABILITIES | 105,063 | - | 30,601 | 135,664 |
| FUND BALANCES: | | | | |
| Nonspendable: | | | | |
| Prepays | 8,715 | 542 | - | 9,257 |
| Inventories | 26,333 | - | - | 26,333 |
| Restricted for: | | | | |
| Debt service | - | 361,252 | - | 361,252 |
| Capital projects | - | - | 351,596 | 351,596 |
| Food service | 211,572 | - | - | 211,572 |
| Assigned for capital projects | - | - | 1,096,543 | 1,096,543 |
| TOTAL FUND BALANCES | 246,620 | 361,794 | 1,448,139 | 2,056,553 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 351,683 | \$ 361,794 | \$ 1,478,740 | \$ 2,192,217 |

**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, 2017**

| | Food service special revenue | Debt service | Capital projects | Total nonmajor funds |
|--|---|-------------------------|-----------------------------|-------------------------------------|
| REVENUES: | | | | |
| Local sources: | | | | |
| Property taxes | \$ - | \$ 5,495,834 | \$ - | \$ 5,495,834 |
| Investment earnings | - | 8,470 | - | 8,470 |
| Food sales | 490,213 | - | - | 490,213 |
| Total local sources | 490,213 | 5,504,304 | - | 5,994,517 |
| State sources | 39,080 | - | 13,433 | 52,513 |
| Federal sources | 672,652 | - | - | 672,652 |
| Total revenues | 1,201,945 | 5,504,304 | 13,433 | 6,719,682 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Food service activities | 1,116,352 | - | - | 1,116,352 |
| Capital outlay | 11,018 | - | 409,184 | 420,202 |
| Debt service: | | | | |
| Principal repayment | - | 3,570,000 | - | 3,570,000 |
| Interest expense | - | 1,844,100 | - | 1,844,100 |
| Other costs | - | 673 | - | 673 |
| Total expenditures | 1,127,370 | 5,414,773 | 409,184 | 6,951,327 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 74,575 | 89,531 | (395,751) | (231,645) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds from sale of capital assets | 1,626 | - | - | 1,626 |
| Transfers out | - | - | (148,180) | (148,180) |
| Total other financing sources (uses) | 1,626 | - | (148,180) | (146,554) |
| NET CHANGE IN FUND BALANCES | 76,201 | 89,531 | (543,931) | (378,199) |
| FUND BALANCES: | | | | |
| Beginning of year | 170,419 | 272,263 | 1,992,070 | 2,434,752 |
| End of year | \$ 246,620 | \$ 361,794 | \$ 1,448,139 | \$ 2,056,553 |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017**

| | 2012 Capital projects fund | 2013 Capital projects fund | Total nonmajor capital projects |
|--|---|---|--|
| ASSETS | | | |
| ASSETS: | | | |
| Cash and cash equivalents | \$ 1,096,543 | \$ - | \$ 1,096,543 |
| Restricted cash | - | 382,197 | 382,197 |
| TOTAL ASSETS | <u><u>\$ 1,096,543</u></u> | <u><u>\$ 382,197</u></u> | <u><u>\$ 1,478,740</u></u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES: | | | |
| Accounts payable | <u>\$ -</u> | <u>\$ 30,601</u> | <u>\$ 30,601</u> |
| FUND BALANCES: | | | |
| Restricted | - | 351,596 | 351,596 |
| Assigned | <u>1,096,543</u> | <u>-</u> | <u>1,096,543</u> |
| TOTAL FUND BALANCES | <u><u>1,096,543</u></u> | <u><u>351,596</u></u> | <u><u>1,448,139</u></u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 1,096,543</u></u> | <u><u>\$ 382,197</u></u> | <u><u>\$ 1,478,740</u></u> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2017**

| | <u>2012 Capital projects fund</u> | <u>2013 Capital projects fund</u> | <u>Total nonmajor capital projects</u> |
|--|---------------------------------------|---------------------------------------|--|
| REVENUE: | | | |
| State revenue | \$ - | \$ 13,433 | \$ 13,433 |
| EXPENDITURES: | | | |
| Capital outlay | 101,590 | 307,594 | 409,184 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(101,590)</u> | <u>(294,161)</u> | <u>(395,751)</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers out | <u>(148,180)</u> | <u>-</u> | <u>(148,180)</u> |
| Total other financing sources | <u>(148,180)</u> | <u>-</u> | <u>(148,180)</u> |
| NET CHANGE IN FUND BALANCES | (249,770) | (294,161) | (543,931) |
| FUND BALANCES: | | | |
| Beginning of year | <u>1,346,313</u> | <u>645,757</u> | <u>1,992,070</u> |
| End of year | <u><u>\$ 1,096,543</u></u> | <u><u>\$ 351,596</u></u> | <u><u>\$ 1,448,139</u></u> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017**

| ASSETS | 2013 Debt | 2015 Refunding | Total nonmajor |
|--|--------------------------|---------------------------|---------------------------|
| ASSETS: | | | |
| Cash and cash equivalents | \$ 100,738 | \$ 249,586 | \$ 350,324 |
| Prepaid expenditures | 167 | 375 | 542 |
| Due from other funds | 1,964 | 7,633 | 9,597 |
| Taxes receivable | 262 | 1,069 | 1,331 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ASSETS | <u><u>\$ 103,131</u></u> | <u><u>\$ 258,663</u></u> | <u><u>\$ 361,794</u></u> |
| LIABILITIES AND FUND BALANCES | | | |
| FUND BALANCES: | | | |
| Nonspendable | | | |
| Prepays | \$ 167 | \$ 375 | \$ 542 |
| Restricted for debt service | 102,964 | 258,288 | 361,252 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL FUND BALANCES | <u>103,131</u> | <u>258,663</u> | <u>361,794</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 103,131</u></u> | <u><u>\$ 258,663</u></u> | <u><u>\$ 361,794</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, 2017**

| | <u>2013 Debt</u> | <u>2015 Refunding</u> | <u>Total nonmajor</u> |
|--|--------------------------|---------------------------|---------------------------|
| REVENUES: | | | |
| Local sources: | | | |
| Property taxes | \$ 1,124,549 | \$ 4,371,285 | \$ 5,495,834 |
| Investment earnings | <u>1,850</u> | <u>6,620</u> | <u>8,470</u> |
| Total revenues | <u>1,126,399</u> | <u>4,377,905</u> | <u>5,504,304</u> |
| EXPENDITURES: | | | |
| Principal repayment | 1,045,000 | 2,525,000 | 3,570,000 |
| Interest expense | 63,600 | 1,780,500 | 1,844,100 |
| Other costs | <u>339</u> | <u>334</u> | <u>673</u> |
| Total expenditures | <u>1,108,939</u> | <u>4,305,834</u> | <u>5,414,773</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>17,460</u> | <u>72,071</u> | <u>89,531</u> |
| NET CHANGE IN FUND BALANCES | 17,460 | 72,071 | 89,531 |
| FUND BALANCES: | | | |
| Beginning of year | <u>85,671</u> | <u>186,592</u> | <u>272,263</u> |
| End of year | <u><u>\$ 103,131</u></u> | <u><u>\$ 258,663</u></u> | <u><u>\$ 361,794</u></u> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINED DEBT SERVICE REQUIREMENTS
JUNE 30, 2017**

| Year ending June 30, | 2013 Debt | 2015 Refunding debt | 2017 Debt | Combined |
|---------------------------------|---------------------|--------------------------------|-----------------------|-----------------------|
| 2018 | \$ 1,107,250 | \$ 4,209,250 | \$ 2,292,742 | \$ 7,609,242 |
| 2019 | - | 4,066,500 | 3,754,050 | 7,820,550 |
| 2020 | - | 3,964,500 | 3,912,850 | 7,877,350 |
| 2021 | - | 3,856,250 | 3,863,650 | 7,719,900 |
| 2022 | - | 3,742,000 | 4,039,050 | 7,781,050 |
| 2023 | - | 3,632,000 | 4,126,850 | 7,758,850 |
| 2024 | - | 3,486,000 | 4,278,850 | 7,764,850 |
| 2025 | - | 3,340,750 | 4,417,250 | 7,758,000 |
| 2026 | - | 3,171,250 | 4,537,250 | 7,708,500 |
| 2027 | - | 2,998,750 | 4,699,250 | 7,698,000 |
| 2028 | - | 2,873,500 | 4,616,250 | 7,489,750 |
| 2029 | - | 2,703,250 | 4,828,000 | 7,531,250 |
| 2030 | - | 2,525,250 | 4,688,000 | 7,213,250 |
| 2031 | - | - | 4,648,000 | 4,648,000 |
| 2032 | - | - | 4,503,000 | 4,503,000 |
| 2033 | - | - | 4,358,000 | 4,358,000 |
| 2034 | - | - | 4,213,000 | 4,213,000 |
| 2035 | - | - | 4,088,000 | 4,088,000 |
| 2036 | - | - | 3,942,000 | 3,942,000 |
| 2037 | - | - | 3,796,000 | 3,796,000 |
| 2038 | - | - | 3,650,000 | 3,650,000 |
| 2039 | - | - | 3,504,000 | 3,504,000 |
| 2040 | - | - | 3,358,000 | 3,358,000 |
| 2041 | - | - | 3,212,000 | 3,212,000 |
| 2042 | - | - | 3,066,000 | 3,066,000 |
| | <u>\$ 1,107,250</u> | <u>\$ 44,569,250</u> | <u>\$ 100,392,042</u> | <u>\$ 146,068,542</u> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2013 DEBT SERIES
JUNE 30, 2017**

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 | |
| 2018 | \$ 1,075,000 | \$ 16,125 | \$ 16,125 | \$ 1,107,250 |
| Total 2013 bonded debt | \$ 1,075,000 | \$ 16,125 | \$ 16,125 | \$ 1,107,250 |

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, 2017**

2015 Debt Series

| Calendar year | Principal due May 1, | Interest due | | Total due annually |
|------------------------|-------------------------|---------------------|---------------------|-----------------------|
| | | November 1 | May 1 | |
| 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 | <u>2,405,000</u> | <u>60,125</u> | <u>60,125</u> | <u>2,525,250</u> |
| Total 2015 bonded debt | <u>\$ 33,085,000</u> | <u>\$ 5,742,125</u> | <u>\$ 5,742,125</u> | <u>\$ 44,569,250</u> |

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2017 DEBT SERIES
JUNE 30, 2017**

2017 Debt Series

| Calendar year | Principal due May 1, | Interest due | | Total due annually |
|------------------------|-------------------------|----------------------|----------------------|-----------------------|
| | | November 1 | May 1 | |
| 2018 | \$ - | \$ 930,717 | \$ 1,362,025 | \$ 2,292,742 |
| 2019 | 1,030,000 | 1,362,025 | 1,362,025 | 3,754,050 |
| 2020 | 1,230,000 | 1,341,425 | 1,341,425 | 3,912,850 |
| 2021 | 1,230,000 | 1,316,825 | 1,316,825 | 3,863,650 |
| 2022 | 1,430,000 | 1,304,525 | 1,304,525 | 4,039,050 |
| 2023 | 1,575,000 | 1,275,925 | 1,275,925 | 4,126,850 |
| 2024 | 1,790,000 | 1,244,425 | 1,244,425 | 4,278,850 |
| 2025 | 2,000,000 | 1,208,625 | 1,208,625 | 4,417,250 |
| 2026 | 2,200,000 | 1,168,625 | 1,168,625 | 4,537,250 |
| 2027 | 2,450,000 | 1,124,625 | 1,124,625 | 4,699,250 |
| 2028 | 2,465,000 | 1,075,625 | 1,075,625 | 4,616,250 |
| 2029 | 2,800,000 | 1,014,000 | 1,014,000 | 4,828,000 |
| 2030 | 2,800,000 | 944,000 | 944,000 | 4,688,000 |
| 2031 | 2,900,000 | 874,000 | 874,000 | 4,648,000 |
| 2032 | 2,900,000 | 801,500 | 801,500 | 4,503,000 |
| 2033 | 2,900,000 | 729,000 | 729,000 | 4,358,000 |
| 2034 | 2,900,000 | 656,500 | 656,500 | 4,213,000 |
| 2035 | 2,920,000 | 584,000 | 584,000 | 4,088,000 |
| 2036 | 2,920,000 | 511,000 | 511,000 | 3,942,000 |
| 2037 | 2,920,000 | 438,000 | 438,000 | 3,796,000 |
| 2038 | 2,920,000 | 365,000 | 365,000 | 3,650,000 |
| 2039 | 2,920,000 | 292,000 | 292,000 | 3,504,000 |
| 2040 | 2,920,000 | 219,000 | 219,000 | 3,358,000 |
| 2041 | 2,920,000 | 146,000 | 146,000 | 3,212,000 |
| 2042 | 2,920,000 | 73,000 | 73,000 | 3,066,000 |
| Total 2017 bonded debt | <u>\$ 57,960,000</u> | <u>\$ 21,000,367</u> | <u>\$ 21,431,675</u> | <u>\$ 100,392,042</u> |

The amount of the original bond issue was \$57,960,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
CAPITAL PROJECTS FUND - SINKING FUND
DETAIL OF EXPENDITURES
YEAR ENDED JUNE 30, 2017**

EXPENDITURES:

| | |
|--------------------------|--------------------------------|
| Donley Elementary | \$ 10,118 |
| Glencairn Elementary | 3,471 |
| Marble Elementary | 9,302 |
| Pinecrest Elementary | 9,525 |
| MacDonald Middle School | 711,237 |
| East Lansing High School | 332,916 |
| Red Cedar Elementary | 4,229 |
| Service Center | 1,100 |
| Whitehills Elementary | <u>58,098</u> |
| Total expenditures | <u><u>\$ 1,139,996</u></u> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
2017 CAPITAL PROJECTS FUND
DETAIL OF EXPENDITURES
YEAR ENDED JUNE 30, 2017**

EXPENDITURES:

| | |
|------------------------|------------------------------|
| Donley Elementary | \$ 29,735 |
| Glencairn Elementary | 30,894 |
| Marble Elementary | 29,972 |
| Pinecrest Elementary | 30,700 |
| Red Cedar Elementary | 19,855 |
| Whitehills Elementary | <u>30,939</u> |
| Total expenditures | <u><u>\$ 172,095</u></u> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
2012 AND 2013 CAPITAL PROJECTS FUND
DETAIL OF EXPENDITURES
YEAR ENDED JUNE 30, 2017**

2012 Capital Projects

EXPENDITURES:

| | |
|--------------------------|----------|
| Donley Elementary | \$ 9,114 |
| Glencairn Elementary | 9,114 |
| Marble Elementary | 9,114 |
| Pinecrest Elementary | 9,114 |
| Red Cedar Elementary | 2,946 |
| Whitehills Elementary | 9,114 |
| MacDonald Middle School | 39,836 |
| East Lansing High School | 13,238 |

| | |
|--------------------|------------|
| Total expenditures | \$ 101,590 |
|--------------------|------------|

2013 Capital Projects

EXPENDITURES:

| | |
|--------------------------|-----------|
| Donley Elementary | \$ 32,873 |
| Glencairn Elementary | 31,014 |
| Marble Elementary | 33,704 |
| Pinecrest Elementary | 37,975 |
| Red Cedar Elementary | 8,869 |
| Whitehills Elementary | 35,564 |
| MacDonald Middle School | 37,691 |
| East Lansing High School | 89,904 |

| | |
|--------------------|------------|
| Total expenditures | \$ 307,594 |
|--------------------|------------|

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY SCHOOL - AGENCY FUND
YEAR ENDED JUNE 30, 2017**

| | Balance 7/1/16 | Additions | Deductions | Balance 6/30/17 |
|------------------------------|---------------------------|-------------------|-------------------|----------------------------|
| East Lansing High School | \$ 279,889 | \$ 343,563 | \$ 405,619 | \$ 217,833 |
| MacDonald Middle School | 24,080 | 31,002 | 31,733 | 23,349 |
| Donley Elementary School | 13,759 | 10,938 | 10,675 | 14,022 |
| Glencairn Elementary School | 14,490 | 16,325 | 10,494 | 20,321 |
| Marble Elementary School | 18,792 | 57,950 | 40,399 | 36,343 |
| Pinecrest Elementary School | 19,205 | 21,049 | 22,955 | 17,299 |
| Red Cedar Elementary School | 47,397 | 40,377 | 46,424 | 41,350 |
| Whitehills Elementary School | 4,429 | 6,408 | 9,712 | 1,125 |
| Other | 42,795 | 18,612 | 19,142 | 42,265 |
| | <u>\$ 464,836</u> | <u>\$ 546,224</u> | <u>\$ 597,153</u> | <u>\$ 413,907</u> |

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

| Federal grantor/pass-through grantor/program title | Federal CFDA number | Pass-through grantor's number | Award amount | Accrued (unearned) revenue 7/1/2016 | Prior year expenditures (memorandum only) | Current year expenditures | Current year receipts | Accrued (unearned) revenue 6/30/2017 |
|--|---------------------------|----------------------------------|--------------|--|--|------------------------------|--------------------------|---|
| <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 Entitlement | 10.555 | | \$ 83,760 | \$ - | \$ - | \$ 83,760 | \$ 83,760 | \$ - |
| Cash Assistance: | | | | | | | | |
| National School Lunch Program | 10.555 | 161960 | 455,928 | 15,631 | 406,928 | 49,000 | 64,631 | - |
| | | 171960 | 412,677 | - | - | 412,677 | 387,676 | 25,001 |
| | | | 868,605 | 15,631 | 406,928 | 461,677 | 452,307 | 25,001 |
| Total CFDA# 10.555 National school lunch | | | 952,365 | 15,631 | 406,928 | 545,437 | 536,067 | 25,001 |
| School Breakfast Program | 10.553 | 161970 | 118,559 | 4,634 | 107,267 | 11,292 | 15,926 | - |
| | | 171970 | 114,892 | - | - | 114,892 | 107,316 | 7,576 |
| Total CFDA # 10.553 Breakfast | | | 233,451 | 4,634 | 107,267 | 126,184 | 123,242 | 7,576 |
| Summer Food Service Program for Children | 10.559 | 170900/171900 | 1,031 | - | - | 1,031 | - | 1,031 |
| Total Cash Assistance | | | 1,103,087 | 20,265 | 514,195 | 588,892 | 575,549 | 33,608 |
| Total Child Nutrition Cluster | | | 1,186,847 | 20,265 | 514,195 | 672,652 | 659,309 | 33,608 |
| Total U.S. Department of Agriculture | | | 1,186,847 | 20,265 | 514,195 | 672,652 | 659,309 | 33,608 |

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, 2017**

| Federal grantor/pass-through grantor/program title | Federal CFDA number | Pass-through grantor's number | Award amount | Accrued (unearned) revenue 7/1/2016 | Prior year expenditures (memorandum only) | Current year expenditures | Current year receipts | Accrued (unearned) revenue 6/30/2017 |
|---|---------------------------|----------------------------------|---------------------|--|--|------------------------------|--------------------------|---|
| <u>U.S. Department of Education:</u> | | | | | | | | |
| Passed through the Michigan Department of Education: | | | | | | | | |
| Title I Cluster: | | | | | | | | |
| Title I Part A - Grants to Local Educational Agencies | 84.010 | 161530 1516 | \$ 413,153 | \$ 156,159 | \$ 333,602 | \$ 28,385 | \$ 184,544 | \$ - |
| | | 171530 1617 | 418,264 | - | - | 369,465 | 278,727 | 90,738 |
| | | | <u>831,417</u> | <u>156,159</u> | <u>333,602</u> | <u>397,850</u> | <u>463,271</u> | <u>90,738</u> |
| Title III Part A - English Language Acquisition | 84.365 | 160580 1516 | 59,053 | 29,464 | 44,601 | 12,131 | 41,595 | - |
| | | 170580 1617 | 34,927 | - | - | 14,526 | 8,704 | 5,822 |
| | | 170570 1617 | 46,290 | - | - | 43,198 | 40,569 | 2,629 |
| | | | <u>140,270</u> | <u>29,464</u> | <u>44,601</u> | <u>69,855</u> | <u>90,868</u> | <u>8,451</u> |
| Title II Part A - Supporting Effective Instruction | 84.367 | 150520 1415 | 160,730 | (8,659) | - | - | (8,659) | - |
| | | 160520 1516 | 161,792 | 76,203 | 151,885 | - | 76,203 | - |
| | | 170520 1617 | 165,581 | - | - | 161,057 | 99,757 | 61,300 |
| | | | <u>488,103</u> | <u>67,544</u> | <u>151,885</u> | <u>161,057</u> | <u>167,301</u> | <u>61,300</u> |
| Total passed through Michigan Department of Education | | | <u>1,459,790</u> | <u>253,167</u> | <u>530,088</u> | <u>628,762</u> | <u>721,440</u> | <u>160,489</u> |
| Passed through Ingham Intermediate School District: | | | | | | | | |
| Special Education Cluster: | | | | | | | | |
| Special Education Preschool | 84.173 | 160460 1516 | 20,841 | 20,841 | 20,841 | - | 20,841 | - |
| | | 170460 1617 | 27,877 | - | - | 27,877 | - | 27,877 |
| Total Special Education Cluster | | | <u>48,718</u> | <u>20,841</u> | <u>20,841</u> | <u>27,877</u> | <u>20,841</u> | <u>27,877</u> |
| Total U.S. Department of Education | | | <u>1,508,508</u> | <u>274,008</u> | <u>550,929</u> | <u>656,639</u> | <u>742,281</u> | <u>188,366</u> |
| <u>U.S. Department of Health and Human Services:</u> | | | | | | | | |
| Passed through Ingham Intermediate School District: | | | | | | | | |
| Medical Assistance Program | 93.778 | | 13,743 | - | - | 13,743 | 13,743 | - |
| <u>U.S. Department of Transportation</u> | | | | | | | | |
| Passed through Michigan Fitness Foundation | | | | | | | | |
| Highway Research and Development Program | 20.200 | | 4,995 | - | - | 2,615 | 183 | 2,432 |
| Total Expenditures of Federal Awards | | | <u>\$ 2,714,093</u> | <u>\$ 294,273</u> | <u>\$ 1,065,124</u> | <u>\$ 1,345,649</u> | <u>\$ 1,415,516</u> | <u>\$ 224,406</u> |

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, 2017**

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, 2017. 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, 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 \$ 672,997

Other nonmajor governmental funds:

Federal sources 672,652

\$ 1,345,649

**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, 2017 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 11, 2017.

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.

Maney Costeiran PC

September 11, 2017

**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, 2017. 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 unmodified 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, 2017.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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 11, 2017

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

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, & 10.559 | 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, 2017**

There were no findings disclosed for the past two years.