

Lakewood Public Schools

**Financial Statements
With Supplemental Information
June 30, 2020**

Lakewood Public Schools

June 30, 2020

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Independent Auditor's Report

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Independent Auditor's Report

To the Board of Education
Lakewood Public Schools

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lakewood Public Schools, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 District'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 District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 the Lakewood Public Schools, as of June 30, 2020, 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 budgetary comparison 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lakewood Public Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, and schedule of expenditures of federal awards as required by the U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purpose of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 21, 2020 on my consideration of the Lakewood Public Schools' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lakewood Public Schools' internal control over financial reporting and compliance.

 CPA LLC

Steven R. Thompson, CPA LLC
Certified Public Accountant
Saranac, Michigan
October 21, 2020

Management's Discussion and Analysis

Lakewood Public Schools
Management's Discussion and Analysis
June 30, 2020

This section of the Lakewood Public Schools' annual financial report represent our discussion and analysis of the School District's financial performance and is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and its ability to address the next and subsequent year challenges. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2020.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Lakewood Public School District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant fund - the General Fund - with all other funds presented in one column as nonmajor funds. The remaining statement, the Statement of Fiduciary Net Position presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is organized as follows:

Management's Discussion & Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statement

Notes to the Basic Financial Statements
(Required Supplemental Information)
Budgetary Information for Major Funds

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

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position - the difference between assets and liabilities, as reported in the Statement of Net Position - as one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net position - as reported in the Statement of Activities - are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Lakewood Public Schools

Management's Discussion and Analysis

June 30, 2020

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

The School District's fund financial statements provide detailed information about the most *significant funds* - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

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

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or *fiduciary* for its student activity funds and the scholarship fund. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

The Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2020 and 2019:

Table 1:

| Net Position Summary | | |
|--------------------------------|--------------------------------|-----------------|
| | Governmental Activities | |
| | 2020 | 2019 |
| Current and other assets | \$ 7,088,425 | \$ 6,314,871 |
| Capital assets | 32,902,105 | 31,487,436 |
| Total assets | 39,990,530 | 37,802,307 |
| Deferred outflows of resources | 10,964,273 | 10,682,445 |
| Current and other liabilities | 4,819,715 | 4,494,656 |
| Long-term liabilities | 65,933,236 | 63,330,512 |
| Total liabilities | 70,752,951 | 67,825,168 |
| Deferred Inflows of Resources | 5,222,384 | 5,643,209 |
| Net position | | |
| Net invested in capital assets | 2,955,450 | 2,123,186 |
| Restricted | 1,197,700 | 741,221 |
| Unrestricted | (29,173,682) | (27,848,032) |
| Total net position | \$ (25,020,532) | \$ (24,983,625) |

Lakewood Public Schools
Management's Discussion and Analysis
June 30, 2020

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was \$(25,020,532) at June 30, 2020. Invested in capital assets, net of related debt totaling \$(2,955,450) compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of \$1,197,700 is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those assets for day-to-day operations. The remaining amount of net position, \$(29,173,682), was unrestricted.

The \$(29,173,682) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net position for fiscal year 2020 and 2019.

Table 2:

Statement of Activities Summary

| | Governmental Activities | |
|--|-------------------------|-------------------|
| | 2020 | 2019 |
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 438,365 | \$ 458,048 |
| Grants and categoricals | 4,061,949 | 3,633,197 |
| General Revenues | | |
| Property taxes | 5,109,371 | 4,923,860 |
| State foundation allowance | 12,282,547 | 12,010,197 |
| Other general revenues | 228,114 | 280,723 |
| Total revenues | <u>22,120,346</u> | <u>21,306,025</u> |
| Functions/Program Expenses | | |
| Instruction | 11,353,133 | 10,530,886 |
| Support services | 7,783,614 | 7,039,642 |
| Food service | 840,195 | 704,856 |
| Interest on long-term debt | 1,240,065 | 1,248,219 |
| Depreciation (unallocated) | 940,246 | 1,045,257 |
| Total expenses | <u>22,157,253</u> | <u>20,568,860</u> |
| Increase (decrease) in net position before special item | <u>\$ (36,907)</u> | <u>\$ 737,165</u> |

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$22,157,253. Certain activities were partially funded from those who benefited from the program (\$438,365) or by governments and organizations that subsidized certain programs with grants and categoricals (\$4,061,949). We paid for the remaining "public benefit" portion of our governmental activities with \$5,109,371 in taxes, \$12,282,547 in state aid, and with our other revenues, like interest and general entitlements.

The School District experienced a decrease in net position of \$36,907. This was due to increasing expenditures in excess of increasing revenues as well as a reduction in State Aid due to COVID-19. The decrease in net position differs from the change in fund balance and a reconciliation appears in the financial statements.

Lakewood Public Schools
Management's Discussion and Analysis
June 30, 2020

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

The School District's Funds

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

As the School District completed this year, our governmental funds reported a combined fund balance of \$4,464,408, which is an increase of \$582,408 from last year. The primary reasons for these are:

Our general fund is our principal operating fund. The fund balance in the general fund increased \$90,128 to \$2,989,910.

Our special revenue fund showed a net increase of approximately \$42,470.

The debt service funds showed an increase of approximately \$420,702. No payments were made to reduce the balance owed the State's SLRF program

The Capital Projects Fund had completed an energy project and increased fund balance by \$29,108.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. There were revisions made during the 2019/2020 school year to the original budget. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report).

The first revision is completed after the fall enrollment counts are finalized and audited by the intermediate school district. The other revisions are made later in the year.

Lakewood Public Schools
Management's Discussion and Analysis
June 30, 2020

Capital Asset and Debt Administration

Capital Assets

At June 30, 2020, the School District had approximately \$32.9 million invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of \$1,414,669 or 4.49%, from last year.

Capital Assets at Year-end

| | June 30 | |
|--------------------------|----------------------|----------------------|
| | 2020 | 2019 |
| Land | \$ 258,159 | \$ 258,159 |
| Construction in progress | 35,608 | 0 |
| Buildings | 31,556,393 | 30,367,060 |
| Buses and other vehicles | 778,269 | 444,550 |
| Furniture and equipment | 273,676 | 417,667 |
| Total capital assets | <u>\$ 32,902,105</u> | <u>\$ 31,487,436</u> |

Debt

At the end of this year, the School District had \$27,540,000 in bonds outstanding versus \$27,270,000 last year – a net increase of \$270,000. Those bonds consisted of:

Outstanding Debt at Year-end

| | June 30, 2020 | June 30, 2019 |
|--------------------------|----------------------|----------------------|
| General obligation bonds | <u>\$ 27,540,000</u> | <u>\$ 27,270,000</u> |

The School District's general obligation bond rating continues equivalent to the State's credit rating. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e. debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding general obligation debt of \$27,540,000 is significantly below the statutory imposed limit. Other obligations include equipment notes and capital leases.

The borrowings and accrued interest owed to the School Loan Revolving Fund increased \$29,423 during the year.

We present more detailed information about our long-term liabilities in the Notes to the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2020-2021 fiscal year budget and tax rates. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2020-2021 budget was adopted in June 2020, based on an estimate of students that will be enrolled in September 2020. Approximately 90% of total general fund revenue is from the Foundation Allowance.

Lakewood Public Schools
Management's Discussion and Analysis
June 30, 2020

Under State law, the School District cannot access additional property tax revenue for general operations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data, we anticipate that the fall student count will be lower than the currently approved 2020-2021 budget and will require a budget amendment after the count is final.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State's budget has increased the foundation allowance in its budget for the upcoming year. Various state legislation has been enacted in an attempt to lessen the local burden for retirement and insurances costs.

The district experienced unprecedented disruption to operations due to COVID-19. For the year ended June 30, 2020, State Aid Foundation payments were reduced for the year in the amount of \$313,688. The uncertainty surrounding COVID-19 could continue to have an impact on the school district. Next year's budget is based on the best information known at the time of adoption, but amendments and changes may be necessary to reflect the changes to operation and cash flows as the next year progresses. The District will make adjustments to the budget and operations as more information becomes available.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Superintendent, 223 W. Broadway, Woodland, Michigan 48897.

Government-Wide Financial Statements

Lakewood Public Schools

Statement of Net Position
June 30, 2020

| | Governmental <u>Activities</u> |
|--|-----------------------------------|
| Assets | |
| Current Assets | |
| Cash and Cash Equivalents | \$ 4,124,711 |
| Accounts Receivable | 103,970 |
| Due from other governments | 2,837,234 |
| Inventory | 15,755 |
| Prepaid Expense | 6,755 |
| Total Current Assets | <u>7,088,425</u> |
| Non Current Assets | |
| Capital Assets | 57,270,202 |
| Less: Accumulated Depreciation | <u>(24,368,097)</u> |
| Net Capital Assets | <u>32,902,105</u> |
| Total Assets | 39,990,530 |
| Deferred Outflows of Resources | |
| Deferred Pension outflows | 8,798,246 |
| Deferred OPEB outflows | <u>2,166,027</u> |
| Total Deferred Outflows of Resources | <u>10,964,273</u> |
| Liabilities | |
| Current Liabilities | |
| Accounts Payable | 1,007,132 |
| Due to other governments | 47,990 |
| Accrued Payroll and other liabilities | 1,334,115 |
| Accrued expenses | 213,090 |
| Unearned Revenue | 234,780 |
| Compensated Absences, due within one year | 31,146 |
| Long-term liabilities due within one year | |
| Bonds Payable- due within one year | 1,850,000 |
| Other obligations, due within one year | <u>101,462</u> |
| Total current liabilities | <u>4,819,715</u> |
| Noncurrent Liabilities | |
| Bonds Payable-due in more than one year | 26,816,259 |
| Other obligations, due in more than one year | 1,212,977 |
| Net pension liability | 31,148,205 |
| Net OPEB liability | <u>6,755,795</u> |
| Total noncurrent liabilities | <u>65,933,236</u> |
| Total Liabilities | 70,752,951 |
| Deferred Inflows of Resources | |
| Deferred pension inflows | 1,508,416 |
| State aid funding for pensions | 1,037,397 |
| Deferred OPEB inflows | <u>2,676,571</u> |
| Total deferred inflows of resources | <u>5,222,384</u> |
| Net Position | |
| Net investment in capital assets | 2,955,450 |
| Restricted for: | |
| Food service | 279,527 |
| Debt service | 918,173 |
| Unrestricted | <u>(29,173,682)</u> |
| Total Net Position | <u>\$ (25,020,532)</u> |

See accompanying notes to financial statements

Lakewood Public Schools

Statement of Activities

For the year ended June 30, 2020

| | Program Revenues | | | Governmental Activities |
|---|----------------------|------------------------|------------------------------------|--|
| | Expenses | Charges for Service | Operating Grants/ Contributions | Net (Expenses) Revenues and Changes in Net Assets |
| Functions/Programs | | | | |
| Governmental activities: | | | | |
| Instruction | \$ 11,353,133 | \$ 0 | \$ 3,258,431 | \$ (8,094,702) |
| Support Services | 7,783,614 | 217,450 | 154,823 | (7,411,341) |
| Food Service | 840,195 | 220,915 | 648,695 | 29,415 |
| Interest on Long- Term Debt | 1,240,065 | 0 | 0 | (1,240,065) |
| Depreciation (unallocated) | 940,246 | 0 | 0 | (940,246) |
| Total governmental activities | <u>\$ 22,157,253</u> | <u>\$ 438,365</u> | <u>\$ 4,061,949</u> | (17,656,939) |
| General revenues: | | | | |
| Taxes | | | | |
| Property taxes, levied for general purpose | | | | 1,759,473 |
| Property taxes, levied for debt service | | | | 3,349,898 |
| State aid not restricted to specific purposes | | | | 12,282,547 |
| Interest and investment earnings | | | | 48,336 |
| Other | | | | 179,778 |
| Total general revenues | | | | <u>17,620,032</u> |
| Changes in Net Position | | | | (36,907) |
| Net position-Beginning of year | | | | <u>(24,983,625)</u> |
| Net position-End of year | | | | <u>\$ (25,020,532)</u> |

Fund Financial Statements

Lakewood Public Schools

Governmental Funds

Balance Sheet

June 30, 2020

| | General | 2015 Debt Fund | Capital Projects | Other Non-Major Funds | Total Governmental Funds |
|--|---------------------|-------------------|---------------------|--------------------------|--------------------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 2,412,876 | \$ 911,557 | \$ 463,897 | \$ 336,381 | \$ 4,124,711 |
| Accounts receivable | 103,970 | 0 | 0 | 0 | 103,970 |
| Due from other funds | 270,951 | 20,762 | 0 | 238,578 | 530,291 |
| Due from other governments | 2,837,234 | 0 | 0 | 0 | 2,837,234 |
| Inventory | 5,814 | 0 | 0 | 9,941 | 15,755 |
| Prepaid expenses | 6,755 | 0 | 0 | 0 | 6,755 |
| Total assets | \$ 5,637,600 | \$ 932,319 | \$ 463,897 | \$ 584,900 | \$ 7,618,716 |
| Liabilities | | | | | |
| Accounts payable | \$ 832,745 | \$ 0 | \$ 174,339 | \$ 48 | \$ 1,007,132 |
| Salaries and withholdings payable | 1,334,115 | 0 | 0 | 0 | 1,334,115 |
| Due to other funds | 219,660 | 29,050 | 225,850 | 55,731 | 530,291 |
| Due to other governmental units | 47,990 | 0 | 0 | 0 | 47,990 |
| Unearned revenue | 213,180 | 0 | 0 | 21,600 | 234,780 |
| Total Liabilities | 2,647,690 | 29,050 | 400,189 | 77,379 | 3,154,308 |
| Fund Equity | | | | | |
| Fund balance | | | | | |
| Non-spendable for: | | | | | |
| Inventory | 5,814 | 0 | 0 | 9,941 | 15,755 |
| Prepaid expenses | 6,755 | 0 | 0 | 0 | 6,755 |
| Restricted for: | | | | | |
| Food service | 0 | 0 | 0 | 269,586 | 269,586 |
| Debt service | 0 | 903,269 | 0 | 227,994 | 1,131,263 |
| Capital Projects | 250,415 | 0 | 63,708 | 0 | 314,123 |
| Assigned | 1,442,223 | 0 | 0 | 0 | 1,442,223 |
| Unassigned | 1,284,703 | 0 | 0 | 0 | 1,284,703 |
| Total fund equity | 2,989,910 | 903,269 | 63,708 | 507,521 | 4,464,408 |
| Total liabilities and fund equity | \$ 5,637,600 | \$ 932,319 | \$ 463,897 | \$ 584,900 | \$ 7,618,716 |

See accompanying notes to financial statements

Lakewood Public Schools

Governmental Funds

Reconciliation of Fund Balances of Governmental Funds to Net Position

June 30, 2020

| | |
|--|---------------------|
| Total Fund Balances- Governmental Funds | \$ 4,464,408 |
|--|---------------------|

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

| | |
|--|-------------|
| Deferred outflows of resources - related to pensions | 8,798,246 |
| Deferred outflows of resources - related to OPEB | 2,166,027 |
| Deferred inflows of resources - related to pensions | (1,508,416) |
| Deferred inflows of resources - related to state pension funding | (1,037,397) |
| Deferred inflows of resources - related to OPEB expenditures | (2,676,571) |

Capital assets used in government activities are not
financial resources, and are not reported in the funds

| | | |
|---------------------------|---------------------|------------|
| Capital assets cost: | \$ 57,270,202 | |
| Accumulated depreciation: | <u>(24,368,097)</u> | |
| Net Capital Assets | | 32,902,105 |

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

| | | |
|----------------------------|------------------|--------------|
| Notes Payable | (373,289) | |
| Bonds Payable | (28,666,259) | |
| Net Pension Liability | (31,148,205) | |
| Net OPEB Liability | (6,755,795) | |
| School Loan Revolving Fund | (941,150) | |
| Compensated Absences | (31,146) | |
| Accrued expenses | <u>(213,090)</u> | |
| | | (68,128,934) |

Deferred inflows regarding pension plan
net of amortization

| | |
|---|-------------------------------|
| Net position of governmental activities | <u><u>\$ (25,020,532)</u></u> |
|---|-------------------------------|

See accompanying notes to financial statements

Lakewood Public Schools

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances For the year ended June 30, 2020

| | General | 2015 Debt | Capital Projects | Nonmajor Governmental Funds | Totals |
|---|---------------------|-------------------|---------------------|-----------------------------------|---------------------|
| Revenues | | | | | |
| Local sources | \$ 2,002,784 | \$ 2,157,283 | \$ 17,484 | \$ 1,418,521 | \$ 5,596,072 |
| State sources | 15,217,745 | 41,046 | 0 | 54,004 | 15,312,795 |
| Federal sources | 400,560 | 0 | 0 | 617,906 | 1,018,466 |
| Other | 179,778 | 0 | 0 | 0 | 179,778 |
| Total revenues | 17,800,867 | 2,198,329 | 17,484 | 2,090,431 | 22,107,111 |
| Expenditures | | | | | |
| Instruction | | | | | |
| Basic Programs | 8,091,979 | 0 | 0 | 0 | 8,091,979 |
| Added needs | 2,429,083 | 0 | 0 | 0 | 2,429,083 |
| Support services | | | | | |
| Pupil | 704,891 | 0 | 0 | 0 | 704,891 |
| Instructional staff | 296,845 | 0 | 0 | 0 | 296,845 |
| General administration | 653,859 | 0 | 0 | 0 | 653,859 |
| School administration | 1,132,403 | 0 | 0 | 0 | 1,132,403 |
| Business and central services | 4,322,842 | 0 | 0 | 0 | 4,322,842 |
| Athletics | 384,414 | 0 | 0 | 0 | 384,414 |
| Food Service | 0 | 0 | 0 | 765,041 | 765,041 |
| Community services | 0 | 0 | 0 | 0 | 0 |
| Other transactions | 18,001 | 0 | 62,902 | 0 | 80,903 |
| Capital Outlay | 0 | 0 | 2,040,899 | 0 | 2,040,899 |
| Debt Services | | | | | |
| Redemption of Bonds/Notes | 73,072 | 770,000 | 0 | 995,000 | 1,838,072 |
| Interest and Fiscal Charges | 1,686 | 1,167,981 | 0 | 104,630 | 1,274,297 |
| Total expenditures | 18,109,075 | 1,937,981 | 2,103,801 | 1,864,671 | 24,015,528 |
| Excess (deficiency) of revenues over expenditures | (308,208) | 260,348 | (2,086,317) | 225,760 | (1,908,417) |
| Other financing sources (uses) | | | | | |
| Premium on bond | 0 | 0 | 120,105 | 0 | 120,105 |
| Loan/bond proceeds | 335,720 | 0 | 2,035,000 | 0 | 2,370,720 |
| Payment to escrow agent | 0 | 0 | 0 | 0 | 0 |
| Operating transfers in | 62,616 | 0 | 0 | 0 | 62,616 |
| Operating transfers out | 0 | 0 | (39,680) | (22,936) | (62,616) |
| Total other financing sources (uses) | 398,336 | 0 | 2,115,425 | (22,936) | 2,490,825 |
| Excess (deficiency) of revenues over expenditures and other sources (uses) | 90,128 | 260,348 | 29,108 | 202,824 | 582,408 |
| Fund balances at beginning of year | 2,899,782 | 642,921 | 34,600 | 304,697 | 3,882,000 |
| Fund balances at end of year | \$ 2,989,910 | \$ 903,269 | \$ 63,708 | \$ 507,521 | \$ 4,464,408 |

See accompanying notes to financial statements

Lakewood Public Schools

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities For the year ended June 30, 2020

| | | |
|---|----|---------|
| Net Change in Fund Balances- Total Governmental funds | \$ | 582,408 |
|---|----|---------|

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

Governmental funds reported capital outlays as expenditures;
in the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

| | |
|----------------------|-------------|
| Depreciation Expense | (1,121,345) |
| Capital outlay | 2,536,014 |

Proceeds and repayment of principal on long term debt are other financing
sources and expenditures in the governmental funds, but not in the statement
of activities (where they are additions and reductions of liabilities)

| | |
|---------------------|-----------|
| Principal repayment | 1,838,072 |
|---------------------|-----------|

| | |
|--|-------------|
| Long-term debt proceeds are recorded as revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt) | (2,370,720) |
|--|-------------|

Some expenses are not recorded in the funds, but are accrued and recorded
in the statement of activities:

| | |
|--|-------------|
| Change in accrued interest | (36,117) |
| Amortization of bond premiums | 70,349 |
| Change in accrued compensated absences | (13,829) |
| Pension expense related items | (1,900,354) |

Restricted revenue that is deferred to offset deferred outflows
related to Sec 147c pension contributions subsequent
to the measurement period

| | |
|--------------------------------|---------------|
| State aid funding for pensions | <u>13,235</u> |
|--------------------------------|---------------|

| | | |
|---|-----------|---------------|
| Change in Net Position of Governmental Activities | <u>\$</u> | <u>83,198</u> |
|---|-----------|---------------|

See accompanying notes to financial statements

Lakewood Public Schools

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2020

| | <u>Agency Funds- Student Activities</u> |
|---------------------------|---|
| Assets | |
| Cash and Cash Equivalents | <u>\$ 286,091</u> |
| Total Assets | <u><u>\$ 286,091</u></u> |
| Liabilities | |
| Due to Student groups | <u>\$ 286,091</u> |
| Total Liabilities | <u><u>\$ 286,091</u></u> |

See accompanying notes to financial statements

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Lakewood Public Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

Reporting Entity

The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

Governmental-Wide and Fund Financial Statements

The governmental-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Governmental-Wide Statements – The governmental-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The District generally utilizes restricted resources first to finance qualifying activities.

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

The District does not allocate indirect costs.

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

Fund Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are 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 severance pay, are recorded only when payment is due.

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

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

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

Capital Projects funds are used to account for the construction of fixed assets.

The 2015 Debt fund accounts for the 2015 debt activity.

The Government reports the following nonmajor fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Fund maintained by the School District is the Food Services Fund.

Debt Retirement Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes assessed as of December 31 and the related property taxes are levied and become a lien on December 1. These taxes are billed on December 1st and are due February 15th. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

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 categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as revenue and expensed when received. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

Capital Assets – capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipments, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------------|-------------|
| Buildings and additions | 20-50 years |
| Buses and other vehicles | 5-10 years |
| Furniture and other equipment | 5-20 years |

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 pension and other postemployment benefits 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 and other postemployment benefit 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 qualifies for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

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

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Compensated Absences – The liability for compensated absences reported in the district-wide financial statements consist of unpaid, accumulated vacation pay. This amount is allowed to be carried over for one year.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts constrained on use imposed by the District's highest level of decision-making, its board of education. A fund balance commitment may be established, modified, or rescinded by a resolution of the board of education.

Assigned – amounts intended to be used for specific purposes, but do not rise to the level of committed. Assigned funds are normally temporary and do not require formal action to modify or unassign as required by committed funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature. If the school district budgets the use of fund balance in the subsequent year, this amount is shown as assigned.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District's policy is to consider restricted funds spent first. When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the District's policy is to consider the funds to be spent in the following order: 1) committed, 2) assigned, 3) unassigned.

Comparative Data/Reclassifications – Comparative data is not included in the District's financial statements.

Use of Estimates- The preparation of financial statements requires estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year-end.

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 2 – Stewardship, Compliance and Accountability

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. The General Fund budget was amended several times during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds – The school district had significant expenditure budget variances.

| | Final Budget | Amount of Expenditures | Variance |
|-------------------------|--------------|---------------------------|--------------|
| General Fund | | | |
| Added needs | \$ 2,283,840 | \$ 2,429,083 | \$ (145,243) |
| Pupil | 658,493 | 704,891 | (46,398) |
| School administration | 1,093,706 | 1,132,403 | (38,697) |
| Transportation | 1,852,664 | 1,888,347 | (35,683) |
| Other support services | 390,484 | 461,529 | (71,045) |
| Athletics | 345,157 | 384,414 | (39,257) |
| Food Service | | | |
| Salaries & wages | 206,000 | 225,198 | (19,198) |
| Supplies & materials | 313,250 | 361,111 | (47,861) |
| Employee benefits | 108,120 | 111,304 | (3,184) |
| Operating transfers out | 41,695 | 62,616 | (20,921) |

Note 3 – Deposits and Investments

As of June 30, 2020, the District had the following investments:

| Investment type | Fair Value | Weighted Average Maturity (days) | Standard & Poor's Rating | Portfolio % |
|--------------------------------------|---------------|---|--------------------------------|----------------|
| MILAF External Investment Pool-MIMAX | \$ 1,863,015 | 1 | AAAm | 100.00% |
| Portfolio weighted average maturity | | 1 | | |

Lakewood Public Schools
Notes to Financial Statements
June 30, 2020

Note 3 – Deposits and Investments (Continued)

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 School District's deposits may not be returned to it. As of June 30, 2020, the School District's cash deposits (including \$429,219 in MILAF+ MAX Class) were \$2,711,373 of which \$2,459,138 was exposed to custodial credit risk because it was uninsured.

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

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

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

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

- | | |
|----------|---|
| Level 1: | Quoted prices in active markets for identical securities. |
| Level 2: | Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others. |

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 3 – Deposits and Investments (Continued)

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.

At year-end, the school district had no investments subject to the fair value measurement. All liquid assets were located in deposit accounts.

Reconciliation of cash and investments:

Carrying value of deposits and investments:

| | |
|--|---------------------|
| Deposits (including Agency Funds of \$286,091) | \$ 2,547,787 |
| Money market accounts | 1,863,015 |
| Total | <u>\$ 4,410,802</u> |

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

| | |
|---|---------------------|
| Cash-Agency Fund | \$ 286,091 |
| Cash and cash equivalents-District Wide | 4,124,711 |
| Total | <u>\$ 4,410,802</u> |

Note 4 – Receivables

Receivables as of year-end for the School District's individual major funds and the non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Non-major and Other Funds | Total |
|---------------------|---------------------|------------------------------|---------------------|
| Receivables: | | | |
| Accounts receivable | \$ 103,970 | \$ 0 | \$ 103,970 |
| Intergovernmental | 2,837,234 | 0 | 2,837,234 |
| Net Receivables | <u>\$ 2,941,204</u> | <u>\$ 0</u> | <u>\$ 2,941,204</u> |

Lakewood Public Schools
Notes to Financial Statements
June 30, 2020

Note 4 – Receivables (Continued)

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

| | Unearned |
|--|-------------------|
| Payments received prior to meeting all eligibility requirements: | <u>\$ 234,780</u> |

Note 5 – Capital Assets

Capital Asset activity of the School District's Governmental activities was as follows:

| | Balance July 01, 2019 | Additions | Disposals and Adjustments | Balance June 30, 2020 |
|--------------------------------------|--------------------------|---------------------|------------------------------|--------------------------|
| Assets not being depreciated: | | | | |
| Land | \$ 258,159 | \$ 0 | \$ 0 | \$ 258,159 |
| Construction in progress | 0 | 35,608 | 0 | 35,608 |
| Subtotal | 258,159 | 35,608 | 0 | 293,767 |
| Capital assets being depreciated: | | | | |
| Building and building improvements | 45,620,743 | 2,040,899 | 0 | 47,661,642 |
| Buses and other vehicles | 1,103,563 | 410,720 | 268,664 | 1,245,619 |
| Furniture and equipment | 8,020,387 | 48,787 | 0 | 8,069,174 |
| Subtotal | 54,744,693 | 2,500,406 | 268,664 | 56,976,435 |
| Accumulated depreciaton: | | | | |
| Building and building improvements | 15,253,683 | 851,566 | 0 | 16,105,249 |
| Buses and other vehicles | 659,013 | 77,001 | 268,664 | 467,350 |
| Furniture and equipment | 7,602,720 | 192,778 | 0 | 7,795,498 |
| Subtotal | 23,515,416 | 1,121,345 | 268,664 | 24,368,097 |
| Net capital assets being depreciated | 31,229,277 | 1,379,061 | 0 | 32,608,338 |
| Net capital assets | <u>\$ 31,487,436</u> | <u>\$ 1,414,669</u> | <u>\$ 0</u> | <u>\$ 32,902,105</u> |

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to activities of the school as follows:

Governmental Activities

| | | |
|------------------|----|------------------|
| Instruction | \$ | 25,595 |
| Support Services | | 136,944 |
| Food Services | | 18,560 |
| Unallocated | | 940,246 |
| | \$ | <u>1,121,345</u> |

Note 6 – Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable fund | | Payable Fund | |
|-----------------------|----------------|------------------|----------------|
| General fund | 186,170 | Capital projects | 186,170 |
| General fund | 29,050 | 2015 Debt fund | 29,050 |
| General fund | 16,051 | 2012 Debt fund | 16,051 |
| General fund | 39,680 | Energy bonds | 39,680 |
| 2015 Debt fund | 20,762 | General fund | 20,762 |
| Food Service | 186,652 | General fund | 186,652 |
| 2012 Debt fund | 12,246 | General fund | 12,246 |
| Energy Bond Debt fund | 39,680 | Capital projects | 39,680 |
| | <u>530,291</u> | | <u>530,291</u> |

Interfund Transfers:

| Transfer in: | Transfer Out | | Total |
|-----------------------------|--------------|------------------|-------------------|
| | General Fund | Food Service | |
| Food Service-operations | \$ 0 | \$ 0 | \$ 0 |
| General fund-administration | 0 | 62,616 | 62,616 |
| Total | <u>\$ 0</u> | <u>\$ 62,616</u> | <u>\$ 102,296</u> |

Note 7 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district.

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 7 – Long-Term Debt (Continued)

Long-term obligation activity can be summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds | 27,270,000 | \$ 2,035,000 | \$ 1,765,000 | \$ 27,540,000 | \$ 1,850,000 |
| Direct Borrowings | | | | | |
| Capital lease | 0 | 0 | 0 | 0 | 0 |
| Note Payable | 110,639 | 335,720 | 73,072 | 373,287 | 101,462 |
| School Loan | | | | | |
| Revolving Fund | 911,727 | 29,423 | 0 | 941,150 | 0 |
| Total bonds and notes payable | <u>\$28,292,366</u> | <u>\$ 2,400,143</u> | <u>\$ 1,838,072</u> | <u>\$ 28,854,437</u> | <u>\$ 1,951,462</u> |

The District's outstanding notes from direct borrowings related to governmental activities may contain provisions in which a default may be described as, (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors, or (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest may become immediately due and payable.

Annual debt service requirements, to maturity for the above bond obligations, bus notes and capital leases are as follows:

| | General Obligation Bonds | | Notes from direct borrowings and direct placements | | Total |
|-----------|--------------------------|----------------------|---|------------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| 2021 | \$ 1,850,000 | \$ 1,229,632 | \$ 101,462 | \$ 9,012 | \$ 3,190,106 |
| 2022 | 1,910,000 | 1,165,482 | 65,422 | 6,904 | 3,147,808 |
| 2023 | 1,070,000 | 1,095,480 | 67,083 | 5,243 | 2,237,806 |
| 2024 | 1,145,000 | 1,044,382 | 68,787 | 3,539 | 2,261,708 |
| 2025 | 1,210,000 | 989,830 | 70,534 | 1,792 | 2,272,156 |
| 2026-2030 | 7,240,000 | 4,004,106 | 0 | 0 | 11,244,106 |
| 2031-2035 | 9,350,000 | 2,072,758 | 0 | 0 | 11,422,758 |
| 2035-2040 | 3,765,000 | 204,812 | 0 | 0 | 3,969,812 |
| Total | <u>\$ 27,540,000</u> | <u>\$ 11,806,482</u> | <u>\$ 373,289</u> | <u>\$ 26,489</u> | <u>\$ 39,746,260</u> |

Lakewood Public Schools
Notes to Financial Statements
June 30, 2020

Note 7 – Long-Term Debt (Continued)

Governmental Activities:

Long term debt consists of:

General Obligation Bonds

| | |
|---|--------------|
| \$11,100,000 serial bonds due in annual installments of \$290,000 to \$1,235,000 through May 1, 2022; interest at 2.0% to 2.5%. | \$ 1,890,000 |
|---|--------------|

| | |
|--|------------|
| \$25,675,000 serial and term bonds due in annual installments of \$605,000 to \$1,885,000 through May 1, 2037; interest at 3.625% to 5.00% | 23,615,000 |
|--|------------|

| | |
|--|-----------|
| \$2,035,000 serial bonds due in annual installments of \$65,000 to \$215,000 through May 1, 2035; interest at 2.00% to 3.00% | 2,035,000 |
|--|-----------|

Direct Borrowings

| | |
|---|--------|
| Note payable for two school buses totaling \$183,718. Annual payments of \$38,147 through 3/23/21 with 1.54% interest | 37,569 |
|---|--------|

| | |
|--|---------|
| Note payable for five school buses totaling \$335,720. Annual payments of \$72,326 through 7/30/2024 with 2.54% interest | 335,720 |
|--|---------|

School Loan Revolving Fund payable when the debt retirement fund has excess funds as determined by the State. Interest is determined each year by the State. The interest rate is 3.11836% at June 30, 2020.

| | |
|-------------------------------|---------|
| Accrued interest is \$34,043. | 941,150 |
|-------------------------------|---------|

| | |
|----------------------|-----------------------------|
| Total long-term debt | <u><u>\$ 28,854,439</u></u> |
|----------------------|-----------------------------|

School Bond Loan Fund/School Loan Revolving Fund

Borrowing from the State of Michigan - The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. The interest rate at June 30, 2020 was 3.11836%. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.0 mills. The school district is required to levy 7.0 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Currently the District levies 7.0 mills. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule. The state may apply a default late charge on the note if the District does not make the repayments, or apply the default late charge if the District fails to levy the appropriate debt mills. The state may also withhold state aid payments if the District is in default.

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 8 – Defined Benefit Pension Plan and Post Retirement Benefits

Plan Description

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

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

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

The System's financial statements are available at www.michigan.gov/orsschools.

Benefits Provided - Overall

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

| <u>Plan name</u> | <u>Plan Type</u> | <u>Plan status</u> |
|------------------------------|----------------------|--------------------|
| Basic | Defined Benefit | Closed |
| Member Investment Plan (MIP) | Defined Benefit | Closed |
| Pension Plus | Hybrid | Closed |
| Pension Plus 2 | Hybrid | Open |
| Defined Contribution | Defined Contribution | Open |

Benefits Provided - Pension

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

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

Lakewood Public Schools
Notes to Financial Statements
June 30, 2020

Note 8 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

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 (MPERS) who became a member of MPERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

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

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

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

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

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

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 8 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

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

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

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

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

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

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

Pension Reform of 2017

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

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 8 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

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

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 8 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

Member Contributions

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

Employer Contributions

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

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

Pension and OPEB contributions made in the fiscal year ending September 30, 2019 were determined as of the September 30, 2016 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2016 are amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038

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

| | Pension | Other Post-Employment Benefit |
|--------------------------------------|-----------------|-------------------------------|
| October 1, 2018 – September 30, 2019 | 13.39% - 19.59% | 7.57% - 7.93% |
| October 1, 2019 – September 30, 2020 | 13.39% - 19.59% | 7.57% - 8.09% |

The District's pension contributions for the year ended June 30, 2020 were equal to the required contribution total. Pension contributions were approximately \$2,639,227, with \$2,571,663 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2020 were equal to the required contribution total. OPEB benefits were approximately 706,773, with \$664,260 specifically for the Defined Benefit Plan.

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

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 8 – Defined Benefit Pension Plan 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, 2020, the District reported a liability of \$31,148,205 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2018 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, 2019 and 2018, the District's proportion was 0.09406 and 0.09394 percent.

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

For the year ended June 30, 2020, the District recognized pension expense of \$4,467,289.

At June 30, 2020, 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 |
|---|-----------------------------------|----------------------------------|
| Difference between actual and expected experience | \$ 139,616 | \$ 129,885 |
| Changes of assumptions | 6,098,840 | 0 |
| Net difference between projected and actual earning on pension plan investments | 0 | 998,247 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 113,417 | 380,284 |
| Employer contributions and Sec 147c receipts subsequent to the measurement date | 2,446,373 | 1,037,697 |
| Totals | \$ 8,798,246 | \$ 2,545,813 |

The \$2,446,373 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent year. Deferred inflows from Sec. 147c receipts subsequent to the measurement date in the amount of \$1,037,697 are UAAL Rate Stabilization payments received after the measurement date. This amount will be recognized in the net pension liability in the subsequent year ended. Other

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 8 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

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

| <u>Year Ending September 30</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2020 | \$ 1,776,620 |
| 2021 | \$ 1,579,101 |
| 2022 | \$ 1,066,292 |
| 2023 | \$ 421,444 |

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

OPEB Liabilities

At June 30, 2020, the District reported a liability of \$6,755,795 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2019, and 2018 the District's proportion was 0.09412 percent and 0.095103 percent.

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$182,110.

At June 30, 2020, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred outflows of resources</u> | <u>Deferred inflows of resources</u> |
|---|---|--|
| Difference between actual and expected experience | \$ 0 | \$ 2,478,892 |
| Changes of assumptions | 1,463,844 | 0 |
| Net difference between projected and actual earning on OPEB plan investments | 0 | 117,487 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 95,050 | 80,192 |
| Employer contributions subsequent to the measurement date | 607,133 | 0 |
| Totals | <u>\$ 2,166,027</u> | <u>\$ 2,676,571</u> |

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 8 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

The \$607,133 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

| Year Ending September 30 | Amount |
|--------------------------|--------------|
| 2020 | \$ (305,202) |
| 2021 | \$ (305,202) |
| 2022 | \$ (246,566) |
| 2023 | \$ (165,872) |
| 2024 | \$ (94,835) |

Actuarial Assumptions

Investment rate of return for Pension – 6.80% a year, compounded annually net of investment and administrative expenses for the MIP, Basic and Pension Plus groups and 6.0% a year, compounded annually net of investment and administrative expenses for the Pension Plus 2 Plan.

Investment rate of return for OPEB – 6.95% a year, compounded annually net of investment and administrative expenses

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

Inflation – 3.0%

Mortality assumptions –

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

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

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

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2018. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation.

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 8 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

The long-term expected rate of return on pension and other postemployment benefit plan investments - The pension rate was 6.80% (MIP, Basic, and Pension Plus Plan) and 6.00% for Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation

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

Healthcare cost trend rate for other postemployment benefit – 7.5% for year one and graded to 3.5% to year twelve.

Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:

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

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

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

The target asset allocation at September 30, 2019 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Investment Class | Target Allocation | Long Term Expected Real Rate of Return* |
|--------------------------------------|-------------------|---|
| Domestic Equity Pools | 28.0% | 5.5% |
| Private Equity Pools | 18.0% | 8.6% |
| International Equity | 16.0% | 7.3% |
| Fixed Income Pools | 10.5% | 1.2% |
| Real Estate and Infrastructure Pools | 10.0% | 4.2% |
| Absolute Return Pools | 15.5% | 5.4% |
| Short Term Investment Pools | 2.0% | 0.8% |
| Total | 100.00% | |

*Long Term rates of return are net of administrative expenses and 2.3% inflation.

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 8 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

Rate of Return – For fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.14% and 5.37%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Discount rate - The discount rate used to measure the total pension liability was 6.8% (6.0% for Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 6.80% (6.0% for Pension Plus 2 Plan). The projection of cash flows used to determine the discount rate assumed that plan members contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB Discount rate – The discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (MIP, Basic, and Pension Plus) and 6.0% for Pension Plus 2 plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

| | 1% Decrease (Non-Hybrid/Hybrid)* 5.8% / 5.8% / 5.0% | Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 6.8% / 6.8% / 6.0% | 1% Increase (Non-Hybrid/Hybrid)* 7.8% / 7.8% / 7.0% |
|---|---|--|---|
| Reporting unit's proportionate share of the net pension liability | \$ 40,494,659 | \$ 31,148,205 | \$ 23,399,672 |

Sensitivity of the net OPEB liability to changes in the discount rate -The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1% Decrease 5.95% | Current Discount Rate 6.95% | 1% Increase 7.95% |
|--|----------------------|--------------------------------|----------------------|
| Reporting unit's proportionate share of the OPEB liability | \$ 8,286,998 | \$ 6,755,795 | \$ 5,470,010 |

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 8 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates – The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1% Decrease (6.5% decreasing to 2.5%) | Current Healthcare Cost Trend Rate (7.5% decreasing to 3.5%) | 1% Increase (8.5% decreasing to 4.5%) |
|---|---|--|---|
| Reporting unit's proportionate share of the OPEB liability | \$ 5,415,499 | \$ 6,755,795 | \$ 8,286,817 |

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued [Michigan Public School Employees Retirement System 2019 Comprehensive Annual Financial Report](#).

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

Note 9 – Note Payable

At June 30, 2019, the District had issued a state aid anticipation note payable in the amount of \$158,585 which has an interest rate of 1.75% and matured on August 20, 2019. Proceeds of the note were used to fund school operations. Activity for the year ended June 30, 2020 is as follows.

| Balance June 30, 2019 | Additions | Payments | Balance June 30, 2020 |
|--------------------------|-----------|----------|--------------------------|
| 158,585 | 0 | 158,585 | \$ - |

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 10 – Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for all risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Contingencies

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

The School District has experienced some environmental problems due to underground storage tanks. The ultimate costs to clean-up and/or potential liability to adjacent property owners cannot be presently determined, and the amount of liability, if any, cannot be determined at this time.

The School District is involved in lawsuits from time to time. The ultimate outcome of any of these lawsuits cannot be presently determined; and the amount of damages, if any, cannot be determined at this time.

Note 12 – Property Tax Abatements

The District is subject to reduced property tax revenues as a result of tax abatements entered into by the local cities, villages, and townships. During the 2019-2020 fiscal year, the District received reduced property taxes due to Industrial Facilities Tax (IFT) exemptions. The IFT exemption(s) is to promote economic growth by the expansion of industrial activity. The tax revenue abated is factored in the calculation when the State of Michigan determines the State Aid for the District. The property taxes abated by jurisdiction are as follows.

| Jurisdiction | Type of abatement | Taxes abated |
|------------------|-------------------|--------------|
| Odessa Township | IFT | \$ 294,561 |
| Total abatements | | \$ 294,561 |

Note 13 – Capital Projects

The Capital Projects Fund includes capital project activities funded with bonds issued August 15, 2019. For this capital project, the school district has compiled with the applicable provisions of Sec. 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the Capital Projects Fund from the inception of the fund through the current fiscal year. The expenditures include bonding cost and construction costs to remodel school facilities.

| | |
|---------------|--------------|
| Revenue: | \$ 2,172,589 |
| Expenditures: | \$ 2,143,481 |

Lakewood Public Schools

Notes to Financial Statements

June 30, 2020

Note 14 – Subsequent Events

The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our students, employees and funding sources all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition and results of operations is uncertain.

Note 15 – Upcoming Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2022 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Required Supplemental Information

Lakewood Public Schools
Required Supplemental Information
Budgetary Comparison Schedule-General Fund
For the year ended June 30, 2020

| | Budgeted Amounts | | Actual Amounts | Variance with |
|---|-------------------|-------------------|---------------------|--|
| | Original | Final | (Budgetary Basis) | Final Budget Favorable (Unfavorable) |
| Revenues | | | | |
| Local sources | \$ 2,211,836 | \$ 2,197,628 | \$ 2,002,784 | \$ (194,844) |
| State sources | 15,008,166 | 15,288,443 | 15,217,745 | (70,698) |
| Federal sources | 272,270 | 295,507 | 400,560 | 105,053 |
| Other | 333,942 | 331,005 | 179,778 | (151,227) |
| Total revenues | 17,826,214 | 18,112,583 | 17,800,867 | (311,716) |
| Expenditures | | | | |
| Instruction | | | | |
| Basic Programs | 8,150,018 | 8,160,393 | 8,091,979 | 68,414 |
| Added needs | 2,121,910 | 2,283,840 | 2,429,083 | (145,243) |
| Support services | | | | |
| Pupil | 659,627 | 658,493 | 704,891 | (46,398) |
| Instructional staff | 361,555 | 320,962 | 296,845 | 24,117 |
| General administration | 751,639 | 772,538 | 653,859 | 118,679 |
| School administration | 1,162,847 | 1,093,706 | 1,132,403 | (38,697) |
| Business services | 356,881 | 354,347 | 326,183 | 28,164 |
| Operations and maintenance | 1,820,102 | 1,710,577 | 1,646,783 | 63,794 |
| Transportation | 1,493,706 | 1,852,664 | 1,888,347 | (35,683) |
| Other support services | 401,148 | 390,484 | 461,529 | (71,045) |
| Athletics | 379,285 | 345,157 | 384,414 | (39,257) |
| Other transactions | 27,000 | 27,000 | 18,001 | 8,999 |
| Debt Service | | | | |
| Redemption of bonds/notes | 73,100 | 73,100 | 73,072 | 28 |
| Interest and fiscal charges | 1,750 | 1,750 | 1,686 | 64 |
| Total expenditures | 17,760,568 | 18,045,011 | 18,109,075 | (64,064) |
| Excess (deficiency) of revenues over expenditures | 65,646 | 67,572 | (308,208) | (375,780) |
| Other financing sources (uses) | | | | |
| Proceeds from long-term debt | 0 | 335,720 | 335,720 | 0 |
| Operating transfers in | 45,000 | 45,000 | 62,616 | 17,616 |
| Operating transfers out | 0 | 0 | 0 | 0 |
| Total other financing sources (uses) | 45,000 | 380,720 | 398,336 | 17,616 |
| Excess (deficiency) of revenues over expenditures and other sources (uses) | \$ 110,646 | \$ 448,292 | 90,128 | \$ (358,164) |
| Fund balances at beginning of year | | | 2,899,782 | |
| Fund balances at end of year | | | \$ 2,989,910 | |

Lakewood Public Schools

Required Supplemental Information

Schedule of District's Proportionate Share of the Net Pension Liability

Michigan Public School Employee Retirement Plan

Last 10 Fiscal Years (Determined as of the Plan Year Ended September 30)

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| District's proportion of net pension liability (%) | 0.09406% | 0.09394% | 0.09327% | 0.09658% | 0.10061% | 0.10016% |
| District's proportionate share of net pension liability | \$ 31,148,205 | \$ 28,240,012 | \$ 24,170,201 | \$ 23,870,447 | \$ 24,573,717 | \$ 22,062,122 |
| District's covered-employee payroll | \$ 8,231,997 | \$ 8,096,128 | \$ 7,809,723 | \$ 7,909,972 | \$ 8,462,436 | \$ 8,587,737 |
| District's proportionate share of net pension liability as a percentage of its covered-employee payroll | 378.38% | 348.81% | 309.49% | 301.78% | 290.39% | 256.90% |
| Plan fiduciary net position as a percentage of total pension liability | 60.31% | 62.36% | 64.21% | 63.27% | 63.17% | 66.20% |

Change of benefit terms: There were no changes of benefit terms during the year

Change of assumptions- the assumption changes for 2019 were:

Discount rate for MIP and Basic plans decreased to 6.80% from 7.05%

Discount rate for Pension Plus plans decreased to 6.80% from 7.00%

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

Lakewood Public Schools

Required Supplemental Information

Schedule of District's Pension Contributions

Michigan Public School Employee Retirement Plan

Last 10 Fiscal Years (Determined as of the Year Ended June 30)

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Statutorily required contributions | \$ 2,571,663 | \$ 2,482,205 | \$ 2,335,465 | \$ 2,218,523 | \$ 2,119,394 | \$ 1,881,053 |
| Contributions in relation to statutorily required contributions | \$ 2,571,663 | \$ 2,482,205 | \$ 2,335,465 | 2,218,523 | 2,119,394 | 1,881,053 |
| Contribution deficiency (excess) | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Reporting unit's covered-employee payroll | \$ 8,372,598 | \$ 8,250,415 | \$ 8,020,694 | \$ 8,068,980 | \$ 8,075,182 | \$ 8,710,989 |
| Contributions as a percentage of covered-employee payroll | 30.72% | 30.09% | 29.12% | 27.49% | 26.25% | 21.59% |

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.

Lakewood Public Schools
Required Supplemental Information
Schedule of District's Proportionate Share of the Net OPEB Liability
Michigan Public School Employee Retirement Plan
Last 10 Fiscal Years (Determined as of the Plan Year Ended September 30)

| | 2019 | 2018 | 2017 |
|--|--------------|--------------|--------------|
| District's proportion of net OPEB liability (%) | 0.09412% | 0.09510% | 0.09349% |
| District's proportionate share of net OPEB liability | \$ 6,755,795 | \$ 7,559,701 | \$ 8,279,155 |
| District's covered-employee payroll | \$ 8,231,997 | \$ 8,096,128 | \$ 7,809,723 |
| District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll | 82.07% | 93.37% | 106.01% |
| Plan fiduciary net position as a percentage of total OPEB liability | 48.46% | 42.95% | 36.39% |

Changes of benefit terms: There were no changes of benefit terms during the year

Changes of assumptions - the assumption changes for 2019 were:

Discount rate decreased to 6.95% from 7.15%

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

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.

Lakewood Public Schools

Required Supplemental Information
Schedule of District's OPEB Contributions
Michigan Public School Employee Retirement Plan
Last 10 Fiscal Years (Determined as of the Year Ended June 30)

| | 2020 | 2019 | 2018 |
|--|--------------|--------------|--------------|
| Statutorily required OPEB contributions | \$ 664,260 | \$ 643,969 | \$ 633,315 |
| OPEB contributions in relation to statutorily required contributions | \$ 664,260 | \$ 643,969 | \$ 633,315 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - |
| Reporting unit's covered-employee payroll | \$ 8,372,598 | \$ 8,250,415 | \$ 8,020,694 |
| OPEB contributions as a percentage of covered-employee payroll | 7.93% | 7.81% | 7.90% |

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.

Other Supplemental Information

Lakewood Public Schools

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2020

| | Special Revenue | Other Non-Major Funds | | Nonmajor Governmental Funds |
|---|--------------------|-----------------------|---------------------|-----------------------------------|
| | Food Service | 2012 Debt | Energy Bond Debt | Total |
| Assets | | | | |
| Cash and cash equivalents | \$ 104,582 | \$ 231,799 | \$ 0 | \$ 336,381 |
| Due from other funds | 186,652 | 12,246 | 39,680 | 238,578 |
| Inventory | 9,941 | 0 | 0 | 9,941 |
| Total assets | <u>\$ 301,175</u> | <u>\$ 244,045</u> | <u>\$ 39,680</u> | <u>\$ 584,900</u> |
| Liabilities | | | | |
| Accounts Payable | \$ 48 | \$ 0 | \$ 0 | \$ 48 |
| Due to other funds | 0 | 16,051 | 39,680 | 55,731 |
| Unearned revenue | 21,600 | 0 | 0 | 21,600 |
| Total liabilities | 21,648 | 16,051 | 39,680 | 77,379 |
| Fund Balance | | | | |
| Non-spendable - Inventory | 9,941 | 0 | 0 | 9,941 |
| Restricted | 269,586 | 227,994 | 0 | 497,580 |
| Total fund balance | <u>279,527</u> | <u>227,994</u> | <u>0</u> | <u>507,521</u> |
| Total Liabilities and Fund Balance | <u>\$ 301,175</u> | <u>\$ 244,045</u> | <u>\$ 39,680</u> | <u>\$ 584,900</u> |

See accompanying notes to financial statements

Lakewood Public Schools

Other Supplemental Information
Combining Statement of Revenues, Expenditures
and Changes in Fund balances
Nonmajor Governmental Funds
For the year ended June 30, 2020

| | Special Revenue | Other Nonmajor Funds | | Total Nonmajor Governmental Funds |
|--|--------------------|----------------------|---------------------|---|
| | Food Service | 2012 Debt | Energy Bond Debt | |
| Revenues | | | | |
| Local sources | | | | |
| Property Taxes | \$ 0 | \$ 1,196,253 | \$ 0 | \$ 1,196,253 |
| Lunch sales | 220,915 | 0 | 0 | 220,915 |
| Interest | 517 | 836 | 0 | 1,353 |
| Total Local Sources | 221,432 | 1,197,089 | 0 | 1,418,521 |
| Federal and state sources | | | | |
| State aid | 30,789 | 23,215 | 0 | 54,004 |
| Federal aid | 563,215 | 0 | 0 | 563,215 |
| Federal commodities | 54,691 | 0 | 0 | 54,691 |
| Total Federal and State Sources | 648,695 | 23,215 | 0 | 671,910 |
| Total Revenues | 870,127 | 1,220,304 | 0 | 2,090,431 |
| Expenditures | | | | |
| Salaries & wages | 225,198 | 0 | 0 | 225,198 |
| Purchased services | 63,653 | 0 | 0 | 63,653 |
| Supplies & materials | 361,111 | 0 | 0 | 361,111 |
| Employee benefits | 111,304 | 0 | 0 | 111,304 |
| Other | 3,775 | 0 | 0 | 3,775 |
| Debt Service | | | | |
| Redemption of Serial Bonds | 0 | 995,000 | 0 | 995,000 |
| Interest | 0 | 64,750 | 39,680 | 104,430 |
| Other | 0 | 200 | 0 | 200 |
| Total Expenditures | 765,041 | 1,059,950 | 39,680 | 1,864,671 |
| Excess (deficiency) of revenues over expenditures | 105,086 | 160,354 | (39,680) | 225,760 |
| Other financing sources (uses) | | | | |
| Operating transfers in (out) | (62,616) | 0 | 39,680 | (22,936) |
| Total Other Financing Sources | (62,616) | 0 | 39,680 | (22,936) |
| Excess (deficiency) of revenues over expenditures & other sources (uses) | 42,470 | 160,354 | 0 | 202,824 |
| Fund balances at beginning of year | 237,057 | 67,640 | 0 | 304,697 |
| Fund balances at end of year | \$ 279,527 | \$ 227,994 | \$ 0 | \$ 507,521 |

Lakewood Public Schools

Other Supplemental Information

Special Revenue Funds

Statement of Revenues, Expenditures, and
Changes in Fund Balance- Budget and Actual
For the year ended June 30, 2020

| | Food Service | | Variance |
|--|--------------|------------|----------------------------|
| | Budget | Actual | Favorable (Unfavorable) |
| Revenues | | | |
| Local sources | | | |
| Children lunch | \$ 150,000 | \$ 95,071 | \$ (54,929) |
| Adult lunch | 6,000 | 3,613 | (2,387) |
| A la carte | 115,000 | 80,280 | (34,720) |
| Other | 30,200 | 41,951 | 11,751 |
| Interest earnings | 850 | 518 | (332) |
| Total Local Sources | 302,050 | 221,433 | (80,617) |
| Federal and state sources | | | |
| State aid-matching funds | 25,671 | 30,789 | 5,118 |
| Federal aid | 370,000 | 563,215 | 193,215 |
| Federal commodities | 46,500 | 54,691 | 8,191 |
| Total Federal and State Sources | 442,171 | 648,695 | 206,524 |
| Total Revenues | 744,221 | 870,128 | 125,907 |
| Expenditures | | | |
| Salaries & wages | 206,000 | 225,198 | (19,198) |
| Purchased services | 72,370 | 63,653 | 8,717 |
| Supplies & materials | 313,250 | 361,111 | (47,861) |
| Employee benefits | 108,120 | 111,304 | (3,184) |
| Other | 4,500 | 3,775 | 725 |
| Total Expenditures | 704,240 | 765,041 | (60,801) |
| Excess (deficiency) of revenues over expenditures | 39,981 | 105,087 | 65,106 |
| Other financing sources (uses) | | | |
| Operating transfers in(out) | (41,695) | (62,616) | (20,921) |
| Excess (deficiency) of revenues over expenditures & other sources (uses) | \$ (1,714) | 42,471 | \$ 44,185 |
| Fund balances at beginning of year | | 237,057 | |
| Fund balances at end of year | | \$ 279,528 | |

Lakewood Public Schools

Other Supplemental Information

Agency Funds

Statement of Changes in Assets and Liabilities

For the year ended June 30, 2020

Student Activity Funds

| | Balance July 01, 2019 | Additions | Deductions | Balance June 30, 2020 |
|-----------------------|--------------------------|-------------------|-------------------|--------------------------|
| Assets | | | | |
| Cash | \$ 261,553 | \$ 407,280 | \$ 382,742 | \$ 286,091 |
| Total Assets | <u>\$ 261,553</u> | <u>\$ 407,280</u> | <u>\$ 382,742</u> | <u>\$ 286,091</u> |
| Liabilities | | | | |
| Due to Student Groups | \$ 261,553 | \$ 407,280 | \$ 382,742 | \$ 286,091 |
| Total Liabilities | <u>\$ 261,553</u> | <u>\$ 407,280</u> | <u>\$ 382,742</u> | <u>\$ 286,091</u> |

Lakewood Public Schools

Other Supplemental Information
Schedule of Bonded Debt
2012 Refunding Bonds
June 30, 2020

| <u>Maturity date</u> | <u>Interest rate</u> | <u>Principal</u> | <u>Annual interest</u> | <u>Total debt requirement</u> |
|--------------------------|--------------------------|---------------------|----------------------------|-----------------------------------|
| 5/1/2021 | 2.25% | \$ 960,000 | \$ 44,850 | \$ 1,004,850 |
| 5/1/2022 | 2.50% | 930,000 | 23,250 | 953,250 |
| | Totals | <u>\$ 1,890,000</u> | <u>\$ 68,100</u> | <u>\$ 1,958,100</u> |

Purpose - Advance refund the 2001 Refunding bonds due and payable May 1, 2012 through May 1, 2022.

Lakewood Public Schools

Other Supplemental Information
Schedule of Bonded Debt
2015 School Building and Site Bonds
June 30, 2020

| Maturity date | Interest rate | Principal | Interest | | Total debt requirement |
|---------------|---------------|----------------------|---------------------|---------------------|------------------------|
| | | | November 1 | May 1 | |
| 5/1/2021 | 5.000% | \$ 825,000 | \$ 564,491 | \$ 564,491 | \$ 1,953,982 |
| 5/1/2022 | 5.000% | 905,000 | 543,866 | 543,866 | 1,992,732 |
| 5/1/2023 | 5.000% | 990,000 | 521,240 | 521,240 | 2,032,480 |
| 5/1/2024 | 5.000% | 1,055,000 | 496,491 | 496,491 | 2,047,982 |
| 5/1/2025 | 5.000% | 1,115,000 | 470,115 | 470,115 | 2,055,230 |
| 5/1/2026 | 5.000% | 1,185,000 | 442,240 | 442,240 | 2,069,480 |
| 5/1/2027 | 5.000% | 1,245,000 | 412,616 | 412,616 | 2,070,232 |
| 5/1/2028 | 5.000% | 1,310,000 | 381,490 | 381,490 | 2,072,980 |
| 5/1/2029 | 5.000% | 1,375,000 | 348,741 | 348,741 | 2,072,482 |
| 5/1/2030 | 5.000% | 1,445,000 | 314,366 | 314,366 | 2,073,732 |
| 5/1/2031 | 5.000% | 1,520,000 | 278,241 | 278,241 | 2,076,482 |
| 5/1/2032 | 5.000% | 1,595,000 | 240,240 | 240,240 | 2,075,480 |
| 5/1/2033 | 5.000% | 1,675,000 | 200,366 | 200,366 | 2,075,732 |
| 5/1/2034 | 5.000% | 1,760,000 | 158,491 | 158,491 | 2,076,982 |
| 5/1/2035 | 5.000% | 1,850,000 | 114,491 | 114,491 | 2,078,982 |
| 5/1/2036 | 3.625% | 1,880,000 | 68,241 | 68,241 | 2,016,482 |
| 5/1/2037 | 3.625% | 1,885,000 | 34,165 | 34,165 | 1,953,330 |
| Totals | | <u>\$ 23,615,000</u> | <u>\$ 5,589,891</u> | <u>\$ 5,589,891</u> | <u>\$ 34,794,782</u> |

Purpose - Refund 2007 Bonds

Lakewood Public Schools

Other Supplemental Information
Schedule of Bonded Debt
2019 School Improvement Bonds
June 30, 2020

| Maturity date | Interest rate | Principal | Interest | | Total debt requirement |
|---------------|---------------|---------------------|-------------------|-------------------|------------------------|
| | | | November 1 | May 1 | |
| 5/1/2021 | 2.000% | \$ 65,000 | \$ 27,900 | \$ 27,900 | \$ 120,800 |
| 5/1/2022 | 2.000% | 75,000 | 27,250 | 27,250 | 129,500 |
| 5/1/2023 | 2.000% | 80,000 | 26,500 | 26,500 | 133,000 |
| 5/1/2024 | 2.000% | 90,000 | 25,700 | 25,700 | 141,400 |
| 5/1/2025 | 2.000% | 95,000 | 24,800 | 24,800 | 144,600 |
| 5/1/2026 | 2.000% | 120,000 | 23,850 | 23,850 | 167,700 |
| 5/1/2027 | 3.000% | 125,000 | 22,650 | 22,650 | 170,300 |
| 5/1/2028 | 3.000% | 135,000 | 20,775 | 20,775 | 176,550 |
| 5/1/2029 | 3.000% | 145,000 | 18,750 | 18,750 | 182,500 |
| 5/1/2030 | 3.000% | 155,000 | 16,575 | 16,575 | 188,150 |
| 5/1/2031 | 3.000% | 165,000 | 14,250 | 14,250 | 193,500 |
| 5/1/2032 | 3.000% | 180,000 | 11,775 | 11,775 | 203,550 |
| 5/1/2033 | 3.000% | 190,000 | 9,075 | 9,075 | 208,150 |
| 5/1/2034 | 3.000% | 200,000 | 6,225 | 6,225 | 212,450 |
| 5/1/2035 | 3.000% | 215,000 | 3,225 | 3,225 | 221,450 |
| Totals | | <u>\$ 2,035,000</u> | <u>\$ 279,300</u> | <u>\$ 279,300</u> | <u>\$ 2,593,600</u> |

Purpose - Energy efficiency and lighting

Federal Programs

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

Board of Education
Lakewood Public Schools

I have audited, in accordance with the 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 Lakewood Public Schools as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Lakewood Public Schools' basic financial statements, and have issued my report thereon dated October 21, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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.

My 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did identify a certain deficiency in internal control as described in the accompanying schedule of findings and questioned costs as finding 2020-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lakewood Public Schools' financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2020-001

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 CPA LLC

Steven R. Thompson, CPA LLC
Certified Public Accountant
Saranac, Michigan
October 21, 2020

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

Board of Education
Lakewood Public Schools

Report on Compliance for Each Major Federal Program

I have audited Lakewood Public Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lakewood Public Schools' major federal programs for the year ended June 30, 2020. Lakewood Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Lakewood Public Schools' major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I 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 Lakewood Public Schools' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Lakewood Public Schools' compliance.

Opinion on Each Major Federal Program

In my opinion, Lakewood Public Schools, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my 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.

 CPA LLC

Steven R. Thompson, CPA LLC
Certified Public Accountant
Saranac, Michigan
October 21, 2020

Lakewood Public Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Approved Grant Award Amount | Accrued or (Deferred) Revenue at July 1, 2019 | (Memo Only) Prior Year Expenditures | Current-Year Expenditures | Current-Year Federal Revenue Received | Accrued or (Deferred) Revenue at June 30, 2020 | Adjustments |
|---|---------------------------|-----------------------------------|--|---|------------------------------|--|---|-------------|
| U.S. Department of Agriculture Passed through the Michigan Department of Education: Child Nutrition Cluster National School Lunch Program: Lunch | | | | | | | | |
| Cash | | | | | | | | |
| Project number 191960 | 10.555 * | \$ 291,837 | \$ 3,261 | \$ 246,100 | \$ 45,737 | \$ 48,998 | \$ 0 | \$ 0 |
| Project number 201960 | | 191,321 | 0 | 0 | 191,321 | 191,321 | 0 | 0 |
| Project number 200902 | | 252,875 | 0 | 0 | 252,875 | 252,875 | 0 | 0 |
| Total Cash | | 736,033 | 3,261 | 246,100 | 489,933 | 493,194 | 0 | 0 |
| Commodities | | | | | | | | |
| Entitlement | | 54,691 | 0 | 0 | 54,691 | 54,691 | 0 | 0 |
| Bonus | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Commodities | | 54,691 | 0 | 0 | 54,691 | 54,691 | 0 | 0 |
| Total Lunch | | 790,724 | 3,261 | 246,100 | 544,624 | 547,885 | 0 | 0 |
| Breakfast | | | | | | | | |
| Project number 191970 | 10.553 * | 94,643 | 1,542 | 81,535 | 13,108 | 14,650 | 0 | 0 |
| Project number 201970 | | 60,174 | 0 | 0 | 60,174 | 60,174 | 0 | 0 |
| Total Breakfast | | 154,817 | 1,542 | 81,535 | 73,282 | 74,824 | 0 | 0 |
| Total Child Nutrition Cluster | | 945,541 | 4,803 | 327,635 | 617,906 | 622,709 | 0 | 0 |
| Total US Department of Agriculture | | 945,541 | 4,803 | 327,635 | 617,906 | 622,709 | 0 | 0 |
| U.S. Department of Education Passed through the Michigan Department of Education: Title I, Part A Cluster Title I | | | | | | | | |
| Project number 201530-1920 | 84.010 | 250,004 | 0 | 0 | 216,915 | 0 | 216,915 | 0 |
| Project number 191530-1819 | | 257,941 | 59,263 | 232,176 | 0 | 59,263 | 0 | 0 |
| Project number 181530-1718 | | 255,906 | (3,617) | 255,905 | 0 | (3,617) | 0 | 0 |
| Total Title I, Part A Cluster | | 773,851 | 55,646 | 488,081 | 216,915 | 55,646 | 216,915 | 0 |

Lakewood Public Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Approved Grant Award Amount | Accrued or (Deferred) Revenue at July 1, 2019 | (Memo Only) Prior Year Expenditures | Current-Year Expenditures | Current-Year Federal Revenue Received | Accrued or (Deferred) Revenue at June 30, 2020 | Adjustments |
|--|---------------------------|-----------------------------------|--|---|------------------------------|--|---|-------------|
| Passed through Ionia County Intermediate School District Special Education Cluster(IDEA) | | | | | | | | |
| Project number 200450-1920 | 84.027A | 75,460 | 0 | 0 | 75,460 | 59,260 | 16,200 | 0 |
| Total Special Education Cluster(IDEA) | | 75,460 | 0 | 0 | 75,460 | 59,260 | 16,200 | 0 |
| U.S. Department of Education(non-cluster) Passed through Michigan Department of Education | | | | | | | | |
| Title IIA- Improve Teacher Quality Project number 200520-1920 Project number 190520-1819 | 84.367 | 79,363 149,719 | 0 128,032 | 0 128,032 | 79,363 0 | - 128,032 | 79,363 0 | 0 0 |
| Total Title IIA | | 229,082 | 128,032 | 128,032 | 79,363 | 128,032 | 79,363 | 0 |
| Title IVA-Student Support and Academic Enrichment Project number 190750-1819 Project number 200750-1920 | 84.424A | 27,396 28,822 | 16,883 0 | 16,883 0 | 0 28,822 | 16,883 0 | 0 28,822 | 0 0 |
| Total Title IVA | | 56,218 | 16,883 | 16,883 | 28,822 | 16,883 | 28,822 | 0 |
| Total U.S. Department of Education | | 1,134,611 | 200,561 | 632,996 | 400,560 | 259,821 | 341,300 | 0 |
| Total Federal financial assistance | | \$ 2,080,152 | \$ 205,364 | \$ 960,631 | \$ 1,018,466 | \$ 882,530 | \$ 341,300 | \$ 0 |
| * = Major program | | | | | | | | |

Lakewood Public Schools
Notes to Schedule of Expenditures of Federal Awards
June 30, 2020

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

Lakewood Public Schools
Notes to Schedule of Expenditures of Federal Awards
June 30, 2020

NOTE A: * Designates a major program.

NOTE B: Basis of Presentation – The accompanying schedule of expenditures of federal awards (the "Schedule") includes the grant activity of Lakewood Public Schools under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of the 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 Lakewood Public Schools, it is not intended to and does not present financial position or changes in net position of Lakewood Public Schools.

NOTE C: 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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE D: The Child Nutrition Cluster (CFDA #10.553 and #10.555) was audited as the major program, representing 60.7% of expenditures. The District did not qualify for low risk auditee status.

NOTE E: The threshold for distinguishing Type A and Type B programs was \$750,000.

NOTE F: Management has utilized the Grant Auditors' Report in preparing the Schedule of Expenditures of Federal Awards.

NOTE G: For purposes of charging indirect costs to federal awards, the District has not elected to use the 10% de minimis cost rate as permitted by §200.414 of the Uniform Guidance

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

| | |
|----------------------------------|---------------------|
| General fund | \$ 400,560 |
| Other nonmajor governmental fund | 617,906 |
| Total per financial statements | <u>\$ 1,018,466</u> |

Lakewood Public Schools
Schedule of Findings and Questioned Costs
June 30, 2020

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Lakewood Public Schools
2. A material weakness relating to the audit of the financial statements is reported in the Independent Auditor's Report on internal control over financial reporting and on compliance and other matters on audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Lakewood Public Schools, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No material or significant deficiencies relating to the audit of the major federal award programs is reported in the Independent Auditor's Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with the CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
5. The auditor's report on compliance for the major federal award programs for Lakewood Public Schools expresses an unqualified opinion on all major programs.
6. Audit findings that are required to be reported in accordance with the Uniform Guidance are reported in Part C of this Schedule. There are no findings for the year ended June 30, 2020.
7. The programs tested as major programs include: CFDA #10.553 and #10.555. Total expenditures were \$617,906.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Lakewood Public Schools was determined not to be a low-risk auditee.

B. Findings--Financial Statement Audit

2020-001 - Budget Compliance Control.

Criteria: State law requires appropriation through a budgetary process before expenditures can be made. Policies and procedures require maintaining a system to record and monitor expenditures throughout the year to ensure all expenditures are within the current budget.

Condition: During our field work we discovered the current budget had not been recorded in the accounting software accurately and expenditures were significantly in excess of the appropriated amounts.

Cause: Lack of due diligence

Effect: As a result of this condition, certain District expenditure functions exceeded appropriated amounts, which is in violation of State law. The lack of accurate budgetary comparison within the accounting system resulted in material budget variances and/or accounting errors that could have been detected in a more timely manner.

Recommendation: Finance Director needs to integrate accurate budget figures into the accounting system to allow for the proper monitoring of expenditures to budgeted amounts.

View of Responsible Officials: The District is in agreement with the need for better internal control over budget and expenditure monitoring.

Lakewood Public Schools
Schedule of Findings and Questioned Costs
June 30, 2020

Prior Audit Findings

None

October 21, 2020

Lakewood Public Schools
Corrective Action Plan
Year Ended June 30, 2020

Lakewood Public Schools respectfully submits the following corrective action plan for the year ended June 30, 2020.

Audit Period: June 30, 2020

District responsible individual(s) to implement this plan: Superintendent/Future Finance Director

The finding from the June 30, 2020 schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the number assigned in the schedule.

Finding: Financial Statement Audit

Finding 2020-001 - Budget Compliance Control

Recommendation: Finance Director needs to integrate accurate budget figures into the accounting system to allow for the proper monitoring of expenditures to budgeted amounts.

Planned Corrective Action: At the beginning of the 2020-2021 school year, upon discovery of, consistent with, and in anticipation of the noted finding, the agreement with the Ionia County Intermediate School District to provide business management services was discontinued and the Finance Director was relieved of his responsibility and an interim Director was hired. The District is currently in the process of filling the permanent position with a suitable accounting professional. Budgetary control and expenditure monitoring duties will be emphasized with the new Finance Director.

Planned Completion Date: December 31, 2020

Sincerely,



Dr. Steven Skalka,
Superintendent



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SUPERINTENDENT
Steven C. Skalka

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To the Board of Education
Lakewood Public Schools

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lakewood Public Schools for the year ended June 30, 2020. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated July 15, 2020. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lakewood Public Schools are described in Note 1 to the financial statements. The application of existing policies was not changed during 2020. I noted no transactions entered into by Lakewood Public Schools during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the District's financial statements were:

- Net pension liability and the deferred outflows and deferred inflows originating in the retirement plan. The estimates were used in actuarial calculation as described in the Defined Benefit Pension Plan and Post Retirement Benefit footnote disclosure.
- Net OPEB liability and the deferred outflows and deferred inflows originating in the OPEB plan. The estimates were used in actuarial calculation as described in the Defined Benefit Pension Plan and Post Retirement Benefit footnote disclosure.
- The useful lives of its capital assets. Useful lives are estimated on the expected length of time during which the asset is able to deliver a given level of service.
- Estimates have been used in the calculation of employee compensated absences

I have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statement taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. I did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated October 21, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Lakewood Public Schools's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Lakewood Public Schools's auditors. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Other Matters

I applied certain limited procedures to the required supplementary information (RSI), which are required and supplement the basic financial statements. My procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

I was engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of Board of Education and management of Lakewood Public Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

 CPA LLC

Steven R. Thompson, CPA LLC
Certified Public Accountant
Saranac, Michigan
October 21, 2020