

Lake Orion Community Schools

**Financial Report
with Supplemental Information
June 30, 2015**

Lake Orion Community Schools

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Independent Auditor's Report

To the Board of Education
Lake Orion Community Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Lake Orion Community Schools (the "School District" or "District") as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Education
Lake Orion Community Schools

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Lake Orion Community Schools as of June 30, 2015 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the basic financial statements, effective July 1, 2014, Lake Orion Community Schools adopted the provision of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB 71, *Pension Transition for Net Position* has been restated as of July 1, 2014 as a result of this change in accounting principal. Our opinion is not modified with respect to this matter.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension system schedules of funding progress and employer contributions, and the major fund budgetary comparison schedules, 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lake Orion Community Schools' basic financial statements. The nonmajor governmental funds combining balance sheet, combining statement of revenue, expenditures, and changes in fund balance, and the schedule of bonded indebtedness are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

To the Board of Education
Lake Orion Community Schools

The nonmajor governmental funds combining balance sheet, combining statement of revenue, expenditures, and changes in fund balance, and the schedule of bonded indebtedness are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the accounting procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, nonmajor governmental funds combining balance sheet, combining statement of revenue, expenditures, and changes in fund balance, and the schedule of bonded indebtedness are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2015 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Plante & Moreau, PLLC

October 20, 2015

Lake Orion Community Schools

Management's Discussion and Analysis

This section of Lake Orion Community Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2015. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Lake Orion Community Schools 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 School District's Proprietary Internal Service Fund is reported separately from the governmental 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.

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

Basic Financial Statements

Government-wide Financial Statements	Fund Financial Statements
Proprietary Fund - Internal Service Fund	Fiduciary Fund

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Fund
Schedule of Proportionate Share of Net Pension Liability
Schedule of Contributions
Other Supplemental Information

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

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

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue 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 indicators of whether its financial health is improving or deteriorating. The relationship between revenue 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 the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, food services, athletics, and community services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

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

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

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

Governmental and Proprietary Funds - All of the School District's services are reported in governmental and proprietary 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 the modified accrual method of 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 to 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's Proprietary Internal Service Fund reports on the full accrual basis and presents the School District's reserve for workers' compensation claims due in future years.

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. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. 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.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that 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, 2015 and 2014.

	Governmental Activities	
	June 30	
	2015	2014
	(in millions)	
Assets		
Current and other assets	\$ 19.3	\$ 26.5
Capital assets	<u>149.4</u>	<u>148.6</u>
Total assets	168.7	175.1
Deferred Outflows of Resources - Deferred charges from refunding bonds	3.6	3.4
Deferred outflows related to pensions	<u>7.1</u>	<u>5.7</u>
Total assets and deferred outflow of resources	179.4	184.2
Liabilities		
Current liabilities	23.2	24.7
Long-term liabilities	123.6	132.9
Net pension liability	<u>108.4</u>	<u>115.2</u>
Total liabilities	<u>255.2</u>	<u>272.8</u>
Deferred Inflow of Resources - Related to pensions	<u>8.0</u>	<u>-</u>
Net Position (Deficit)		
Invested in capital assets - Net of related debt	30.3	21.8
Restricted for debt service	-	0.6
Restricted for food service	0.6	0.6
Unrestricted	<u>(114.7)</u>	<u>(111.6)</u>
Total net position (deficit)	<u>\$ (83.8)</u>	<u>\$ (88.6)</u>

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 (\$83.8) million at June 30, 2015 and (\$88.6) million at June 30, 2014. Net investment in capital assets totaling \$30.3 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of \$0.6 million is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position, (\$114.7) million, was unrestricted.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

As required by the Government Accounting Standards Board (GASB) the School District adopted GASB 68 and 71. These standards required the inclusion of the District's proportionate share of the Michigan Public School Employees Retirement Plan within the District's financial statements, effective July 1, 2014. The effect of the adoption was to decrease July 1, 2014 beginning net position by \$109,434,789 and the inclusion of the obligation, and related deferred inflows and outflows, in the June 30, 2015 financial statements. All governments participating in the retirement plan were required to adopt these new standards.

The (\$114.7) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations less a portion of the District's School Bond Loan Fund (SBLF) and the School Bond Loan Revolving Fund (SBLRF) liability (\$10.5) million and the District's MPSER plan liability (less deferred inflows/outflows) (\$109.3) million as required for GASB compliance. This portion of the liability, \$119.8 million, represents the accumulated interest portion embedded within the total SBLF and SBLRF liability and the District's MPSER Plan liability. The unrestricted net position, exclusive of the accumulated interest portion of the SBLF and SBLRF and the District's MPSER Plan liability, would have been \$5.1 million in 2015 and \$7.1 million in 2014. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years 2015 and 2014.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

	Governmental Activities	
	2015	2014
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.1	\$ 3.9
Operating grants	18.1	16.9
General revenue:		
Property taxes	19.2	18.7
State foundation allowance	52.4	52.3
Other	1.2	1.0
Total revenue	95.0	92.8
Functions/Program Expenses		
Instruction	50.0	48.8
Support services	27.7	28.6
Food service	2.4	2.2
Athletics	1.0	1.2
Community services	2.1	2.1
Interest on long-term debt	2.5	5.6
Debt issuance costs	-	-
Depreciation (unallocated)	4.5	4.5
Total functions/program expenses	90.2	93.0
Change in Net Position (Deficit)	4.8	(0.2)
Net Position (Deficit) - Beginning of year	(88.6)	21.0
Impact of GASB Statement No. 68 and 71	-	(109.4)
Net Position (Deficit) - End of year	<u>\$ (83.8)</u>	<u>\$ (88.6)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$90.2 million. Certain activities were partially funded from those who benefited from the programs, \$4.1 million, or by other governments and organizations that subsidized certain programs with grants and contributions of \$18.1 million. We paid for the remaining "public benefit" portion of our governmental activities with \$19.2 million in taxes, \$52.4 million in state foundation allowance, and with \$1.2 million of other revenue, i.e., interest and general entitlements.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

As shown below, we have presented the cost of three of the School District's main functions - instructional programs, support programs, and athletics, as well as each program's net cost (total cost less revenue generated by the activities). As discussed above, net cost shows the financial burden that was placed on the School District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Year Ended June 30	Government-wide Activities			
	Total Cost of	Net Cost of	Total Cost of	Net Cost of
	Services	Services	Services	Services
	2015		2014	
	(in millions)		(in millions)	
Instruction	\$ 50.0	\$ 38.0	\$ 48.8	\$ 37.6
Support services	27.7	22.5	28.6	23.7
Athletics	1.0	0.6	1.2	0.8
All others	11.5	6.9	14.4	10.1
Total	<u>\$ 90.2</u>	<u>\$ 68.0</u>	<u>\$ 93.0</u>	<u>\$ 72.2</u>

The School District experienced an increase in net position of \$4.8 million. The net position invested in capital assets (net of related debt) increased by \$4.3 million. Net position restricted for debt service decreased by \$0.3 million and for food service remained the same. The unrestricted net position balance increased by \$0.8 million. Additionally, long-term debt decreased by \$10.5 million, and the net capital assets balance increased by \$0.7 million.

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 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.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$9.5 million, which is a decrease of \$6.7 million from last year. The changes by major and nonmajor funds are as follows:

	General Fund	Nonmajor Governmental Funds	Total
Fund balance - Beginning of year	\$ 8,373,762	\$ 7,883,464	\$ 16,257,226
(Decrease) increase	(771,583)	(5,957,788)	(6,729,371)
Fund balance - End of year	<u>\$ 7,602,179</u>	<u>\$ 1,925,676</u>	<u>\$ 9,527,855</u>

In the General Fund, our principal operating fund, the fund balance decreased by \$0.8 million from 2014. Revenue and other financing sources increased by approximately \$1.2 million from 2014, while expenditures and other financing uses decreased by approximately \$700,000 million. The fund balance of the General Fund is available to fund costs related to allowable school operating purposes.

The other nonmajor funds decreased by \$6.0 million during the year ended June 30, 2015.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

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 revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

A budget is a fluid document. Therefore, as expected, there were revisions made to the 2014-2015 General Fund budget. Revisions to the expenditures were due to adjustments based on more accurate information.

There were two areas of significant variances between the final budget amounts and actual, based on dollar amount and percentages. Expenditures were greater than budgeted for instructional staff supervision by \$0.1 million which is tied to teacher salary and benefit projections being less than actual. Operation and maintenance expenditures were more than budgeted by \$0.1 million related to higher than expected utility and repair and maintenance costs. No other areas of significance were noted.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2015, the School District had \$149.4 million invested in a broad range of capital assets, including land, construction in progress, buildings and improvements, furniture and equipment, and transportation equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$0.7 million or 0.5 percent, from last year.

	2015	2014
Land	\$ 13,421,804	\$ 13,421,804
Construction in progress	1,514,113	1,632,905
Buildings and building improvements	200,732,620	197,392,321
Buses and other vehicles	4,793,689	4,856,084
Furniture and equipment	12,152,542	10,169,345
Subtotal	232,614,768	227,472,459
Accumulated depreciation	(83,230,556)	(78,823,668)
Net capital assets	<u>\$ 149,384,212</u>	<u>\$ 148,648,791</u>

The increase of \$0.7 million in the fiscal year 2015 (net of current year depreciation) is due to the current year's additions being greater than the amount of depreciation. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$87.5 million in bonds outstanding versus \$99.5 million in the previous year - a decrease of 12.1 percent. Those bonds consisted of the following:

	2015	2014
General obligation bonds	<u>\$ 87,475,000</u>	<u>\$ 99,520,000</u>

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

The School District's general obligation bond rating is "AA-" from Standard and Poor's Ratings Services and "Aa3" from Moody's Investor Services. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding qualified general obligation debt of \$87.5 million is below the \$230.9 million statutorily imposed limit.

Other obligations include the School Bond Loan Fund, School Bond Loan Revolving Fund, installment purchase agreements, capital leases, accrued vacation pay, and sick leave. 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 considered many factors when setting the School District's fiscal year 2016 budget. Two of the most important factors affecting the budget are the economic condition of the State of Michigan and our student count. The June 30, 2016 budget was adopted in June 2015, based on an estimate of property tax revenue, state aid, and grant funding. State law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations. Since the District's revenue is primarily dependent on state aid from the School Aid Fund and local property taxes, the actual revenue received by the District depends on the health of the District's tax base and the State's ability to collect revenue to fund its appropriations to school districts. Under state law, the School District cannot assess additional property tax revenue for general operations.

The state foundation revenue is determined by multiplying the blended student count by foundation allowance per pupil. The blended count for the 2016 fiscal year is 90 percent of the October 2015 and 10 percent of the February 2015 student counts. The 2015-16 budgets were adopted in June 2015, based on an estimate of students that will be enrolled in September 2015.

In the recent past, the State of Michigan has issued several executive orders prorating and reducing, midyear, the State's funding commitment to the District. This possibility continues to exist for fiscal year 2015-16. The extent to which possible funding prorating by the State of Michigan and how it affects Lake Orion Community Schools' budget has yet to be determined. While legislators must work toward balancing a budget in times of limited financial resources, the School District recognizes it must do the same. The School District's recent budgetary history reflects how it has made every effort over the past decade to prepare for and excel programmatically while meeting the challenges of the state's struggling economy. Program cost reduction, elimination, and avoidance in excess of \$20.0 million have been enacted over that time. The budgetary changes are the result of ongoing operational cost sharing, outsourcing, and restructuring activities. As a result of our past decisions, the School District can continue to afford itself the opportunity to make measured, intentional, systemic changes to its operations. We recognize and appreciate that to remain fiscally responsible, we must continue to make operational changes to realign our expenditures with our new level of revenue. For 2015-16, it is the intention of the School District to provide premium programming within a balanced operating budget.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

Contacting the School District's Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, 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:

Lake Orion Community Schools
Business Office
315 N. Lapeer Street
Lake Orion, Michigan 48362

Lake Orion Community Schools

Statement of Net Position June 30, 2015

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 6,577,059
Receivables (Note 4)	12,141,849
Other assets	252,881
Restricted assets (Note 3)	375,026
Capital assets - Net (Note 5)	149,384,212
Total assets	168,731,027
Deferred Outflows of Resources	
Deferred charges from refunding bonds (Note 7)	3,637,611
Deferred outflows related to pensions (Note 9)	7,125,058
Total assets and deferred outflows of resources	179,493,696
Liabilities	
Accounts payable	232,811
Accrued payroll and other liabilities	8,719,417
Due to other governmental units	989,500
Unearned revenue (Note 4)	368,168
Long-term liabilities (Note 7):	
Due within one year	12,965,282
Due in more than one year	123,572,171
Net Pension Liability (Note 9)	108,391,562
Total liabilities	255,238,911
Deferred Inflows of Resources - Deferred inflows related to pensions (Note 9)	7,983,022
Total liabilities and deferred inflows of resources	263,221,933
Net Position	
Net investment in capital assets	30,342,569
Restricted for food service	591,025
Unrestricted	(114,661,831)
Total net position	\$ (83,728,237)

Lake Orion Community Schools

Statement of Activities Year Ended June 30, 2015

	Program Revenue			Governmental Activities
	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 49,987,367	\$ -	\$ 12,005,382	\$ (37,981,985)
Support services	27,707,869	59,894	5,145,163	(22,502,812)
Food services	2,421,766	1,480,876	994,524	53,634
Athletics	1,034,299	447,665	-	(586,634)
Community services	2,100,702	2,108,523	-	7,821
Interest on long-term debt	2,451,149	-	-	(2,451,149)
Depreciation (unallocated)	4,510,209	-	-	(4,510,209)
Total primary government - Governmental activities	<u>\$ 90,213,361</u>	<u>\$ 4,096,958</u>	<u>\$ 18,145,069</u>	(67,971,334)
General revenue:				
Taxes:				
Property taxes - Levied for general purposes				7,066,459
Property taxes - Levied for debt services				12,101,958
Property taxes - Delinquent				80,405
State aid not restricted to specific purposes				52,429,562
Interest and investment earnings				10,912
Other				<u>1,148,825</u>
Total general revenue				<u>72,838,121</u>
Change in Net Position				4,866,787
Restated Net Position - Beginning of year (Note 1)				<u>(88,595,024)</u>
Net Position - End of year				<u>\$ (83,728,237)</u>

Lake Orion Community Schools

Governmental Funds Balance Sheet June 30, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 5,115,887	\$ 1,460,026	\$ 6,575,913
Receivables (Note 4):			
Accounts receivable	333,756	26,344	360,100
Due from other governmental units	11,760,111	21,638	11,781,749
Due from other funds (Note 6)	11,364	158,842	170,206
Other assets	230,951	21,930	252,881
Restricted assets (Note 3)	-	375,026	375,026
Total assets	<u>\$ 17,452,069</u>	<u>\$ 2,063,806</u>	<u>\$ 19,515,875</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 211,857	\$ 15,556	\$ 227,413
Accrued payroll and other liabilities	8,084,824	43,444	8,128,268
Due to other funds (Note 6)	164,240	11,364	175,604
Due to other governmental units	979,786	9,714	989,500
Unearned revenue (Note 4)	310,116	58,052	368,168
Total liabilities	9,750,823	138,130	9,888,953
Deferred Inflows of Resources - Unavailable Revenue (Note 4)	99,067	-	99,067
Total liabilities and deferred inflows of resources	9,849,890	138,130	9,988,020
Fund Balances			
Nonspendable - Inventories and prepaid costs	230,951	21,930	252,881
Restricted:			
Debt service	-	341,091	341,091
Food service	-	574,074	574,074
Committed - Community services	-	581,665	581,665
Assigned:			
Capital projects	-	406,916	406,916
Long-term obligations - Compensated absences and self-insurance	3,391,212	-	3,391,212
Unassigned - General Fund	3,980,016	-	3,980,016
Total fund balances	<u>7,602,179</u>	<u>1,925,676</u>	<u>9,527,855</u>
Total liabilities and fund balances	<u>\$ 17,452,069</u>	<u>\$ 2,063,806</u>	<u>\$ 19,515,875</u>

Lake Orion Community Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2015

Fund Balances - Total governmental funds	\$ 9,527,855
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:	
Cost of capital assets	\$ 232,614,768
Accumulated depreciation	<u>(83,230,556)</u> 149,384,212
Deferred outflows of resources (deferred refunding costs) that do not benefit the current period are not reported in the governmental funds	3,637,611
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	99,067
Deferred outflows related to pension payments made subsequent to the measurement date	7,125,058
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities	(108,391,562)
Deferred inflows related to pension investment returns and changes in assumptions are not reported in the governmental funds	(7,983,022)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable and related premium -	
Net of amortization	(92,447,859)
Installment purchase agreement obligations	(2,584,804)
Capital lease obligations	(1,236,825)
Compensated absences	(2,370,636)
School Bond Loan Fund	(23,697,928)
School Loan Revolving Fund	(13,178,825)
Self-insurance and early retirement incentive	<u>(1,020,576)</u> (136,537,453)
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position	1,146
Accrued interest payable is not included as a liability in governmental funds	<u>(591,149)</u>
Net Position - Governmental activities	\$ <u>(83,728,237)</u>

Lake Orion Community Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Local sources	\$ 8,597,794	\$ 15,908,898	\$ 24,506,692
State sources	61,653,340	307,014	61,960,354
Federal sources	2,270,191	856,527	3,126,718
Medicaid and ISD sources	5,416,132	-	5,416,132
Total revenue	77,937,457	17,072,439	95,009,896
Expenditures			
Current:			
Instruction	49,813,666	-	49,813,666
Support services	26,647,844	116,387	26,764,231
Food services	-	2,397,563	2,397,563
Athletics	1,033,116	-	1,033,116
Community services	253,236	1,856,820	2,110,056
Debt service:			
Principal	-	10,667,746	10,667,746
Interest	-	5,830,040	5,830,040
Other	-	197,335	197,335
Capital outlay	530,563	5,504,947	6,035,510
Total expenditures	78,278,425	26,570,838	104,849,263
Excess of Expenditures Over Revenue	(340,968)	(9,498,399)	(9,839,367)
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	-	20,104	20,104
Transfers in (Note 6)	445,000	1,031,358	1,476,358
Transfers out (Note 6)	(875,615)	(600,743)	(1,476,358)
School Bond Loan Fund debt issued	-	2,325,558	2,325,558
Proceeds from debt issuance	-	26,165,000	26,165,000
Premium on debt issued	-	2,884,334	2,884,334
Payment to escrow agent	-	(28,285,000)	(28,285,000)
Total other financing (uses) sources	(430,615)	3,540,611	3,109,996
Net Change in Fund Balances	(771,583)	(5,957,788)	(6,729,371)
Fund Balances - Beginning of year	8,373,762	7,883,464	16,257,226
Fund Balances - End of year	<u>\$ 7,602,179</u>	<u>\$ 1,925,676</u>	<u>\$ 9,527,855</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

Lake Orion Community Schools

Governmental Funds **Reconciliation of the Statement of Revenue, Expenditures,** **and Changes in Fund Balances of Governmental Funds** **to the Statement of Activities** **Year Ended June 30, 2015**

Net Change in Fund Balances - Total governmental funds \$ (6,729,371)

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

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (4,510,209)	
Capitalized capital outlay	<u>5,245,630</u>	735,421

Change in pension expense related to deferred items		185,263
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Revenue is reported in the statement of activities when earned it is not reported in the funds until collected or collectible within 60 days of year end within 60 days of year end		99,067
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School Bond Loan Fund and School Loan Revolving Fund proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities		(2,325,558)
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Debt proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities		(26,165,000)
--	--	--------------

Deferred charges (interest) reported as expenditures in the governmental funds are capitalized and amortized in the statement of activities		207,029
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Underwriter's premium is reported as revenue in the funds and amortization is recorded as an expense in the statement of activities		171,849
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Repayment of bond principal, capital lease obligations, and payments on installment purchase agreements are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		38,959,117
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Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		115,680
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Internal Service Activity is not included in governmental funds		(48,919)
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Compensated absences, as well as the estimated self-insured liability claims and other liabilities, are recorded when earned in the statement of activities. In the current year, more was earned than paid out		<u>(337,791)</u>
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Change in Net Position of Governmental Activities		<u>\$ 4,866,787</u>
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Lake Orion Community Schools

Proprietary Fund - Internal Service Fund Statement of Net Position June 30, 2015

Assets - Cash and investments (Note 3)	\$ 1,146
Liabilities	<u>-</u>
Net Position - Unrestricted	<u><u>\$ 1,146</u></u>

Lake Orion Community Schools

Proprietary Fund - Internal Service Fund Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2015

Nonoperating Revenue - Interest income	\$ 81
Transfer to General Fund	49,000
Change in Net Position	(48,919)
Net Position - Beginning of year	50,065
Net Position - End of year	<u>\$ 1,146</u>

Lake Orion Community Schools

Proprietary Fund - Internal Service Fund Statement of Cash Flows Year Ended June 30, 2015

Cash Flows from Operating Activities	\$ -
Cash Flows from Noncapital Financing Activities - Transfer to General Fund	(49,000)
Cash Flows from Investing Activities - Interest	<u>81</u>
Net Change in Cash	(48,919)
Cash - July 1, 2014	<u>50,065</u>
Cash - June 30, 2015	<u><u>\$ 1,146</u></u>
Reconciliation of Operating Gain to Net Cash from Operating Activities	
Operating gain	\$ -
Adjustments to reconcile operating gain to net cash from operating activities - Increase in due from other funds	<u>-</u>
Net cash from operating activities	<u><u>\$ -</u></u>

Lake Orion Community Schools

Fiduciary Funds **Statement of Fiduciary Assets and Liabilities** **June 30, 2015**

	Student Activities <u>Agency Fund</u>
Assets	
Cash and investments	\$ 682,530
Due from other funds (Note 6)	<u>5,398</u>
Total assets	<u>\$ 687,928</u>
Liabilities - Due to student and other groups	<u>\$ 687,928</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of Lake Orion Community Schools (the "School District") 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 seven-member 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 District's reporting entity, and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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 of the School District's government-wide activities are considered governmental activities. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-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.

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state and federal aid.

Note I - Summary of Significant Accounting Policies (Continued)

Fund Financial 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. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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 School District.

Proprietary fund and fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The only proprietary fund maintained is an internal service fund that is used to account for a reserve of future workers' compensation claims.

The School District reports the following major governmental fund:

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

Note I - Summary of Significant Accounting Policies (Continued)

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's special revenue funds include the Food Service and Community Services Funds. Revenue sources for the Food Service Fund include sales to customers, dedicated grants from state and federal sources. Revenue sources for the Community Service Fund consist primarily of fees charged to participants. Any operating deficit generated by these funds is the responsibility of the General Fund.

Debt Service Funds - The 2005, 2006, 2012, 2015 and Energy Bond Debt Service Funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the 2005, 2006, 2012, 2015 and Energy Bond bond issues or bond refundings, respectively. Any operating deficit in the Energy Bond Debt Fund is the responsibility of the General Fund.

Energy Bond Capital Projects Fund - The Energy Bond Capital Projects Fund is used to record management assigned revenue and the disbursement of monies specifically for school facility energy conservation improvements.

Capital Projects Fund - The Operating Capital Projects Fund is used to record proceeds from debt arrangements, management assigned revenue and the disbursement of monies specifically designated for acquiring equipment, technology, buses, and remodeling.

Internal Service Fund - This fund is a proprietary fund that is used to finance services provided to other funds on a cost-reimbursement basis. The Internal Service Fund is authorized to account for workers' compensation, unemployment, terminal leave, compensated absences, and other similar obligations.

Fiduciary Fund - The Student Activities - Agency Fund is used to record the transactions of student groups for school and school-related purposes. The fund is segregated and held in trust for the students.

Assets, Liabilities, and Net Position or Fund Balance

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note I - Summary of Significant Accounting Policies (Continued)

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."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for the entire amount of the property taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

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

Restricted Assets - The unspent property taxes levied in the debt service funds are required to be set aside for future bond principal and interest payments. These amounts have been classified as restricted assets.

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 School District 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. Costs 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, vehicles, and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-40 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-20 years

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Early Retirement Incentive - The School District has a liability for early termination benefits is reported in the government-wide statements that calls for a final yearly lump-sum payment of \$138,576 in September 2015. The early termination benefits consist of early retirement incentive cash payments provided to 10 employees over a 3-year period. The cost of the obligation is reported in long-term debt.

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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial 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 or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. The School District only has two items that qualifies for reporting in this category. The first is the deferred outflow related to the bond refunding. The other is the deferred outflow related to the pension plan.

Note I - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of financial 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 and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two types of item. The first item arises only under a modified accrual basis of accounting, and is therefore only reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes that are not collected during the period of availability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other is deferred inflows related to the pension plan.

Fund Balance - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the superintendent or designee, who is authorized by resolution approved by the Board of Education to make assignments.

Note I - Summary of Significant Accounting Policies (Continued)

- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund.

The Board of Education has adopted a fund balance policy. The fund balance policy prescribes that the Board will not adopt a budget with less than 10 percent of General Fund balance remaining at the end of the fiscal year as a percentage of operating expenditures. This is deemed to be the prudent amount to maintain the School District's ability to meet obligations as they come due throughout the year.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data - Comparative data is not included in the School District's financial statements.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School 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. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Adoption of New Standard - The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the statement, the School District has reported a net pension liability of \$115,237,050 million and a beginning deferred outflow for pension contributions of \$5,802,261 made subsequent to the September 30, 2013 measurement date, as a change in accounting principle adjustment to unrestricted net position as of July 1, 2014.

Net position at June 30, 2014	\$ 20,839,765
Net pension liability	(115,237,050)
Deferred outflow for pension contributions	<u>5,802,261</u>
Net position at June 30, 2014 - As restated	<u>\$ (88,595,024)</u>

Note 2 - Stewardship, Compliance, and Accountability

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

The budget document presents information by fund and function for the General Fund. 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 for the General Fund. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year. There were no encumbrances outstanding at year end.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances except for operations and maintenance expenditures, which were more than budgeted by approximately \$124,000 related to higher than expected utility and repair and maintenance costs.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. For the 2014-2015 school year, the School District designated 10 banks for the deposit of its funds. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$8,035,669 had \$7,763,948 of bank deposits (checking accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of failure of the counterparty, the School 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 School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investments with custodial credit risk.

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of 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 School District's cash requirements.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law prohibits investment in foreign currency.

Note 4 - Receivables and Unavailable/Unearned Revenue

Receivables as of year end for the School District's individual major fund and the nonmajor funds in the aggregate are as follows:

	General Fund	Nonmajor Governmental Funds	Total
Receivables:			
Accounts	\$ 333,756	\$ 26,344	\$ 360,100
Intergovernmental	<u>11,760,111</u>	<u>21,638</u>	<u>11,781,749</u>
Net receivables	<u>\$ 12,093,867</u>	<u>\$ 47,982</u>	<u>\$ 12,141,849</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2015

Note 4 - Receivables and Unavailable/Unearned Revenue (Continued)

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

	Deferred Inflow - Unavailable	Liability - Unearned
Food service prepaid revenue		\$ 58,052
Grant and categorical aid payment received prior to meeting all eligibility requirements		310,116
Local revenue earned but not received within period of availability	\$ 99,067	-
Total	\$ 99,067	\$ 368,168

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2014	Transfers	Additions	Disposals	Balance June 30, 2015
Capital assets not being depreciated -					
Land	\$ 13,421,804	\$ -	\$ -	\$ -	\$ 13,421,804
Construction in progress	1,632,905	(1,158,146)	1,124,068	(84,714)	1,514,113
Capital assets being depreciated:					
Building and building improvements	197,392,321	765,895	2,574,404	-	200,732,620
Furniture and equipment	10,169,345	392,251	1,590,946	-	12,152,542
Buses and other vehicles	4,856,084	-	40,926	(103,321)	4,793,689
Subtotal	212,417,750	1,158,146	4,206,276	(103,321)	217,678,851
Accumulated depreciation:					
Building and building improvements	67,521,360	-	3,490,594	-	71,011,954
Furniture and equipment	8,854,032	-	525,007	-	9,379,039
Buses and other vehicles	2,448,276	-	494,608	(103,321)	2,839,563
Subtotal	78,823,668	-	4,510,209	(103,321)	83,230,556
Net capital assets being depreciated	133,594,082	-	820,135	-	134,448,295
Net governmental capital assets	\$ 148,648,791	\$ -	\$ 820,135	\$ -	\$ 149,384,212

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2015

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From		
	Nonmajor Governmental		Total
	General Fund	Funds	
General Fund	\$ -	\$ 11,364	\$ 11,364
Nonmajor governmental funds	158,842	-	158,842
Fiduciary Fund	5,398	-	5,398
Total	<u>\$ 164,240</u>	<u>\$ 11,364</u>	<u>\$ 175,604</u>

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund accounts. Interfund balances owed to other funds represent reimbursement for allocated expenditures.

Interfund Transfers

	Transfers Out		
	Nonmajor Governmental		Total
	General Fund	Funds	
Transfer in - General Fund	\$ -	\$ 445,000	\$ 445,000
Transfer in - Nonmajor Governmental Funds	875,615	155,743	1,031,358
Total	<u>\$ 875,615</u>	<u>\$ 600,743</u>	<u>\$ 1,476,358</u>

The transfers represent indirect costs reimbursed to the General Fund from the Community Service Fund and the Food Service Fund, costs paid to the Energy Bond Debt fund to fund interest payments, a transfer to the Operating Capital Projects Fund from the General Fund and a transfer from the 2005 Debt Service Fund to the 2015 Debt Service Fund for the bond refunding.

Note 7 - Long-term Debt

The School District issues bonds 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. Other long-term obligations include installment purchase agreements, capital lease obligations, compensated absences, School Bond Loan Fund, School Loan Revolving Fund, early retirement incentives, and certain risk liabilities.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2015

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:					
Bonds	\$ 99,520,000	\$ 26,165,000	\$ 38,210,000	\$ 87,475,000	\$ 8,840,000
Less deferred amounts:					
Bond premium	5,144,708	2,884,334	3,056,183	4,972,859	849,851
Deferred outflows - Deferred charges from refunding bonds	(3,430,582)	(644,051)	(437,022)	(3,637,611)	(482,561)
Total bonds payable	101,234,126	28,405,283	40,829,161	88,810,248	9,207,290
Capital lease obligations	1,714,099	-	477,274	1,236,825	487,977
Installment purchase agreements	2,856,647	-	271,843	2,584,804	278,242
Other obligations	37,604,616	3,706,124	1,042,775	40,267,965	2,509,212
Total governmental activities	\$ 143,409,488	\$ 32,111,407	\$ 42,621,053	\$ 132,899,842	\$ 12,482,721

Annual debt service requirements to maturity for the above governmental bond obligations are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2016	\$ 8,840,000	\$ 4,318,576	\$ 13,158,576
2017	9,760,000	3,634,376	13,394,376
2018	10,035,000	3,248,076	13,283,076
2019	10,205,000	2,804,476	13,009,476
2020	10,455,000	2,346,281	12,801,281
2021-2025	33,775,000	5,675,994	39,450,994
2026-2030	3,280,000	537,462	3,817,462
2031-2033	1,125,000	95,063	1,220,063
Total	\$ 87,475,000	\$ 22,660,304	\$ 110,135,304

The School District has entered into lease agreements as a lessee for financing the purchase of buses and copiers. The lease agreements qualify as capital leases for accounting purposes. As of June 30, 2015, property under capital leases has a gross cost and accumulated depreciation of \$2,654,702 and \$990,423, respectively and is included in capital assets in Note 5. The present value of the net minimum lease payments have been capitalized and are being amortized over the useful life of the assets. The future minimum lease payments under the capital leases are as follows:

Lake Orion Community Schools

Notes to Financial Statements June 30, 2015

Note 7 - Long-term Debt (Continued)

Years Ending June 30	Amount
2016	\$ 514,136
2017	513,505
2018	253,288
Total	1,280,929
Less amount representing interest	44,104
Present value of net minimum lease payments	1,236,825
Current obligation	<u>\$ 487,977</u>

Governmental Activities

General obligation bonds consist of the following:

\$45,275,000 - 2006 refunding bonds due in annual installments of \$840,000 to \$5,940,000 through May 2027; interest at 4.00 to 5.00 percent	\$ 44,275,000
\$23,880,000 - 2012 refunding bonds due in annual installments of \$3,870,000 to \$4,170,000 through May 2018; interest at 4.00 to 5.00 percent	11,945,000
\$5,280,000 - 2013 Energy Conservation Improvement Bonds due in annual installments of \$195,000 to \$390,000 through May 2033; interest at 2.00 to 4.25 percent	5,090,000
\$26,165,000 - 2015 refunding bonds due in annual installments of \$1,120,000 to \$4,650,000 through May 2023; interest at 4.00 to 5.00 percent	<u>26,165,000</u>
Total bonded debt	<u>\$ 87,475,000</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 2,370,636
School Bond Loan Fund	23,697,928
School Loan Revolving Fund	13,178,825
Self insurance and early retirement incentive	<u>1,020,576</u>
Total	<u>\$ 40,267,965</u>

Note 7 - Long-term Debt (Continued)

School Bond Loan Fund - The School Bond Loan Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 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. Interest, at the annual rate ranging from 3.41183 to 3.459795 percent through June 30, 2015, has been assessed for the year ended June 30, 2015. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7.491 mills. The School District is required to levy 7.491 mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of taxable value of property in the School District, no provision for repayment has been included in the above amortization schedule.

School Loan Revolving Fund - 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 1963 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 in accordance with Section 9 of Act No. 92 of the Public Acts of 2005, as amended. Interest rates went into effect beginning October 1, 2005 pursuant to Public Act 92. Interest at the annual rate ranging from 3.41183 to 3.459795 percent through June 30, 2015 has been assessed for the year ended June 30, 2015. Repayment begins as soon as annual tax collections exceed annual debt service payment requirements. The predetermined mandatory final loan repayment date is May 1, 2033. Due to the variability of the factors that affect the timing of repayment, including the future amount of taxable value of property in the School District, no provision for repayment has been included in the above amortization schedule.

Installment Purchase Agreements - The School District entered into two installment purchase agreements for \$1,771,567 and \$1,230,802 to fund security, technology, and facility improvements. The debt agreements have a fixed interest rate of 2.34 percent. The installment purchase agreements will both be repaid in equal, semiannual installment payments of principal and interest over a 10-year period. Both loans mature in December 2023.

Note 7 - Long-term Debt (Continued)

The annual debt service requirements to maturity for the installment purchase agreements are as follows:

Years Ending June 30	Amount
2016	\$ 278,242
2017	284,791
2018	291,494
2019	298,355
2020	305,378
2021-2024	<u>1,126,544</u>
Total	<u>\$ 2,584,804</u>

Advance and Current Refundings - During the year, the School District issued \$26,165,000 in general obligation bonds with an average interest rate of 4.75 percent. The proceeds of these bonds, along with a premium of \$3,002,076, was used to advance refund \$28,285,000 of outstanding 2005 bonds with an average interest rate of 4.60 percent. The net proceeds of \$28,929,051 (after payment of \$238,025 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by approximately \$2,453,974, which represents an economic gain of approximately \$2,375,884. Deferred charges (interest) totaling \$644,051 are being capitalized and amortized over the life of the bonds using the straight-line method. Amortization expense of \$32,528 was recorded for the year ended June 30, 2015.

Defeased Debt - In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2015, there were no bonds outstanding considered defeased.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims for employees. The School District participates in the Metropolitan Association for Improved School Legislation (MAISL) risk pool for claims relating to property loss, torts, and errors and omissions. The School District is self-insured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The School District estimates the liability for other employee health claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The obligation is not material to the financial statements.

The shared-risk pool program, MAISL, in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The MAISL risk pool operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts.

Although premiums are paid annually to the service pool that the service pool uses to pay claims up to the retention limits, excess claims above the pool retention limit are covered by a fully insured policy purchased by the pool premiums.

The School District estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the government-wide statements.

Changes in the estimated liability for the past two fiscal years were as follows:

	2015	2014
Estimated liability - Beginning of year	\$ 431,000	\$ 225,000
Estimated claims incurred - Including changes in estimates	574,533	388,633
Claim payments	123,533	182,633
Estimated liability - End of year	<u>\$ 882,000</u>	<u>\$ 431,000</u>

Note 9 - Michigan Public School Employees' Retirement System

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS or System), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

Contributions - Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each School District's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

School District's contributions are determined based on employee elections. There are seven 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 are as follows:

School District

July 1, 2013 – September 30, 2013	12.78% - 16.25%
October 1, 2013 – September 30, 2014	15.44% - 18.34%
October 1, 2014 – June 30, 2015	18.76% - 23.07%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's required and actual contributions to the plan for the years ended June 30, 2015 and 2014 were \$9,500,078 and \$7,642,546, respectively. Contributions include \$3,672,851 and \$2,159,487 revenue received from the State of Michigan, and remitted to the system, to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2015 and 2014, respectively.

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Benefits Provided - 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.

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

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

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

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

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2015, the School District reported a liability of \$108,391,562 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013 which used update procedures to roll forward the estimated liability to September 30, 2014. The School 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, 2014, the School District's proportion was 0.49210 percent, which, in the year of adoption, is unchanged from the proportion measured as of September 30, 2013.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2015

Note 9 - Michigan Public School Employees' Retirement System (Continued)

For the year ended June 30, 2015, the School District recognized pension expense of \$7,457,283, exclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources Subsequent to Measurement Date	Net Deferred Inflows (Outflows) of Resources as of the Measurement Date
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	(3,999,417)
Net difference between projected and actual earnings on pension plan assets	-	11,982,731
Changes in proportion and differences between District's contributions and proportionate share of contributions	-	(292)
District's contributions subsequent to the measurement date	<u>7,125,058</u>	<u>-</u>
Total	<u>\$ 7,125,058</u>	<u>\$ 7,983,022</u>

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

Years Ending June 30	Amount
2016	\$ 1,955,636
2017	1,955,636
2018	1,955,636
2019	<u>2,116,114</u>
Total	<u>\$ 7,983,022</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Actuarial Assumptions - The total pension liability in the September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013 and rolled forward, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal cost actuarial cost method
Assumed rate of return	7.00 to 8.00 percent, net of investment and administrative expenses based on the groups
Rate of pay increases	3.50 percent
Mortality basis	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB

The actuarial assumptions used for the September 30, 2013 valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Discount Rate - The discount rate used to measure the total pension liability was 7.00-8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 9 - Michigan Public School Employees' Retirement System (Continued)

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28%	4.8%
Private equity pools	18%	8.5%
International equity pools	16%	6.1%
Fixed-income pools	10%	1.5%
Real estate and infrastructure pools	10%	5.3%
Real return, opportunistic, and absolute pool	16%	6.3%
Short-term investment pools	2%	(0.2)%
Total	100%	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the School District, calculated using the discount rate of 7.00 to 8.00 percent depending on the plan option, as well as what the School District's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

1.00 Percent Decrease (7.00/6.00 Percent)	Current Discount Rate (8.00/7.00 Percent)	1.00 Percent Increase (9.00/8.00 Percent)
<u>\$ 147,904,837</u>	<u>\$ 108,391,562</u>	<u>\$ 79,313,620</u>

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan - At June 30, 2015, the School District reported a payable of \$1,237,774 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Postemployment Benefits Other Than Pensions (OPEB) - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. School District - The employer contribution rate ranged from 5.52 percent to 6.45 percent of covered payroll for the period from July 1, 2014 to September 30, 2014 and from 2.20 percent to 2.71 percent of covered payroll for the period from October 1, 2014 through June 30, 2015 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403B account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2015, 2014, and 2013 were \$1,387,212, \$2,936,438, and \$3,812,421, respectively.

Note 10 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The School District is currently evaluating the impact this standard will have on the financial statements when adopted, during the School District's 2016 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the District's financial statements for the year ending June 30, 2018.

Required Supplemental Information

Lake Orion Community Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	\$ 8,495,692	\$ 8,824,137	\$ 8,597,794	\$ (226,343)
State sources	63,309,178	61,887,144	61,653,340	(233,804)
Federal sources	2,329,386	2,341,781	2,270,191	(71,590)
Medicaid and ISD sources	5,079,976	5,405,069	5,416,132	11,063
Other revenue	360,000	445,000	445,000	-
Total revenue	79,574,232	78,903,131	78,382,457	(520,674)
Expenditures - Current				
Instruction:				
Basic programs	39,233,021	39,301,908	39,392,019	90,111
Added needs	10,597,149	10,650,331	10,571,251	(79,080)
Support services:				
Pupil support services	6,604,127	6,443,497	6,503,103	59,606
Instructional staff support services:				
Instruction improvement	511,778	559,045	483,971	(75,074)
Educational media services	1,040,497	1,236,626	1,221,046	(15,580)
Technology assisted instruction	355,512	412,226	405,542	(6,684)
Instructional staff supervision	646,190	766,593	645,513	(121,080)
General administration	825,226	981,516	933,594	(47,922)
School administration	4,613,487	4,717,935	4,690,640	(27,295)
Business services	1,011,152	882,244	846,496	(35,748)
Operation and maintenance	5,400,239	5,519,351	5,643,610	124,259
Transportation services	3,674,226	3,645,232	3,679,978	34,746
Communication Services	157,833	118,428	119,646	1,218
Human resources	750,704	743,590	676,985	(66,605)
Technology services	1,354,093	1,211,509	1,158,069	(53,440)
Athletics	1,176,981	1,034,820	1,041,366	6,546
Community services	301,054	280,860	265,596	(15,264)
Total expenditures	78,253,269	78,505,711	78,278,425	(227,286)
Other Financing Uses - Transfers out	(1,231,699)	(846,766)	(875,615)	(28,849)
Net Change in Fund Balance	89,264	(449,346)	(771,583)	(322,237)
Fund Balance - July 1, 2014	8,373,762	8,373,762	8,373,762	-
Fund Balance - June 30, 2015	<u>\$ 8,463,026</u>	<u>\$ 7,924,416</u>	<u>\$ 7,602,179</u>	<u>\$ (322,237)</u>

Lake Orion Community Schools

Schedule of District Schools Proportionate Share of the Net Pension Liability Michigan Public School Employee's Retirement System Determined as of the Plan Year Ended September 30

	<u>2014</u>
School District's proportion of the net pension liability	0.49210 %
School District's proportionate share of the net pension liability	\$ 108,391,563
School District's covered employee payroll	42,135,063
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	257.25 %
Plan fiduciary net position as a % of the total pension liability	66.20 %

Lake Orion Community Schools

Required Supplemental Information **Schedule of Lake Orion Public School System's Contributions** **Michigan Public School Employee's Retirement System** **Determined as of the year ended June 30**

	<u>2015</u>
Statutorily required contribution	\$ 9,500,078
Contributions in relation to the statutorily required contribution	9,500,078
Contribution deficiency (excess)	-
School District's covered employee payroll	41,850,563
Contributions as a percentage of covered employee payroll	22.70 %

Lake Orion Community Schools

Notes to Pension Required Supplemental Information Schedules Year Ended June 30, 2015

Benefit Changes – There were no changes of benefit terms in 2015.

Changes in Assumptions – There were no changes of benefit assumptions in 2015.

Other Supplemental Information

Lake Orion Community Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2015

	Special Revenue Funds		Debt Funds				Capital Projects Fund			
	Community		2005 Debt	2006 Debt	2012 Debt	2015 Debt	Energy Bond		Operating Capital	Total
	Food Service	Services					Debt	Capital Projects Fund	Projects Fund	
Assets										
Cash and investments	\$ 543,832	\$ 587,223	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 328,971	\$ 1,460,026
Accounts receivable	22,949	570	-	-	-	-	-	-	2,825	26,344
Due from other governmental units	15,338	-	-	1,427	1,977	2,896	-	-	-	21,638
Due from other funds	60,781	45,066	-	-	-	-	-	-	52,995	158,842
Other assets	16,951	-	-	-	-	-	-	-	4,979	21,930
Restricted assets	-	-	-	77,606	108,669	161,083	-	27,668	-	375,026
Total assets	<u>\$ 659,851</u>	<u>\$ 632,859</u>	<u>\$ -</u>	<u>\$ 79,033</u>	<u>\$ 110,646</u>	<u>\$ 163,979</u>	<u>\$ -</u>	<u>\$ 27,668</u>	<u>\$ 389,770</u>	<u>\$ 2,063,806</u>
Liabilities and Fund Balances										
Liabilities										
Accounts payable	\$ 97	\$ 14,737	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 722	\$ -	\$ 15,556
Accrued payroll and other liabilities	8,959	34,485	-	-	-	-	-	-	-	43,444
Due to other funds	-	-	-	1,467	2,065	3,011	-	4,821	-	11,364
Due to other governmental units	1,718	1,972	-	1,296	1,943	2,785	-	-	-	9,714
Unearned revenue	58,052	-	-	-	-	-	-	-	-	58,052
Total liabilities	68,826	51,194	-	2,763	4,008	5,796	-	5,543	-	138,130
Fund Balances										
Nonspendable - Inventories and prepaid costs	16,951	-	-	-	-	-	-	-	4,979	21,930
Restricted:										
Debt service	-	-	-	76,270	106,638	158,183	-	-	-	341,091
Food service	574,074	-	-	-	-	-	-	-	-	574,074
Committed - Community services	-	581,665	-	-	-	-	-	-	-	581,665
Assigned - Capital projects	-	-	-	-	-	-	-	22,125	384,791	406,916
Total fund balances	<u>591,025</u>	<u>581,665</u>	<u>-</u>	<u>76,270</u>	<u>106,638</u>	<u>158,183</u>	<u>-</u>	<u>22,125</u>	<u>389,770</u>	<u>1,925,676</u>
Total liabilities and fund balances	<u>\$ 659,851</u>	<u>\$ 632,859</u>	<u>\$ -</u>	<u>\$ 79,033</u>	<u>\$ 110,646</u>	<u>\$ 163,979</u>	<u>\$ -</u>	<u>\$ 27,668</u>	<u>\$ 389,770</u>	<u>\$ 2,063,806</u>

Lake Orion Community Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2015

	Special Revenue Funds		Debt Funds				Capital Projects Fund			
	Food Service	Community Services	2005 Debt	2006 Debt	2012 Debt	2015 Debt	Energy Bond Debt	Energy Bond Capital Projects Fund	Operating Capital Projects Fund	Total
Revenue										
Local sources	\$ 1,552,538	\$ 2,108,791	\$ 5,597,394	\$ 2,726,070	\$ 3,839,516	\$ -	\$ -	\$ 2,461	\$ 82,128	\$ 15,908,898
State sources	137,997	72,066	-	-	-	-	-	-	96,951	307,014
Federal sources	856,527	-	-	-	-	-	-	-	-	856,527
Total revenue	2,547,062	2,180,857	5,597,394	2,726,070	3,839,516	-	-	2,461	179,079	17,072,439
Expenditures										
Current:										
Support services	-	-	-	-	-	-	-	80,051	36,336	116,387
Food services	2,397,563	-	-	-	-	-	-	-	-	2,397,563
Community services	-	1,856,820	-	-	-	-	-	-	-	1,856,820
Debt service:										
Principal	-	-	4,950,000	1,000,000	3,785,000	-	190,000	-	742,746	10,667,746
Interest	-	-	1,443,241	2,424,648	1,044,148	644,051	173,013	-	100,939	5,830,040
Other	-	-	37,997	12,858	28,387	117,843	250	-	-	197,335
Capital outlay	33,799	3,444	-	-	-	-	-	4,153,999	1,313,705	5,504,947
Total expenditures	2,431,362	1,860,264	6,431,238	3,437,506	4,857,535	761,894	363,263	4,234,050	2,193,726	26,570,838
Excess of Revenue Over (Under) Expenditures	115,700	320,593	(833,844)	(711,436)	(1,018,019)	(761,894)	(363,263)	(4,231,589)	(2,014,647)	(9,498,399)
Other Financing Sources (Uses)										
Proceeds from sale of capital assets	-	-	-	-	-	-	-	-	20,104	20,104
Transfers in (Note 6)	5,776	-	-	-	-	155,743	363,263	-	506,576	1,031,358
Transfers out (Note 6)	(145,000)	(300,000)	(155,743)	-	-	-	-	-	-	(600,743)
School bond loan funds debt issued	-	-	714,537	699,684	911,337	-	-	-	-	2,325,558
Proceeds from debt issuance	-	-	-	-	-	26,165,000	-	-	-	26,165,000
Premium on debt issued	-	-	-	-	-	2,884,334	-	-	-	2,884,334
Payment to escrow agent	-	-	-	-	-	(28,285,000)	-	-	-	(28,285,000)
Total other financing (uses) sources	(139,224)	(300,000)	558,794	699,684	911,337	920,077	363,263	-	526,680	3,540,611
Net Change in Fund Balances	(23,524)	20,593	(275,050)	(11,752)	(106,682)	158,183	-	(4,231,589)	(1,487,967)	(5,957,788)
Fund Balances - Beginning of year	614,549	561,072	275,050	88,022	213,320	-	-	4,253,714	1,877,737	7,883,464
Fund Balances - End of year	<u>\$ 591,025</u>	<u>\$ 581,665</u>	<u>\$ -</u>	<u>\$ 76,270</u>	<u>\$ 106,638</u>	<u>\$ 158,183</u>	<u>\$ -</u>	<u>\$ 22,125</u>	<u>\$ 389,770</u>	<u>\$ 1,925,676</u>

Lake Orion Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2015

June 30	2006 Refunding		2012 Refunding	
	Principal	Interest	Principal	Interest
2016	\$ 1,000,000	\$ 2,113,064	\$ 3,870,000	\$ 516,500
2017	1,000,000	2,073,064	3,905,000	323,000
2018	1,000,000	2,033,064	4,170,000	166,800
2019	5,330,000	1,993,064	-	-
2020	5,575,000	1,771,869	-	-
2021	5,560,000	1,493,119	-	-
2022	5,545,000	1,215,119	-	-
2023	5,780,000	937,868	-	-
2024	5,860,000	648,868	-	-
2025	5,940,000	355,868	-	-
2026	840,000	73,718	-	-
2027	845,000	36,968	-	-
2028	-	-	-	-
2029	-	-	-	-
2030	-	-	-	-
2031	-	-	-	-
2032	-	-	-	-
2033	-	-	-	-
Total	<u>\$ 44,275,000</u>	<u>\$ 14,745,653</u>	<u>\$ 11,945,000</u>	<u>\$ 1,006,300</u>
Principal payments due	May 1		May 1	
Interest payments due	May/November		May/November	
Interest rate	4.00% to 5.00%		4.00% to 5.00%	
Original issue	<u>\$ 45,275,000</u>		<u>\$ 23,880,000</u>	

Lake Orion Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness (Continued) Year Ended June 30, 2015

June 30	2013 Energy Conservation Improvement Bond		2015 Refunding		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 195,000	\$ 169,212	\$ 3,775,000	\$ 1,519,800	\$ 8,840,000	\$ 4,318,576
2017	205,000	165,312	4,650,000	1,073,000	9,760,000	3,634,376
2018	215,000	161,212	4,650,000	887,000	10,035,000	3,248,076
2019	225,000	156,912	4,650,000	654,500	10,205,000	2,804,476
2020	230,000	152,412	4,650,000	422,000	10,455,000	2,346,281
2021	240,000	147,238	1,510,000	189,500	7,310,000	1,829,857
2022	250,000	141,238	1,160,000	114,000	6,955,000	1,470,357
2023	260,000	133,738	1,120,000	56,000	7,160,000	1,127,606
2024	270,000	125,938	-	-	6,130,000	774,806
2025	280,000	117,500	-	-	6,220,000	473,368
2026	295,000	108,400	-	-	1,135,000	182,118
2027	305,000	98,444	-	-	1,150,000	135,412
2028	320,000	86,244	-	-	320,000	86,244
2029	330,000	73,444	-	-	330,000	73,444
2030	345,000	60,244	-	-	345,000	60,244
2031	360,000	46,444	-	-	360,000	46,444
2032	375,000	32,044	-	-	375,000	32,044
2033	390,000	16,575	-	-	390,000	16,575
Total	\$ 5,090,000	\$ 1,992,551	\$ 26,165,000	\$ 4,915,800	\$ 87,475,000	\$ 22,660,304
Principal payments due	May 1		May 1			
Interest payments due	May/November		May/November			
Interest rate	2.00% to 4.25%		4.00% to 5.00%			
Original issue	\$ 5,280,000		\$ 26,165,000			