
Lake Orion Community Schools

**Financial Report
with Supplemental Information
June 30, 2018**

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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, each major fund, and the aggregate remaining fund information of Lake Orion Community Schools (the "School District") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Lake Orion Community Schools' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund, and aggregate remaining fund information of Lake Orion Community Schools as of June 30, 2018 and the 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 discussed in Note 2 to the basic financial statements, as of July 1, 2017, the School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The School District's unrestricted net position has been restated as of July 1, 2017 as a result of this change in accounting principle. Our opinion is not modified with respect to this matter.

To the Board of Education
Lake Orion Community Schools

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the School District's proportionate share of the net pension and OPEB liability and contributions, and the major fund budgetary comparison schedule 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 Supplemental 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 other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 on our consideration of Lake Orion Community Schools' 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 Lake Orion Community Schools' internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 15, 2018

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, 2018. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those financial 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 remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. This report is composed of the following elements:

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

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Information for Major Fund

Schedule of Proportionate Share of the Net Pension Liability

Schedule of the School District's Proportionate Share of the Net OPEB Liability

Schedule of Pension Contributions

Schedule of OPEB Contributions

Other Supplemental Information

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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between 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, community services, athletics, and food 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 Fund is an example) 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).

Governmental Funds

Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps 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.

Proprietary Funds

Proprietary fund reporting focuses on the economic resources measurement and an accounting method called full accrual accounting. The proprietary fund statements present a long-term view of operations and the services provided to other funds. The School District established a proprietary fund, specifically the Internal Service Fund, to finance specific services provided to other funds of the School District on a cost reimbursement basis. The specific services represent the School District's reserve for dental self-insurance 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. The following table provides a summary of the School District's net position as of June 30, 2018 and 2017:

	Governmental Activities	
	2018	2017
	(in millions)	
Assets		
Current and other assets	\$ 21.7	\$ 22.1
Capital assets	141.7	141.1
Total assets	163.4	163.2
Deferred Outflows of Resources	34.8	23.7
Liabilities		
Current liabilities	33.3	30.4
Noncurrent liabilities	82.9	94.7
Net pension liability	131.3	129.2
Net OPEB obligation	44.9	-
Total liabilities	292.4	254.3
Deferred Inflows of Resources	15.9	4.6
Net Position		
Net investment in capital assets	44.5	34.9
Restricted	0.1	-
Unrestricted	(154.7)	(106.9)
Total net position	\$ (110.1)	\$ (72.0)

The above analysis focuses on net position. The change in net position of the School District's governmental activities is discussed below. The School District's net position was a deficit of \$(110.1) million at June 30, 2018. Net investment in capital assets, totaling \$44.5 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 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 (\$(154.7) million) was unrestricted.

The \$(154.7) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. 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.

As required by the Governmental Accounting Standards Board (GASB), the School District adopted GASB Statement No. 75. This standard required the inclusion of the School District's proportionate share of the Michigan Public School Employees' Retiree Health Care Plan within the School District's financial statements, effective July 1, 2017. The effect of the adoption was to decrease July 1, 2017 beginning net position by \$45.6 million and to include the net OPEB obligation and related deferred inflows and outflows of resources in the June 30, 2018 financial statements. All governments participating in the plan were required to adopt this new standard.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2018 and 2017.

	Governmental Activities	
	2018	2017
(in millions)		
Revenue		
Program revenue:		
Charges for services	\$ 4.2	\$ 4.2
Operating grants	21.8	20.1
General revenue:		
Taxes	25.1	24.1
State aid not restricted to specific purposes	52.8	52.9
Other	1.0	0.7
Total revenue	104.9	102.0
Expenses		
Instruction	55.3	51.1
Support services	28.2	27.0
Athletics	1.2	1.2
Food services	2.4	2.5
Community services	2.3	2.3
Debt service	3.4	3.6
Depreciation expense (unallocated)	4.7	4.7
Total expenses	97.5	92.4
Change in Net Position	7.4	9.6
Net Position - Beginning of year, as previously reported	(72.0)	(81.6)
Cumulative Effect of Change in Accounting	(45.5)	-
Net Position - Beginning of year	(117.5)	(81.6)
Net Position - End of year	<u>\$ (110.1)</u>	<u>\$ (72.0)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$97.5 million. Certain activities were partially funded from those who benefited from the programs (\$4.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$21.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$25.1 million in taxes, \$52.8 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements).

The School District experienced an increase in net position of \$7.4 million. The change is composed of the net position invested in capital assets (net of related debt) increasing \$9.6 million, the net position of restricted assets increasing by 0.1 million, and the unrestricted net position balance decreasing by \$47.8 million. Additionally, total assets increased \$0.2 million, deferred outflows of resources increased by \$11.1 million, total liabilities increased by \$38.1 million, and deferred inflows of resources increased by \$11.3 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 \$10.2 million, which is a decrease of \$1.7 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance increased \$0.5 million to \$7.6 million. The change is mainly due to the School District's continued focus on operational cost management and maximizing of revenue. The General Fund's fund balance is available to fund costs related to allowable school operating purposes.

Combined, the fund balance of our capital project funds decreased \$2.4 million. This decrease is primarily due to completion of ongoing sinking fund projects. The School District collected \$3.7 million in voter-approved sinking fund millage. This millage is available to fund specific capital projects allowed by state law and approved by the voters.

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 in June 2018. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

A budget is a fluid document. Therefore, as expected, there were revisions made to the 2017-2018 General Fund budget. Revisions to the revenue and expenditures were due to adjustments based on more accurate information.

There were significant revisions made to the 2017-2018 General Fund original budget. Budgeted revenue was increased \$1.0 million due to an unexpected increase in certain pass-through categorical revenue from the State the corresponding expenditures.

Budgeted expenditures were also increased \$1.0 million to account for the corresponding expenditures associated with the increased pass-through categorical revenue from the State.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the School District had \$141.7 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$0.7 million, or 0.1 percent, from last year.

	Governmental Activities	
	2018	2017
Land	\$ 13,421,804	\$ 13,421,804
Construction in progress	2,615,503	829,940
Buildings and improvements	122,978,241	123,283,827
Furniture and equipment	2,606,391	2,955,795
Buses and other vehicles	123,564	568,271
Total capital assets - Net of accumulated depreciation	\$ 141,745,503	\$ 141,059,637

This year's net additions of \$0.6 million included changes in vehicles, equipment, technology, and building renovations. Several major sinking fund-related capital projects are planned for the 2018-2019 fiscal year. We anticipate capital additions will be comparable to (approximately \$2.5 greater than) this year. We present more detailed information about our capital assets in the notes to the financial statements.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$81.0 million in bonds outstanding versus \$96.7 million in the previous year - a change of 19.3 percent. Those bonds consisted of the following:

	2018	2017
General obligation bonds	\$ 81,000,000	\$ 96,675,000

The School District's general obligation bond rating is A+ from Standard & Poor's Rating 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. If the School District issues "qualified debt" (i.e., debt backed by the State of Michigan), such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$81.0 million is significantly below this statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, and capital leases. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2018-2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2018-2019 budget was adopted in June 2018 based on an estimate of students who will be enrolled by September 2018. Approximately 66.8 percent of total General Fund revenue is derived from the State's School Aid Fund. Under state law, the School District cannot access additional property tax revenue for general operations.

Since the School District's revenue is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to the School District. The State periodically holds a revenue-estimating conference to estimate revenue. Based on the results of the most recent conference, the State's estimated funds appear to be sufficient to fund the appropriation.

That said, in the recent past, the State of Michigan has issued several executive orders prorating and reducing, midyear, the State's funding commitment to the School District. This possibility continues to exist. 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 funding mechanism. 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 of activities. As a result of our past decisions, the School District can continue to afford itself the opportunity to make measured, intentional, and 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 2018-2019, it is the intention of the School District to provide premium programing within a balanced operating budget.

Contacting the School District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office at Lake Orion Community Schools, Business Office, 315 N. Lapeer Street, Lake Orion, Michigan 48362.

Lake Orion Community Schools

Statement of Net Position

June 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash and investments (Note 4)	\$ 7,848,126
Receivables:	
Property taxes receivable	23,628
Other receivables	193,117
Due from other governments	12,290,077
Inventory	12,480
Prepaid expenses and other assets	138,938
Restricted assets (Note 5)	1,111,134
Capital assets - Net (Note 7)	<u>141,745,503</u>
Total assets	163,363,003
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 9)	3,024,380
Deferred pension costs (Note 12)	29,373,128
Deferred OPEB costs (Note 12)	<u>2,422,094</u>
Total deferred outflows of resources	34,819,602
Liabilities	
Accounts payable	1,582,648
Due to other governmental units	1,399,961
Accrued liabilities and other	8,026,637
Unearned revenue (Note 6)	762,026
Noncurrent liabilities:	
Due within one year (Note 9)	21,483,201
Due in more than one year (Note 9)	82,865,395
Net pension liability (Note 12)	131,345,117
Net OPEB obligation (Note 12)	<u>44,941,076</u>
Total liabilities	292,406,061
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to the measurement date (Note 12)	5,113,421
Deferred pension cost reductions (Note 12)	9,258,107
Deferred OPEB cost reductions (Note 12)	<u>1,519,336</u>
Total deferred inflows of resources	<u>15,890,864</u>
Net Position	
Net investment in capital assets	44,529,615
Restricted - Capital projects	17,609
Unrestricted	<u>(154,661,544)</u>
Total net position	<u><u>\$ (110,114,320)</u></u>

Lake Orion Community Schools

Statement of Activities

Year Ended June 30, 2018

Functions/Programs	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 55,285,796	\$ 25,036	\$ 13,403,079	\$ (41,857,681)
Support services	28,151,348	79,692	6,904,617	(21,167,039)
Athletics	1,169,422	461,689	-	(707,733)
Food services	2,446,072	1,477,377	1,112,252	143,557
Community services	2,263,847	2,141,784	336,357	214,294
Interest	3,363,701	-	-	(3,363,701)
Other debt costs	110,345	-	-	(110,345)
Depreciation expense (unallocated)	4,704,814	-	-	(4,704,814)
Total primary government	\$ 97,495,345	\$ 4,185,578	\$ 21,756,305	(71,553,462)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				7,622,664
Property taxes, levied for debt service				13,866,853
Property taxes, levied for capital projects				3,642,741
State aid not restricted to specific purposes				52,791,515
Interest and investment earnings				133,068
Penalties, interest, and other taxes				56,350
Gain on sale of capital assets				115,100
Other				745,186
Total general revenue				78,973,477
Change in Net Position				7,420,015
Net Position - Beginning of year, as previously reported				(71,977,140)
Cumulative Effect of Change in Accounting				(45,557,195)
Net Position - Beginning of year				(117,534,335)
Net Position - End of year				<u><u>\$ (110,114,320)</u></u>

Lake Orion Community Schools

Governmental Funds Balance Sheet

June 30, 2018

	General Fund	Nonmajor Funds	Total Governmental Funds
Assets			
Cash and investments (Note 4)	\$ 6,020,927	\$ 1,827,199	\$ 7,848,126
Receivables:			
Property taxes receivable	15,159	8,469	23,628
Other receivables	101,364	53,346	154,710
Due from other governments	12,273,713	16,364	12,290,077
Due from other funds (Note 8)	169,226	554,202	723,428
Inventory	-	12,480	12,480
Prepaid expenses and other assets	80,036	-	80,036
Restricted assets (Note 5)	-	1,111,134	1,111,134
	<u>\$ 18,660,425</u>	<u>\$ 3,583,194</u>	<u>\$ 22,243,619</u>
Total assets			
Liabilities			
Accounts payable	\$ 737,221	\$ 712,385	\$ 1,449,606
Due to other governmental units	1,393,632	6,329	1,399,961
Due to other funds (Note 8)	734,085	219,806	953,891
Accrued liabilities and other	7,468,269	43,464	7,511,733
Unearned revenue (Note 6)	689,900	72,126	762,026
	<u>11,023,107</u>	<u>1,054,110</u>	<u>12,077,217</u>
Total liabilities			
Fund Balances			
Nonspendable:			
Inventory	-	12,480	12,480
Prepays	80,036	-	80,036
Restricted:			
Debt service	-	395,898	395,898
Capital projects	-	17,609	17,609
Food service	-	1,059,081	1,059,081
Committed:			
Committed for community service	-	814,084	814,084
Assigned:			
Capital projects	-	296,459	296,459
Long-term obligations - Compensated absences and self-insurance	4,090,719	-	4,090,719
Unassigned	3,466,563	(66,527)	3,400,036
	<u>7,637,318</u>	<u>2,529,084</u>	<u>10,166,402</u>
Total fund balances			
	<u>\$ 18,660,425</u>	<u>\$ 3,583,194</u>	<u>\$ 22,243,619</u>
Total liabilities and fund balances			

Lake Orion Community Schools

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2018

Fund Balances Reported in Governmental Funds	\$ 10,166,402
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of capital assets	235,763,003
Accumulated depreciation	<u>(94,017,500)</u>
Net capital assets used in governmental activities	141,745,503
Deferred inflows and outflows related to bond refundings are not reported in the funds	3,024,380
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(100,257,877)
Accrued interest is not due and payable in the current period and is not reported in the funds	(514,904)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Employee compensated absences	(3,934,719)
Provision for dental and workers' compensation claims not accounted for within the Internal Service Fund	(46,000)
Net pension liability and related deferred inflows and outflows	(111,230,096)
Net OPEB liability and related deferred inflows and outflows	(44,038,318)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds	(5,113,421)
Internal service funds are included as part of governmental activities	<u>84,730</u>
Net Position of Governmental Activities	<u><u>\$ (110,114,320)</u></u>

Lake Orion Community Schools

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2018

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenue			
Local sources	\$ 9,005,432	\$ 21,247,008	\$ 30,252,440
State sources	64,855,013	278,852	65,133,865
Federal sources	2,739,907	945,750	3,685,657
Interdistrict sources	5,316,253	78,548	5,394,801
Total revenue	81,916,605	22,550,158	104,466,763
Expenditures			
Current:			
Instruction	52,318,948	1,544	52,320,492
Support services	27,211,607	28,131	27,239,738
Athletics	1,155,220	-	1,155,220
Food services	-	2,419,771	2,419,771
Community services	249,008	1,975,627	2,224,635
Debt service:			
Principal	-	16,216,953	16,216,953
Interest	-	4,021,746	4,021,746
Other debt costs	-	110,345	110,345
Capital outlay	453,174	5,906,830	6,360,004
Total expenditures	81,387,957	30,680,947	112,068,904
Excess of Revenue Over (Under) Expenditures	528,648	(8,130,789)	(7,602,141)
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	-	326,306	326,306
School Bond Loan Revolving Fund proceeds	-	5,597,693	5,597,693
Transfers in (Note 8)	325,000	426,095	751,095
Transfers out (Note 8)	(337,108)	(413,987)	(751,095)
Total other financing (uses) sources	(12,108)	5,936,107	5,923,999
Net Change in Fund Balances	516,540	(2,194,682)	(1,678,142)
Fund Balances - Beginning of year	7,120,778	4,723,766	11,844,544
Fund Balances - End of year	\$ 7,637,318	\$ 2,529,084	\$ 10,166,402

Lake Orion Community Schools

Governmental Funds

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2018

Net Change in Fund Balances Reported in Governmental Funds	\$ (1,678,142)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capitalized capital outlay	5,601,886
Depreciation expense	(4,704,814)
Net book value of assets disposed of	(211,206)
Revenue in support of pension contributions made subsequent to the measurement date	(1,171,090)
Issuing debt, net of premiums and discounts, provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position	(5,597,693)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt); amortization of premium/discounts and inflows/outflows related to bond refundings is not an expense in the governmental funds	16,914,515
Interest expense is recognized in the government-wide statements as it accrues	42,567
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(1,740,760)
Internal service funds are included as part of governmental activities - All other items	(35,248)
Change in Net Position of Governmental Activities	<u><u>\$ 7,420,015</u></u>

Lake Orion Community Schools

**Proprietary Funds - Internal Service Fund
Statement of Net Position**

June 30, 2018

	<u>Proprietary - Internal Service Fund</u>
Assets	
Current assets:	
Due from other funds (Note 8)	\$ 268,870
Prepaid expenses and other assets	<u>58,902</u>
Total assets	327,772
Liabilities	
Current liabilities:	
Accounts payable	133,042
Self-insurance claims - Dental IBNR	<u>110,000</u>
Total liabilities	<u>243,042</u>
Net Position - Unrestricted	<u><u>\$ 84,730</u></u>

Lake Orion Community Schools

**Proprietary Funds - Internal Service Fund
Statement of Revenue, Expenses, and Changes in Net Position**

Year Ended June 30, 2018

	<u>Governmental Activities</u> <u>Proprietary - Internal Service Fund</u>
Operating Revenue - Charges for services	\$ 611,988
Operating Expenses - Cost of claims	<u>647,236</u>
Change in Net Position - Operating loss	(35,248)
Net Position - Beginning of year	<u>119,978</u>
Net Position - End of year	<u><u>\$ 84,730</u></u>

Lake Orion Community Schools

**Proprietary Funds - Internal Service Fund
Statement of Cash Flows**

Year Ended June 30, 2018

	<u>Governmental Activities Internal Service Fund</u>
Cash Flows from Operating Activities	
Receipts from interfund services and reimbursements	\$ 643,776
Claims paid	<u>(643,776)</u>
Net cash and cash equivalents provided by (used in) operating activities	<u>-</u>
Net Change in Cash and Cash Equivalents	-
Cash and Cash Equivalents - Beginning of year	<u>-</u>
Cash and Cash Equivalents - End of year	<u><u>\$ -</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating loss	\$ (35,248)
Adjustments to reconcile operating loss to net cash from operating activities:	
Changes in assets and liabilities:	
Due from General Fund	(18,290)
Prepaid and other assets	50,078
Accounts payable	<u>3,460</u>
Net cash and cash equivalents provided by (used in) operating activities	<u><u>\$ -</u></u>

Lake Orion Community Schools

Fiduciary Funds Statement of Fiduciary Assets and Liabilities

June 30, 2018

	Student Activities
Assets - Cash and investments (Note 4)	\$ 896,279
Liabilities	
Accounts payable	\$ 65,950
Due to student activities	791,922
Due to other funds (Note 8)	38,407
Total liabilities	\$ 896,279

June 30, 2018

Note 1 - Nature of Business

Lake Orion Community Schools (the "School District") is a school district in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The School District follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). 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. In accordance with government accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. 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, as applicable. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes, unrestricted intergovernmental receipts, and other items not properly included among program revenue are reported instead as general revenue.

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

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, if any, are reported as separate columns in the fund financial statements.

Note 2 - Significant Accounting Policies (Continued)

Fund Accounting

The School District accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the School District to show the particular expenditures for which specific revenue is used. The various funds are aggregated into three broad fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The School District reports the following funds as "major" governmental funds:

- *General Fund* - The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.

Additionally, the School District reports the following nonmajor governmental fund types:

- *Special Revenue Funds* - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.
- *Capital Projects Fund* - Capital projects funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, technology upgrades, and for remodeling and repairs. The funds operate until the purpose for which they were created is accomplished.
- *Debt Service Funds* - Debt service funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on long-term debt.
- *Sinking Fund* - The Sinking Fund records capital projects activities funded with sinking fund millage.

Proprietary Funds

Internal Service Fund - The School District's Internal Service Fund is a proprietary fund that was established to finance services provided to other funds on a cost-reimbursement basis. The Internal Service Fund is authorized to account for self-insurance claims, unemployment, terminal leave, compensated absences, and other similar obligations. It is currently being used to record the dental self-insurance activity.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the School District's programs. The School District maintains a student activity agency fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Interfund Activity

During the course of operations, the School District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Note 2 - Significant Accounting Policies (Continued)

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the School District has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the School District considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Proprietary funds and fiduciary funds, as applicable, use the economic resources measurement focus and the full 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.

Specific Balances and Transactions

Cash and Investments

Cash and cash equivalents 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.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories are recorded as expenditures when purchased. Inventories accounted for using the purchase method are recorded as expenditures when purchased and include all inventories of governmental funds other than commodities within the Food Service Fund. Inventories accounted for using the consumption method are recorded as expenditures when consumed rather than when purchased and include commodities within the Food Service Fund. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements, when applicable.

Restricted Assets

The following amounts are reported as restricted assets:

- Unspent property taxes levied held in the debt service funds required to be set aside for future bond principal and interest payments
- Unspent property taxes levied and held in the Sinking Fund required to be set aside for construction or allowable purchases

Note 2 - Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities 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 acquisition 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.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Buildings and building additions	20-40
Furniture and other equipment	5-20
Buses and other vehicles	5-10

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 lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as an "other financing source" and bond discounts as "other financing uses" during the current period. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

The School District reports deferred outflows related to deferred charges relating to bond refundings and pension and OPEB plan costs.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The School District reports deferred inflows related to revenue in support of pension contributions made subsequent to the measurement date and deferred pension and OPEB plan cost reductions.

Net Position

Net position of the School District is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Note 2 - Significant Accounting Policies (Continued)

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. The School District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

The fund balance policy prescribes the minimum fund balance as 10 percent of operating expenditures in the General Fund. 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. If the School District falls below 10 percent, a plan will be developed to restore the established minimum surplus. Currently, the fund balance is below 10 percent, and the School District has a three-year plan to restore General Fund balance to 10 percent.

Note 2 - Significant Accounting Policies (Continued)

Property Tax Revenue

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 approximately 50 percent of the taxes and on December 1 for the remainder 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. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Grants and Contributions

The School District receives federal, state, and local grants as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Pension and Other Postemployment Benefit (OPEB) Plans

For purposes of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to each plan, pension, and OPEB 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 expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Compensated Absences (Vacation and Sick Leave)

It is the School District's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay is accrued for the estimated amount that the School District will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the government-wide financial statements. A liability for these amounts is reported in governmental funds as it comes due for payment.

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.

Adoption of New Accounting Pronouncement

As of June 30, 2018, the School District adopted GASB 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 School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPERS OPEB Plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Note 2 - Significant Accounting Policies (Continued)

In accordance with the statement, the School District has reported a net OPEB liability of \$44,941,076, deferred outflows of financial resources for OPEB contributions of \$2,408,021 made subsequent to the measurement date, and deferred inflows of financial resources for revenue received from state aid in support of OPEB contributions of \$1,519,336 that was received subsequent to the measurement date, as the effects of these changes in accounting principles on the School District's net position as of July 1, 2017.

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The School 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 School District's financial statements for the year ending June 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The School 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 School District's financial statements for the year ending June 30, 2021.

Note 3 - 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 and contracts) outstanding at year end are reported as restrictions, commitments, or assignments 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.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District did not have significant expenditure budget variances.

Fund Deficits

The Pine Tree Center Fund fund balance is in deficit for the year ended June 30, 2018. This was the initial year of the fund and costs were incurred to begin operations. Funding from the Intermediate School District has been secured to offset the costs of the Fund's operations beginning July 1, 2019.

Note 3 - Stewardship, Compliance, and Accountability (Continued)

Sinking Fund Compliance

The Sinking Fund records capital project activities funded with sinking fund millage. For this fund, authorized prior to March 16, 2017, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Note 4 - 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. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, certificates of deposit, 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 has designated two banks for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority, as listed above.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost except for the School District's investments in the Michigan Liquid Asset Fund Plus - MAX Class fund may not be redeemed for at least 14 calendar days, with the exception of direct investments of funds distributed by the State. Redemptions made prior to the applicable 14-day period are subject to a penalty equal to 15 days' interest on the amount so redeemed. There are no limitations or restrictions on participant withdrawals for the School District's other investment pools that are recorded at amortized cost.

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 does not have a deposit policy for custodial credit risk. At year end, the School District had \$10,431,275 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. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments 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 prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. At June 30, 2018, the School District does not have investments with custodial credit risk.

Note 4 - 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. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Amortized Cost	Rating	Rating Organization
Primary Government			
MILAF	\$ 30,445	AAAm	Standard & Poor's

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 investment 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. The School District does not have any investments subject to concentration of credit risk.

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 and the School District's investment policy prohibit investments in foreign currency.

Note 5 - Restricted Assets

At June 30, 2018, restricted assets are composed of the following:

Description	Governmental Activities
Unspent property taxes levied in the Sinking Fund	\$ 688,770
Unspent property taxes levied in the debt service funds	422,364
Total	<u>\$ 1,111,134</u>

Note 6 - Unavailable/Unearned Revenue

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 June 30, 2018, the various components of unearned and unavailable revenue were as follows:

	Deferred Inflow - Unavailable	Liability - Unearned
Food service prepaid revenue	\$ -	\$ 72,126
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	689,900
Total	<u>\$ -</u>	<u>\$ 762,026</u>

Note 7 - Capital Assets

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

Governmental Activities

	Balance July 1, 2017	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$ 13,421,804	\$ -	\$ -	\$ -	\$ 13,421,804
Construction in progress	829,940	(787,779)	2,573,342	-	2,615,503
Subtotal	14,251,744	(787,779)	2,573,342	-	16,037,307
Capital assets being depreciated:					
Buildings and improvements	202,050,359	787,779	2,843,033	-	205,681,171
Furniture and equipment	12,146,116	-	126,511	-	12,272,627
Buses and other vehicles	4,793,689	-	59,000	(3,080,791)	1,771,898
Subtotal	218,990,164	787,779	3,028,544	(3,080,791)	219,725,696
Accumulated depreciation:					
Buildings and improvements	78,766,532	-	3,936,398	-	82,702,930
Furniture and equipment	9,190,321	-	475,915	-	9,666,236
Buses and other vehicles	4,225,418	-	292,501	(2,869,585)	1,648,334
Subtotal	92,182,271	-	4,704,814	(2,869,585)	94,017,500
Net capital assets being depreciated	126,807,893	787,779	(1,676,270)	(211,206)	125,708,196
Net governmental activities capital assets	<u>\$ 141,059,637</u>	<u>\$ -</u>	<u>\$ 897,072</u>	<u>\$ (211,206)</u>	<u>\$ 141,745,503</u>

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

Note 8 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			
	General Fund	Nonmajor Funds	Fiduciary	Total
General Fund	\$ -	\$ 130,819	\$ 38,407	\$ 169,226
Nonmajor governmental funds	465,215	88,987	-	554,202
Internal Service Fund	268,870	-	-	268,870
Total	\$ 734,085	\$ 219,806	\$ 38,407	\$ 992,298

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.

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
General Fund	Nonmajor governmental funds	\$ 337,108
Nonmajor governmental funds	General Fund	325,000
	Other nonmajor governmental funds	88,987
	Total nonmajor governmental funds	413,987
	Total	\$ 751,095

Note 9 - Long-term Debt

Long-term debt activity for the year ended June 30, 2018 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
General obligations	\$ 96,675,000	\$ -	\$ (15,675,000)	\$ 81,000,000	\$ 16,170,000
Unamortized bond premiums	7,644,373	-	(1,153,591)	6,490,782	888,042
Total bonds payable	104,319,373	-	(16,828,591)	87,490,782	17,058,042
School bond loan fund	5,247,595	5,597,693	-	10,845,288	-
Capital leases	524,074	-	(332,543)	191,531	82,085
Installment purchase agreements	2,021,770	-	(291,494)	1,730,276	298,355
Compensated absences	2,171,836	2,009,501	(246,618)	3,934,719	3,934,719
Claims and judgments	150,000	37,323	(31,323)	156,000	110,000
Total governmental activities long-term debt	\$ 114,434,648	\$ 7,644,517	\$ (17,730,569)	\$ 104,348,596	\$ 21,483,201

The School District had deferred outflows of \$3,024,380 related to deferred charges on bond refundings at June 30, 2018.

Note 9 - Long-term Debt (Continued)

General Obligation Bonds and Contracts

The School District issues general obligation bonds to provide for the acquisition and construction of major capital facilities and acquisition of certain equipment. General obligations have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. General obligations outstanding at June 30, 2018 are as follows:

Bonds	Remaining Annual Installments	Interest Rates	Maturing	Outstanding
\$5,280,000 - 2013 Energy conservation improvement bonds	\$225,000 - \$390,000	2.00 to 4.25 percent	2033	\$ 4,475,000
\$26,165,000 - 2015 refunding bonds	\$1,120,000 - \$4,650,000	5.00 percent	2023	13,090,000
\$37,590,000 - 2015 Series B refunding bonds	\$8,580,000 - \$10,070,000	1.81 to 2.45 percent	2021	24,930,000
\$38,505,000 - 2016 refunding bonds	\$835,000 - \$2,715,000	5.00 percent	2027	<u>38,505,000</u>
Total bonded debt				<u>\$ 81,000,000</u>

Other Long-term Liabilities

Compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund. The claims and judgments liability will generally be liquidated through the School District's Internal Service Fund. That fund will finance the payment of those claims by charging the other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds. The net pension liability and the net OPEB liability will be liquidated from the funds from which the individual employee's salaries are paid, generally the General Fund. Two installment purchase agreements were used 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 by the General Fund. Both loans mature in December 2023.

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2019	\$ 16,468,355	\$ 3,309,729	\$ 19,778,084
2020	17,020,375	2,774,493	19,794,868
2021	17,672,565	2,119,243	19,791,808
2022	7,254,922	1,507,174	8,762,096
2023	7,462,452	1,157,894	8,620,346
2024-2028	15,051,607	1,713,224	16,764,831
2029-2033	1,800,000	228,751	2,028,751
Total	<u>\$ 82,730,276</u>	<u>\$ 12,810,508</u>	<u>\$ 95,540,784</u>

Note 9 - Long-term Debt (Continued)

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 on October 1, 2005 pursuant to Public Act 92. Interest at an annual rate of 3.102 percent has been assessed for the year ended June 30, 2018. 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 state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

Bond Refunding

In previous years, the School District defeased an advance refunding. As of June 30, 2018, there is still \$38,505,000 of bonds outstanding that is considered defeased.

Note 10 - Capital Leases

The School District leases copiers under long-term lease arrangements that are classified as capital leases. For financial statement purposes, the present values of the net minimum lease payments have been capitalized and are being amortized over the useful lives of the assets.

At June 30, 2018, property under capital leases consists of copiers with a gross cost of \$410,421. Accumulated depreciation on the property under capital leases was \$143,647 at June 30, 2018.

The future minimum lease payments under capital leases are as follows:

Years Ending June 30	Amount
2019	\$ 94,576
2020	94,576
2021	31,525
Total	220,677
Less amount representing interest	29,146
Present value of net minimum lease payments	<u>\$ 191,531</u>

Note 11 - 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 medical benefit claims. The School District participates in the SET-SEG risk pool for claims relating to property loss, torts, and errors and omissions. The School District is partially 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 shared-risk pool program 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.

Note 11 - Risk Management (Continued)

The School District estimates the liability for workers' compensation and dental claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Workers' compensation estimates are recorded in the government-wide statements. Subsequent to year end, the District is no longer self-insured for workers' compensation. Dental estimates are recorded in the Internal Service Fund.

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

	Dental		Workers' Compensation	
	2018	2017	2018	2017
Estimated liability - Beginning of year	\$ 110,000	\$ 59,239	\$ 40,000	\$ 610,000
Estimated claims incurred, including changes in estimates	600,501	662,637	37,323	(436,908)
Claim payments	(600,501)	(611,876)	(31,323)	(133,092)
Estimated liability - End of year	<u>\$ 110,000</u>	<u>\$ 110,000</u>	<u>\$ 46,000</u>	<u>\$ 40,000</u>

Note 12 - Michigan Public School Employees' Retirement System

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS or the "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. Certain School District employees also receive defined contribution retirement and healthcare benefits through the System. 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 System is administered by the Office of Retirement Services (ORS). 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.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and the postemployment healthcare plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan and the postemployment healthcare plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services 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 to 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.

Depending on the member's date of hire, MPERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Members are eligible for nonduty 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. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years in which investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of each retiree healthcare recipient. Depending on the member's date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

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.

Under the OPEB plan, 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. Participating employers are required to contribute at that rate.

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

The School District's contributions are determined based on employee elections. There are multiple different pension and healthcare benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

	Pension	OPEB
October 1, 2017 - January 31, 2018	13.54% - 17.89%	7.42% - 7.67%
February 1, 2018 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The School District's required and actual pension contributions to the plan for the year ended June 30, 2018 were \$13,827,600, which includes the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual pension contributions include an allocation of \$5,113,421 in 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, 2018. For the year ended June 30, 2018, the contributions also include a one-time payment to the School District received under Section 147c(2) of the State Aid Act, which the School District then remitted as a contribution to the plan.

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2018 were \$3,132,119, which includes the School District's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2018, the School District reported a liability of \$131,345,117 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. 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, 2017 and 2016, the School District's proportion was 0.506845 percent and 0.517999 percent, respectively.

Net OPEB Liability

At June 30, 2018, the School District reported a liability of \$44,941,076 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2018 was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.507495 percent.

June 30, 2018

Note 12 - Michigan Public School Employees' Retirement System (Continued)

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

For the year ended 2018, the School District recognized pension expense of \$14,196,206, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,141,479	\$ (644,483)
Changes in assumptions	14,389,901	-
Net difference between projected and actual earnings on pension plan investments	-	(6,279,161)
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	3,147,217	(2,334,463)
The School District's contributions to the plan subsequent to the measurement date	<u>10,694,531</u>	<u>-</u>
Total	<u>\$ 29,373,128</u>	<u>\$ (9,258,107)</u>

The \$5,113,421 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending</u>	<u>Amount</u>
2019	\$ 2,974,894
2020	5,083,798
2021	1,945,786
2022	<u>(583,988)</u>
Total	<u>\$ 9,420,490</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.

June 30, 2018

Note 12 - Michigan Public School Employees' Retirement System (Continued)

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

For the year ended June 30, 2018, the School District recognized OPEB expense of \$3,009,145.

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (478,490)
Net difference between projected and actual earnings on OPEB plan investments	-	(1,040,846)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	14,073	-
Employer contributions to the plan subsequent to the measurement date	2,408,021	-
Total	<u>\$ 2,422,094</u>	<u>\$ (1,519,336)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending	Amount
2019	\$ (364,006)
2020	(364,006)
2021	(364,006)
2022	(364,006)
2023	(49,239)
Total	<u>\$ (1,505,263)</u>

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2017 is based on the results of an actuarial valuation as of September 30, 2016 and rolled forward. The total pension and OPEB liability was determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal cost actuarial cost method
Investment rate of return - Pension	7.00% - 7.50%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.50%	Net of investment expenses based on the groups
Salary increases	3.50% - 12.30%	Including wage inflation of 3.50 percent
Healthcare cost trend rate	7.50%	Year 1 graded to 3.5 percent year 12
Mortality basis		RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2007 to 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

June 30, 2018

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00 - 7.50 percent as of September 30, 2017 depending on the plan option. The discount rate used to measure the total OPEB liability was 7.50 percent as of September 30, 2017. 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 district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.60 %
Private equity pools	18.00	8.70
International equity pools	16.00	7.20
Fixed-income pools	10.50	(0.10)
Real estate and infrastructure pools	10.00	4.20
Real return, opportunistic, and absolute pool	15.50	5.00
Short-term investment pools	2.00	(0.90)
Total	100.00 %	

MPSERS approved a decrease in the discount rate for the September 30, 2017 annual actuarial valuation for the pension plan and the OPEB plan to 7.05 percent and 7.15 percent, respectively. As a result, the actuarial computed employer contributions, net pension liability, and net OPEB liability will increase for the measurement period ended September 30, 2018.

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 depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.00 - 6.50%)	Current Discount Rate (7.00 - 7.50%)	1 Percent Increase (8.00 - 8.50%)
Net pension liability of the School District	\$ 171,099,001	\$ 131,345,117	\$ 97,874,879

June 30, 2018

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the School District, calculated using the current discount rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 52,638,990	\$ 44,941,076	\$ 38,407,958

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the School District, calculated using the current healthcare cost trend rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 38,059,051	\$ 44,941,076	\$ 52,755,137

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2018, the School District reported a payable of \$2,267,149 and \$376,322 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2018.

Note 13 - Tax Abatements

The School District receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974), Property Tax Exemption (PA 328 of 1998), Payments in Lieu of Taxes (PILOT) and Brownfield Redevelopment Agreements granted by cities, villages, and townships within the boundaries of the School District. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities; Property Tax Exemptions are intended to promote the purchase of assets; PILOTs are intended to reduce costs for tax exempt entities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2018, the School District's property tax revenue was reduced by under these programs; thus the School District did not receive any reimbursements for lost revenue.

The School District is reimbursed for lost revenue caused by tax abatements on the operating millage of nonhomestead properties from the State of Michigan under the school aid formula. The School District received approximately \$457,000 in reimbursements from the State of Michigan. The School District is not reimbursed for lost revenue from the Sinking Fund or debt service millages.

Required Supplemental Information

Lake Orion Community Schools

Required Supplemental Information Budgetary Comparison Schedule General Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 8,739,041	\$ 8,938,044	\$ 9,005,432	\$ 67,388
State sources	64,552,527	64,970,500	64,855,013	(115,487)
Federal sources	2,496,459	2,751,288	2,739,907	(11,381)
Interdistrict sources	5,254,969	5,327,906	5,316,253	(11,653)
Total revenue	81,042,996	81,987,738	81,916,605	(71,133)
Expenditures				
Current:				
Instruction:				
Basic programs	42,171,270	41,410,915	41,651,585	240,670
Added needs	10,527,604	11,083,781	10,938,305	(145,476)
Total instruction	52,698,874	52,494,696	52,589,890	95,194
Support services:				
Pupil	6,125,590	6,296,649	6,337,723	41,074
Instructional staff	2,609,205	2,652,972	2,557,082	(95,890)
General administration	1,019,666	1,057,090	1,041,624	(15,466)
School administration	4,468,480	4,639,771	4,555,455	(84,316)
Business	878,586	901,170	907,820	6,650
Operations and maintenance	5,181,162	5,483,135	5,613,844	130,709
Pupil transportation services	3,431,172	3,568,177	3,588,431	20,254
Central	2,557,083	2,856,540	2,790,622	(65,918)
Total support services	26,270,944	27,455,504	27,392,601	(62,903)
Athletics	1,137,578	1,204,616	1,156,458	(48,158)
Community services	296,174	263,218	249,008	(14,210)
Total expenditures	80,403,570	81,418,034	81,387,957	(30,077)
Excess of Revenue Over Expenditures	639,426	569,704	528,648	(41,056)
Other Financing Sources (Uses)				
Transfers in	365,000	325,000	325,000	-
Transfers out	(412,110)	(412,110)	(337,108)	75,002
Total other financing uses	(47,110)	(87,110)	(12,108)	75,002
Net Change in Fund Balance	592,316	482,594	516,540	33,946
Fund Balance - Beginning of year	7,120,778	7,120,778	7,120,778	-
Fund Balance - End of year	<u>\$ 7,713,094</u>	<u>\$ 7,603,372</u>	<u>\$ 7,637,318</u>	<u>\$ 33,946</u>

Lake Orion Community Schools

Required Supplemental Information Schedule of Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System

	Last Four Plan Years Plan Years Ended September 30			
	2017	2016	2015	2014
School District's proportion of the net pension liability	0.50685 %	0.51800 %	0.49925 %	0.49210 %
School District's proportionate share of the net pension liability	\$ 131,345,117	\$ 129,236,467	\$ 121,942,098	\$ 108,391,563
School District's covered employee payroll	\$ 41,585,316	\$ 44,339,139	\$ 41,499,311	\$ 42,135,063
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	315.84 %	291.47 %	293.84 %	257.25 %
Plan fiduciary net position as a percentage of total pension liability	63.96 %	63.01 %	62.92 %	66.20 %

Lake Orion Community Schools

Required Supplemental Information Schedule of Pension Contributions Michigan Public School Employees' Retirement System

	Last Four Fiscal Years Years Ended June 30			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 12,676,174	\$ 11,828,203	\$ 11,824,219	\$ 9,500,078
Contributions in relation to the statutorily required contribution	<u>12,676,174</u>	<u>11,828,203</u>	<u>11,824,219</u>	<u>9,500,078</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Employee Payroll	\$ 41,901,405	\$ 41,686,256	\$ 42,824,405	\$ 41,850,563
Contributions as a Percentage of Covered Employee Payroll	30.25 %	28.37 %	27.61 %	22.70 %

Lake Orion Community Schools

Required Supplemental Information Schedule of Proportionate Share of the Net OPEB Liability Michigan Public School Employees' Retirement System

	Last Plan Year
	Plan Year Ended September 30
	<u>2017</u>
School District's proportion of the net OPEB liability	0.50750 %
School District's proportionate share of the net OPEB liability	\$ 44,941,076
School District's covered employee payroll	\$ 41,585,316
School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	108.07 %
Plan fiduciary net position as a percentage of total OPEB liability	36.53 %

Lake Orion Community Schools

Required Supplemental Information Schedule of OPEB Contributions Michigan Public School Employees Retirement System

	Last Fiscal Year
	Year Ended June 30
	<u>2018</u>
Statutorily required contribution	\$ 3,026,423
Contributions in relation to the statutorily required contribution	<u>3,026,423</u>
Contribution Deficiency	<u>\$ -</u>
School District's Covered Employee Payroll	\$ 41,901,405
Contributions as a Percentage of Covered Employee Payroll	7.22 %

Pension Information

Ultimately, 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent to 7.00-7.50 percent based on the group.

Covered Payroll

The employers' covered payroll to be reported in the required supplemental information is defined by GASB 82, *Pension Issues - An Amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based, and by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For the School District, covered payroll represents payroll on which contributions to both plans are based.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

There were no changes of benefit assumptions in 2017.

Covered Payroll

The employers' covered payroll to be reported in the required supplemental information is defined by GASB 82, *Pension Issues - An Amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based, and by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For the School District, covered payroll represents payroll on which contributions to both plans are based.

Other Supplemental Information

Lake Orion Community Schools

	Special Revenue Funds			Debt Service Funds			
	Food Service	Community Services	Pine Tree Center	2012 Debt	2015 Debt	2015B Debt	2016 Debt
Assets							
Cash and investments	\$ 1,023,296	\$ 803,903	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables:							
Property taxes receivable	-	-	-	1,616	2,071	2,419	711
Other receivables	19,637	-	33,709	-	-	-	-
Due from other governments	16,364	-	-	-	-	-	-
Due from other funds	81,039	85,046	-	-	-	-	88,987
Inventory	12,480	-	-	-	-	-	-
Restricted assets	-	-	-	95,572	122,390	164,547	39,855
Total assets	\$ 1,152,816	\$ 888,949	\$ 33,709	\$ 97,188	\$ 124,461	\$ 166,966	\$ 129,553
Liabilities							
Accounts payable	\$ 152	\$ 37,395	\$ 56,052	\$ -	\$ -	\$ -	\$ -
Due to other governmental units	783	2,200	-	602	784	1,027	231
Due to other funds	-	-	44,184	96,586	8,749	11,445	2,846
Accrued liabilities and other	8,194	35,270	-	-	-	-	-
Unearned revenue	72,126	-	-	-	-	-	-
Total liabilities	81,255	74,865	100,236	97,188	9,533	12,472	3,077
Fund Balances							
Nonspendable - Inventory	12,480	-	-	-	-	-	-
Restricted:							
Debt service	-	-	-	-	114,928	154,494	126,476
Capital projects	-	-	-	-	-	-	-
Food service	1,059,081	-	-	-	-	-	-
Committed - Community service	-	814,084	-	-	-	-	-
Assigned - Capital projects	-	-	-	-	-	-	-
Unassigned	-	-	(66,527)	-	-	-	-
Total fund balances	1,071,561	814,084	(66,527)	-	114,928	154,494	126,476
Total liabilities and fund balances	\$ 1,152,816	\$ 888,949	\$ 33,709	\$ 97,188	\$ 124,461	\$ 166,966	\$ 129,553

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2018

<u>Capital Project Funds</u>		
Operating Capital Projects Fund	Sinking Fund	Total
\$ -	\$ -	\$ 1,827,199
-	1,652	8,469
-	-	53,346
-	-	16,364
299,130	-	554,202
-	-	12,480
-	688,770	1,111,134
<u>\$ 299,130</u>	<u>\$ 690,422</u>	<u>\$ 3,583,194</u>
\$ 2,671	\$ 616,115	\$ 712,385
-	702	6,329
-	55,996	219,806
-	-	43,464
-	-	72,126
2,671	672,813	1,054,110
-	-	12,480
-	-	395,898
-	17,609	17,609
-	-	1,059,081
-	-	814,084
296,459	-	296,459
-	-	(66,527)
296,459	17,609	2,529,084
<u>\$ 299,130</u>	<u>\$ 690,422</u>	<u>\$ 3,583,194</u>

Lake Orion Community Schools

	Special Revenue Funds			Debt Service Funds			
	Food Service	Community Services	Pine Tree Center	2012 Debt	2015 Debt	2015B Debt	2016 Debt
Revenue							
Local sources	\$ 1,481,814	\$ 2,146,740	\$ -	\$ 3,169,929	\$ 4,066,333	\$ 5,406,289	\$ 1,326,093
State sources	172,169	106,683	-	-	-	-	-
Federal sources	945,750	-	-	-	-	-	-
Interdistrict sources	78,548	-	-	-	-	-	-
Total revenue	2,678,281	2,253,423	-	3,169,929	4,066,333	5,406,289	1,326,093
Expenditures							
Current:							
Instruction - Added needs	-	-	1,544	-	-	-	-
Support services:							
Business	-	-	-	-	-	-	-
Operations and maintenance	-	-	-	-	-	-	-
Food services	2,419,771	-	-	-	-	-	-
Community services	-	1,975,627	-	-	-	-	-
Debt service:							
Principal	-	-	-	4,170,000	4,650,000	6,640,000	-
Interest	-	-	-	211,642	944,504	711,938	1,944,005
Other debt costs	-	-	-	27,233	35,817	33,955	13,090
Capital outlay	3,054	43,506	64,983	-	-	-	-
Total expenditures	2,422,825	2,019,133	66,527	4,408,875	5,630,321	7,385,893	1,957,095
Excess of Revenue Over (Under) Expenditures	255,456	234,290	(66,527)	(1,238,946)	(1,563,988)	(1,979,604)	(631,002)
Other Financing Sources (Uses)							
Proceeds from sale of capital assets	-	-	-	-	-	-	-
School Bond Loan Revolving Fund proceeds	-	-	-	1,279,542	1,611,477	2,052,468	654,206
Transfers in	-	-	-	-	-	-	88,987
Transfers out	(100,000)	(225,000)	-	(88,987)	-	-	-
Total other financing (uses) sources	(100,000)	(225,000)	-	1,190,555	1,611,477	2,052,468	743,193
Net Change in Fund Balances	155,456	9,290	(66,527)	(48,391)	47,489	72,864	112,191
Fund Balances - Beginning of year	916,105	804,794	-	48,391	67,439	81,630	14,285
Fund Balances - End of year	\$ 1,071,561	\$ 814,084	\$ (66,527)	\$ -	\$ 114,928	\$ 154,494	\$ 126,476

Other Supplemental Information

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2018

<u>Capital Project Funds</u>		
<u>Operating Capital Projects Fund</u>	<u>Sinking Fund</u>	<u>Total</u>
\$ 256	\$ 3,649,554	\$21,247,008
-	-	278,852
-	-	945,750
-	-	78,548
<u>256</u>	<u>3,649,554</u>	<u>22,550,158</u>
-	-	1,544
-	22,757	22,757
5,374	-	5,374
-	-	2,419,771
-	-	1,975,627
541,953	215,000	16,216,953
48,444	161,213	4,021,746
-	250	110,345
<u>142,286</u>	<u>5,653,001</u>	<u>5,906,830</u>
<u>738,057</u>	<u>6,052,221</u>	<u>30,680,947</u>
(737,801)	(2,402,667)	(8,130,789)
326,306	-	326,306
-	-	5,597,693
337,108	-	426,095
-	-	(413,987)
<u>663,414</u>	<u>-</u>	<u>5,936,107</u>
(74,387)	(2,402,667)	(2,194,682)
<u>370,846</u>	<u>2,420,276</u>	<u>4,723,766</u>
<u>\$ 296,459</u>	<u>\$ 17,609</u>	<u>\$ 2,529,084</u>

Lake Orion Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness

June 30, 2018

Year Ended June 30	Energy Bond 2013	2015 Refunding Bonds	2015 Refunding Bonds, Series B	2016 Refunding Bonds	Total
	Principal	Principal	Principal	Principal	
2019	\$ 225,000	\$ 4,650,000	\$ 8,580,000	\$ 2,715,000	\$ 16,170,000
2020	230,000	4,650,000	6,280,000	5,555,000	16,715,000
2021	240,000	1,510,000	10,070,000	5,540,000	17,360,000
2022	250,000	1,160,000	-	5,525,000	6,935,000
2023	260,000	1,120,000	-	5,755,000	7,135,000
2024	270,000	-	-	5,835,000	6,105,000
2025	280,000	-	-	5,915,000	6,195,000
2026	295,000	-	-	830,000	1,125,000
2027	305,000	-	-	835,000	1,140,000
2028	320,000	-	-	-	320,000
2029	330,000	-	-	-	330,000
2030	345,000	-	-	-	345,000
2031	360,000	-	-	-	360,000
2032	375,000	-	-	-	375,000
2033	390,000	-	-	-	390,000
Total remaining payments	\$ 4,475,000	\$ 13,090,000	\$ 24,930,000	\$ 38,505,000	\$ 81,000,000
Interest rate	2.00% to 4.25%	5.00%	1.81% to 2.45%	5.00%	
Original issue	\$ 5,280,000	\$ 26,165,000	\$ 37,590,000	\$ 38,505,000	

Principal payments for the bond issues are due on May 1 of each year.

Interest payments for the bond issues are due on May 1 and November 1 of each year.