
Lake Orion Community Schools

**Financial Report
with Supplemental Information
June 30, 2019**

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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, 2019 and the related notes to the financial statements, which collectively comprise Lake Orion Community Schools' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lake Orion Community Schools as of June 30, 2019 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lake Orion Community Schools' basic financial statements. The 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 identified 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, as identified in the table of contents, 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 14, 2019 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 14, 2019

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, 2019. 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 funds, the General Fund and the 2019 Series 1 Capital Projects 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 Pension Contributions

Schedule of Proportionate Share of the Net OPEB Liability

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.

Fiduciary Funds

The School District is the 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, 2019 and 2018:

	Governmental Activities	
	2019	2018
	(in millions)	
Assets		
Current and other assets	\$ 93.2	\$ 21.7
Capital assets	141.8	141.7
Total assets	235.0	163.4
Deferred Outflows of Resources	58.2	34.8
Liabilities		
Current liabilities	12.5	33.3
Noncurrent liabilities	165.2	82.9
Net pension liability	150.4	131.3
Net OPEB liability	39.6	44.9
Total liabilities	367.7	292.4
Deferred Inflows of Resources	29.8	15.9
Net Position		
Net investment in capital assets	54.1	44.5
Restricted	1.6	0.1
Unrestricted	(160.0)	(154.7)
Total net position	<u>\$ (104.3)</u>	<u>\$ (110.1)</u>

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 \$(104.3) million at June 30, 2019. Net investment in capital assets, totaling \$54.1 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 (\$(160.0) million) was unrestricted.

The \$(160.0) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations and the impact from the adoption of GASB Statement Nos. 68 and 75 (recording the School District's share of the net pension and OPEB liabilities, respectively, from the state-managed retirement system). The unrestricted net position balance enables the School District to meet working capital and cash flow requirements and 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.

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, 2019 and 2018:

	Governmental Activities	
	2019	2018
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.2	\$ 4.2
Operating grants	22.7	21.8
General revenue:		
Taxes	26.4	25.1
State aid not restricted to specific purposes	52.9	52.8
Other	1.6	1.0
Total revenue	107.8	104.9
Expenses		
Instruction	56.6	55.3
Support services	30.8	28.2
Athletics	1.3	1.2
Food services	2.4	2.4
Community services	2.2	2.3
Debt service	4.0	3.4
Depreciation expense (unallocated)	4.7	4.7
Total expenses	102.0	97.5
Change in Net Position	5.8	7.4
Net Position - Beginning of year	(110.1)	(117.5)
Net Position - End of year	<u><u>\$ (104.3)</u></u>	<u><u>\$ (110.1)</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$102.0 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 (\$22.7 million). We paid for the remaining "public benefit" portion of our governmental activities with \$26.4 million in taxes, \$52.9 million in state foundation allowance, and our other revenue (i.e., interest and general entitlements).

The School District experienced an increase in net position of \$5.8 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 \$1.5 million, and the unrestricted net position balance decreasing by \$5.3 million. Additionally, total assets increased \$71.6 million, deferred outflows of resources increased by \$23.4 million, total liabilities increased by \$75.3 million, and deferred inflows of resources increased by \$13.9 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 \$81.4 million, which is an increase of \$71.2 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance increased from \$7.6 million to \$7.7 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 increased \$71.1 million. This increase is primarily due to the issuance of the 2019 Series 1 bonds in the current year. The School District collected \$3.8 million in voter-approved sinking fund millage. This millage is available to fund specific capital projects, as allowed by state law.

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 2019. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

A budget is a fluid document. Therefore, as expected, there were revisions made to the 2018-2019 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 2018-2019 General Fund original budget. Budgeted revenue was increased \$1.2 million due to an increase in certain pass-through categorical revenue from the State.

Budgeted expenditures were also increased \$1.5 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, 2019, the School District had \$141.8 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 \$0.1 million from last year.

	Governmental Activities	
	2019	2018
Land	\$ 13,728,441	\$ 13,421,804
Construction in progress	1,757,308	2,615,503
Buildings and improvements	122,761,527	122,978,241
Furniture and equipment	2,483,694	2,606,391
Buses and other vehicles	1,116,536	123,564
Total capital assets - Net of accumulated depreciation	\$ 141,847,506	\$ 141,745,503

This year's net additions of \$0.1 million included changes in vehicles, equipment, technology, and building renovations. Several major capital projects are planned for the 2019-2020 fiscal year in relation to the new 2019 Series 1 bond issuance. We anticipate capital additions will be greater in the upcoming fiscal year as compared to the current year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$127.5 million in bonds outstanding versus \$81.0 million in the previous year - a change of 57.4 percent - due to the issuance of the 2019 Series 1 bonds. Those bonds consisted of the following:

	2019	2018
General obligation bonds	\$ 127,500,000	\$ 81,000,000

The School District's general obligation bond rating is A+ from Standard & Poor's. 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.

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 2019-2020 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 2019-2020 budget was adopted in June 2019 based on an estimate of students who will enroll in September 2019. Approximately 83.2 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 2019-2020, 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, MI 48362.

Lake Orion Community Schools

Statement of Net Position

June 30, 2019

	Governmental Activities
Assets	
Cash and investments (Note 4)	\$ 6,612,131
Receivables:	
Property taxes receivable	257
Accrued interest receivable	195,108
Other receivables	261,926
Due from other governments	12,704,501
Inventory	16,961
Prepaid expenses and other assets	241,026
Restricted assets (Note 6)	73,106,438
Capital assets - Net (Note 8)	141,847,506
Total assets	234,985,854
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 10)	2,554,651
Deferred pension costs (Note 13)	48,817,344
Deferred OPEB costs (Note 13)	6,814,548
Total deferred outflows of resources	58,186,543
Liabilities	
Accounts payable	1,637,376
Due to other governmental units	1,523,035
Accrued liabilities and other	8,719,293
Unearned revenue (Note 7)	587,937
Noncurrent liabilities:	
Due within one year (Note 10)	23,010,145
Due in more than one year (Note 10)	142,218,608
Net pension liability (Note 13)	150,395,171
Net OPEB liability (Note 13)	39,580,344
Total liabilities	367,671,909
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to the measurement date (Note 13)	5,491,888
Deferred pension cost reductions (Note 13)	14,576,613
Deferred OPEB cost reductions (Note 13)	9,724,276
Total deferred inflows of resources	29,792,777
Net Position	
Net investment in capital assets	54,072,028
Restricted - Capital projects	1,592,137
Unrestricted	(159,956,454)
Total net position	<u><u>\$ (104,292,289)</u></u>

Lake Orion Community Schools

Statement of Activities

Year Ended June 30, 2019

	Expenses	Program Revenue		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 56,610,002	\$ 25,643	\$ 14,176,663	\$ (42,407,696)
Support services	30,803,417	75,867	7,965,765	(22,761,785)
Athletics	1,316,709	446,251	-	(870,458)
Food services	2,439,951	1,429,773	216,464	(793,714)
Community services	2,170,009	2,239,489	368,366	437,846
Interest	3,430,326	-	-	(3,430,326)
Other debt costs	540,113	-	-	(540,113)
Depreciation expense (unallocated)	4,724,297	-	-	(4,724,297)
Total primary government	\$ 102,034,824	\$ 4,217,023	\$ 22,727,258	(75,090,543)
General revenue:				
Taxes:				
Property taxes levied for general purposes				7,912,602
Property taxes levied for debt service				14,634,334
Property taxes levied for capital projects				3,808,769
State aid not restricted to specific purposes				52,880,741
Interest and investment earnings				1,058,013
Penalties, interest, and other taxes				59,567
Gain on sale of capital assets				7,685
Other				550,863
Total general revenue				80,912,574
Change in Net Position				5,822,031
Net Position - Beginning of year				(110,114,320)
Net Position - End of year				<u>\$(104,292,289)</u>

Lake Orion Community Schools

Governmental Funds Balance Sheet

June 30, 2019

	General Fund	2019 Series 1 Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments (Note 4)	\$ 4,678,301	\$ -	\$ 1,933,830	\$ 6,612,131
Receivables:				
Property taxes receivable	79	-	178	257
Accrued interest receivable	-	195,108	-	195,108
Other receivables	87,947	-	34,556	122,503
Due from other governments	12,648,796	-	55,705	12,704,501
Due from other funds (Note 9)	687,749	-	129,019	816,768
Inventory	-	-	16,961	16,961
Prepaid expenses and other assets	150,604	-	-	150,604
Restricted assets (Note 6)	-	71,458,243	1,648,195	73,106,438
Total assets	\$ 18,253,476	\$ 71,653,351	\$ 3,818,444	\$ 93,725,271
Liabilities				
Accounts payable	\$ 439,861	\$ 889,851	\$ 167,613	\$ 1,497,325
Due to other governmental units	1,498,952	-	24,083	1,523,035
Due to other funds (Note 9)	284,516	221,719	326,607	832,842
Accrued liabilities and other	7,776,931	-	94,726	7,871,657
Unearned revenue (Note 7)	508,815	-	79,122	587,937
Total liabilities	10,509,075	1,111,570	692,151	12,312,796
Fund Balances				
Nonspendable:				
Inventory	-	-	16,961	16,961
Prepays	150,604	-	-	150,604
Restricted:				
Debt service	-	-	574,952	574,952
Capital projects	-	70,541,781	829,405	71,371,186
Food service	-	-	1,077,066	1,077,066
Committed - Committed for community service	-	-	794,372	794,372
Assigned:				
Capital projects	-	-	10,189	10,189
Long-term obligations - Compensated absences and self-insurance	4,489,735	-	-	4,489,735
Unassigned	3,104,062	-	(176,652)	2,927,410
Total fund balances	7,744,401	70,541,781	3,126,293	81,412,475
Total liabilities and fund balances	\$ 18,253,476	\$ 71,653,351	\$ 3,818,444	\$ 93,725,271

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2019

Fund Balances Reported in Governmental Funds	\$ 81,412,475
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	240,560,644
Accumulated depreciation	<u>(98,713,138)</u>
Net capital assets used in governmental activities	141,847,506
Deferred inflows and outflows related to bond refundings are not reported in the funds	2,554,651
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(160,739,018)
Accrued interest is not due and payable in the current period and is not reported in the funds	(847,636)
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	(4,359,735)
Provision for dental and workers' compensation claims not accounted for within the Internal Service Fund	(20,000)
Net pension liability and related deferred inflows and outflows	(116,154,440)
Net OPEB liability and related deferred inflows and outflows	(42,490,072)
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	(5,491,888)
Internal service funds are included as part of governmental activities	<u>(4,132)</u>
Net Position of Governmental Activities	<u><u>\$ (104,292,289)</u></u>

Lake Orion Community Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2019

	General Fund	2019 Series 1 Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 9,133,695	\$ 762,732	\$ 22,344,744	\$ 32,241,171
State sources	65,806,661	-	347,730	66,154,391
Federal sources	2,724,358	-	910,795	3,635,153
Interdistrict sources	5,499,884	-	697,038	6,196,922
Total revenue	83,164,598	762,732	24,300,307	108,227,637
Expenditures				
Current:				
Instruction	53,298,198	-	710,099	54,008,297
Support services	28,227,258	-	402,866	28,630,124
Athletics	1,281,225	-	-	1,281,225
Food services	-	-	2,380,870	2,380,870
Community services	274,624	-	1,820,440	2,095,064
Debt service:				
Principal	-	-	16,468,355	16,468,355
Interest	-	-	3,699,209	3,699,209
Other debt costs	-	435,186	104,927	540,113
Capital outlay	109,080	2,995,630	2,884,207	5,988,917
Total expenditures	83,190,385	3,430,816	28,470,973	115,092,174
Excess of Expenditures Over Revenue	(25,787)	(2,668,084)	(4,170,666)	(6,864,537)
Other Financing Sources (Uses)				
Face value of debt issued	-	62,670,000	-	62,670,000
Proceeds from sale of capital assets	-	-	7,685	7,685
Premium on debt issued	-	10,539,865	-	10,539,865
School Bond Loan Revolving Fund proceeds	-	-	4,893,060	4,893,060
Transfers in (Note 9)	469,978	-	337,108	807,086
Transfers out (Note 9)	(337,108)	-	(469,978)	(807,086)
Total other financing sources	132,870	73,209,865	4,767,875	78,110,610
Net Change in Fund Balances	107,083	70,541,781	597,209	71,246,073
Fund Balances - Beginning of year	7,637,318	-	2,529,084	10,166,402
Fund Balances - End of year	<u>\$ 7,744,401</u>	<u>\$ 70,541,781</u>	<u>\$ 3,126,293</u>	<u>\$ 81,412,475</u>

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, 2019

Net Change in Fund Balances Reported in Governmental Funds	\$ 71,246,073
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	4,826,300
Depreciation expense	(4,724,297)
Revenue in support of pension contributions made subsequent to the measurement date	(378,467)
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	(78,102,925)
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	16,762,577
Interest expense is recognized in the government-wide statements as it accrues	56,746
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	(3,775,114)
Internal service funds are included as part of governmental activities	(88,862)
Change in Net Position of Governmental Activities	<u>\$ 5,822,031</u>

Lake Orion Community Schools

Proprietary Fund - Internal Service Fund Statement of Net Position

June 30, 2019

Governmental
Activities

Proprietary -
Internal Service
Fund

Assets

Current assets:

Due from other funds (Note 9)

\$ 155,497

Prepaid expenses and other assets

90,422

Total assets

245,919

Liabilities

Current liabilities:

Accounts payable

140,051

Self-insurance claims - Dental incurred but not reported (Note 12)

110,000

Total liabilities

250,051

Net Position - Unrestricted

**---

\$ (4,132)

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Lake Orion Community Schools

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

Year Ended June 30, 2019

	Governmental Activities
	Proprietary - Internal Service Fund
Operating Revenue - Charges for services	\$ 620,917
Operating Expenses - Cost of claims	709,779
Change in Net Position - Operating loss	(88,862)
Net Position - Beginning of year	84,730
Net Position - End of year	<u>\$ (4,132)</u>

Lake Orion Community Schools

Proprietary Fund - Internal Service Fund Statement of Cash Flows

Year Ended June 30, 2019

	Governmental Activities
	Internal Service Fund
Cash Flows from Operating Activities	
Receipts from interfund services and reimbursements	\$ 702,770
Claims paid	(702,770)
Net Change in Cash and Cash Equivalents - Net cash and cash equivalents provided by operating activities	-
Cash and Cash Equivalents - Beginning of year	-
Cash and Cash Equivalents - End of year	\$ -
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (88,862)
Adjustments to reconcile operating loss to net cash from operating activities -	
Changes in assets and liabilities:	
Due from General Fund	113,373
Prepaid and other assets	(31,520)
Accounts payable	7,009
Net cash and cash equivalents provided by operating activities	\$ -

Lake Orion Community Schools

Fiduciary Fund Statement of Fiduciary Assets and Liabilities

June 30, 2019

	Student Activities
Assets - Cash and investments (Note 4)	\$ 1,056,697
Liabilities	
Accounts payable	\$ 85,804
Due to student activities	831,470
Due to other funds (Note 9)	139,423
Total liabilities	\$ 1,056,697

June 30, 2019

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) 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.

June 30, 2019**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.
- *2019 Series 1 Capital Projects Fund* - The 2019 Series 1 Capital Projects Fund is used to record the bond proceeds and other revenue, along with capital projects activities funded with proceeds from the School District's 2019 Series 1 bond issuance.

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. The School District's special revenue funds include the Food Service, Community Services, and Pine Tree Center funds. The Food Service Fund is used by the School District to account for the proceeds of sales to customers and dedicated grants from state and federal sources. The Community Services Fund is used by the School District to account for the fees charged to participants. The Pine Tree Center is used by the School District to account for the restricted proceeds received for a special education center. Any operating deficit generated by these activities is the responsibility of the General Fund.
- *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, and 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 Fund

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 Fund

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 Activities agency fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held for the students.

June 30, 2019**Note 2 - Significant Accounting Policies (Continued)****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.

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 with an original maturity of greater than one year are stated at fair value, net acquisition value, or amortized cost depending on the nature of the investment. Pooled investment income from each of the School District's funds is generally allocated to each fund using a weighted average of balance for the principal.

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.

Note 2 - Significant Accounting Policies (Continued)

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
- Unspent bond proceeds and related interest of the bonded capital projects funds required to be set aside for construction or other allowable bond purchases

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.

June 30, 2019**Note 2 - Significant Accounting Policies (Continued)**

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.

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.

June 30, 2019**Note 2 - Significant Accounting Policies (Continued)**

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.

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, and 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.

June 30, 2019**Note 2 - Significant Accounting Policies (Continued)****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.

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 has determined that its Student Activities Fund accounts do not meet the new requirements for fiduciary activities. As of July 1, 2019, the School District will report the activities and related balances, currently reported as fiduciary, in a newly created special revenue fund.

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 previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use 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. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as 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.

The required supplemental information budgetary schedules are presented on the same basis of accounting used to prepare the budget, which includes certain items having classifications that differ from the statement of revenue, expenditures, and changes in fund balance, including capital outlay expenditures being reported in other expenditure categories.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District did not have significant expenditure budget variances.

June 30, 2019**Note 3 - Stewardship, Compliance, and Accountability (Continued)*****Fund Deficits and Management's Plan***

The Pine Tree Center Fund fund balance is a deficit for the year ended June 30, 2019. This was the first full year of the fund operations. Funding from the Intermediate School District has been secured to offset the costs of the Fund's operations in future years.

The Internal Service Fund fund balance is a deficit for the year ended June 30, 2019. This was due to a timing difference that will be resolved in the next fiscal year.

Capital Projects Fund Compliance

The 2019 Series 1 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, authorized prior to March 29, 2017, the School District has complied with the applicable provisions of §1212 of the State of Michigan Revised School Code.

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.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost except for a one-day minimum investment period on MILAF cash management funds and a 14-day redemption limitation on MILAF MAX Class funds.

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 \$11,077,297 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, 2019, the School District does not have investments with custodial credit risk.

June 30, 2019

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	Value	Rating	Rating Organization
Michigan Liquid Asset Fund - Cash Management Class	\$ 104,208	AAAm	S&P
Michigan Liquid Asset Fund - MAX Class	5,965,506	AAAm	S&P
Michigan Liquid Asset Fund - Term Series Sept 2020	27,700,000	AA+	S&P
Fannie Mae Notes	3,318,866	AA+	S&P
Freddie Mac Global Notes	7,377,407	AA+	S&P
Toyota Motor Credit Corporation Commercial Paper	2,188,816	A-1+	S&P
JPMorgan Securities LLC Commercial Paper	2,194,689	A-1	S&P
MUFG Bank LTD/NY Commercial Paper	2,193,899	A-1	S&P

Concentration of Credit Risk

The School District's policy minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. At June 30, 2019, more than 5 percent of the School District's investments are invested in the following and, therefore, subject to concentration of credit risk:

	Value	Percentage of Total Investments
Agency notes and bonds	\$ 10,696,273	15.17
Commercial paper	6,577,403	9.33
U.S. Treasury notes	19,481,426	27.62

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.

June 30, 2019

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the School District's assets measured at fair value on a recurring basis at June 30, 2019 and the valuation techniques used by the School District to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the School District has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The School District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2019				
Quoted Prices in				
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2019
Investments by fair value - Debt securities:				
U.S. Treasury securities	\$ -	\$ 19,481,426	\$ -	\$ 19,481,426
Mortgage-backed securities	-	10,696,273	-	10,696,273
Commercial paper	-	6,577,403	-	6,577,403
Total	\$ -	\$ 36,755,102	\$ -	36,755,102
Investments measured at net asset value (NAV) - Michigan Liquid Asset Fund - Term Series				27,700,000
Total assets				\$ 64,455,102

The fair value of mortgage-backed securities, U.S. Treasury securities, and commercial paper at June 30, 2019 was determined primarily based on Level 2 inputs. The School District's estimates the fair value of these investments at market value using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

June 30, 2019

Note 5 - Fair Value Measurements (Continued)

Investments in Entities that Calculate Net Asset Value per Share

The School District holds shares or interests in the Michigan Liquid Asset Fund (MILAF) Term Series whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment pool as a practical expedient.

As of June 30, 2019, the net asset value of the School District's investment in the MILAF Term Series was \$27,700,000. The investment pool had no unfunded commitments. The MILAF Term Series allows for the School District to set a specific redemption date upon initiation of investment. Early redemptions are permitted; however, an early redemption would apply.

The MILAF Term Series includes investments that the School District does not control. The investment pool invests primarily in high-quality money market instruments, including certificates of deposit, commercial paper, and U.S. government and agency obligations, to protect the investment principal and provide liquidity.

Note 6 - Restricted Assets

At June 30, 2019, restricted assets are composed of the following:

Description	Governmental Activities
Unspent property taxes levied in the Sinking Fund	\$ 1,067,156
Unspent property taxes levied in the debt service funds	581,039
Capital projects funds	71,458,243
Total	<u>\$ 73,106,438</u>

Note 7 - 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, 2019, the various components of unearned and unavailable revenue were as follows:

	Deferred Inflow - Unavailable	Liability - Unearned
Food service prepaid revenue	\$ -	\$ 79,122
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	508,815
Total	<u>\$ -</u>	<u>\$ 587,937</u>

June 30, 2019

Note 8 - Capital Assets

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

Governmental Activities

	Balance July 1, 2018	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2019
Capital assets not being depreciated:					
Land	\$ 13,421,804	\$ -	\$ 306,637	\$ -	\$ 13,728,441
Construction in progress	2,615,503	(2,615,503)	1,757,308	-	1,757,308
Subtotal	16,037,307	(2,615,503)	2,063,945	-	15,485,749
Capital assets being depreciated:					
Buildings and improvements	205,681,171	2,615,503	1,318,447	-	209,615,121
Furniture and equipment	12,272,627	-	375,591	-	12,648,218
Buses and other vehicles	1,771,898	-	1,068,317	(28,659)	2,811,556
Subtotal	219,725,696	2,615,503	2,762,355	(28,659)	225,074,895
Accumulated depreciation:					
Buildings and improvements	82,702,930	-	4,150,664	-	86,853,594
Furniture and equipment	9,666,236	-	498,288	-	10,164,524
Buses and other vehicles	1,648,334	-	75,345	(28,659)	1,695,020
Subtotal	94,017,500	-	4,724,297	(28,659)	98,713,138
Net capital assets being depreciated	125,708,196	2,615,503	(1,961,942)	-	126,361,757
Net governmental activities capital assets	\$ 141,745,503	\$ -	\$ 102,003	\$ -	\$ 141,847,506

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

Construction Commitments

The School District has active construction projects at year end. The outstanding commitments as of June 30, 2019 were \$444,863.

Note 9 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From				Total
	General Fund	2019 Series 1 Capital Projects Fund	Nonmajor Governmental Funds	Fiduciary	
General Fund	\$ -	\$ 221,719	\$ 326,607	\$ 139,423	\$ 687,749
Nonmajor governmental funds	129,019	-	-	-	129,019
Internal Service Fund	155,497	-	-	-	155,497
Total	\$ 284,516	\$ 221,719	\$ 326,607	\$ 139,423	\$ 972,265

June 30, 2019

Note 9 - Interfund Receivables, Payables, and Transfers (Continued)

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

Interfund Transfers

The Food Service Fund transferred \$100,000 to the General Fund to cover its portion of shared costs. The Pine Tree Center Fund transferred \$119,978 to the General Fund to cover its portion of shared costs and to reimburse the General Fund for its portion of the building rent. The Community Services Fund transferred \$250,000 to the General Fund to cover its portion of shared costs. The General Fund transferred \$337,108 to the Operating Capital Projects to provide resources for projects.

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
General Fund	Nonmajor governmental funds	\$ 337,108
Nonmajor governmental funds	General Fund	469,978
	Total	<u>\$ 807,086</u>

Note 10 - Long-term Debt

Long-term debt activity for the year ended June 30, 2019 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and notes payable:					
Direct borrowings and direct placements:					
Installment purchase agreements	\$ 1,730,276	\$ -	\$ (298,355)	\$ 1,431,921	\$ 305,377
School bond loan fund	10,845,288	4,893,060	-	15,738,348	-
Total direct borrowings and direct placements principal outstanding	12,575,564	4,893,060	(298,355)	17,170,269	305,377
Other debt - General obligation bonds payable	81,000,000	62,670,000	(16,170,000)	127,500,000	16,715,000
Unamortized bond premiums	6,490,782	10,539,865	(1,071,344)	15,959,303	1,437,948
Total bonds and notes payable	100,066,346	78,102,925	(17,539,699)	160,629,572	18,458,325
Capital leases	191,531	-	(82,085)	109,446	82,085
Compensated absences	3,934,719	743,921	(318,905)	4,359,735	4,359,735
Claims and judgments	156,000	658,083	(684,083)	130,000	110,000
Total governmental activities long-term debt	<u>\$ 104,348,596</u>	<u>\$ 79,504,929</u>	<u>\$ (18,624,772)</u>	<u>\$ 165,228,753</u>	<u>\$ 23,010,145</u>

The School District had deferred outflows of \$2,554,651 related to deferred charges on bond refundings at June 30, 2019.

June 30, 2019

Note 10 - 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. 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. The School District's qualified bonds are fully guaranteed by the State of Michigan. The primary source of any required repayment is from the School District's property tax levy; however, the State of Michigan may withhold the School District's state aid funding in order to recover amounts it has paid on behalf of the School District. General obligations outstanding at June 30, 2019 are as follows:

Bonds	Remaining Annual Installments	Interest Rates	Maturing	Outstanding
\$5,280,000 - Qualified 2013 energy conservation improvement bonds	\$230,000 - \$390,000	2.25 to 4.25%	2033	\$ 4,250,000
\$26,165,000 - Qualified 2015 refunding bonds	\$1,120,000 - \$4,650,000	5.00%	2023	8,440,000
\$37,590,000 - Qualified 2015 Series B refunding bonds	\$6,280,000 - \$10,070,000	2.11 to 2.45%	2021	16,350,000
\$38,505,000 - Qualified 2016 refunding bonds	\$830,000 - \$5,915,000	5.00%	2027	35,790,000
\$62,670,000 - Qualified 2019 Series 1 bond	\$2,470,000 - \$5,225,000	4.00 to 5.00%	2038	62,670,000
Total bonded debt				<u>\$ 127,500,000</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.

Note 10 - Long-term Debt (Continued)

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				
	Direct Borrowings and Direct Placements		Other Debt		Total
	Principal	Interest	Principal	Interest	
2020	\$ 305,377	\$ 31,733	\$ 16,715,000	\$ 6,373,908	\$ 23,426,018
2021	312,565	24,543	17,360,000	5,177,750	22,874,858
2022	319,922	17,186	9,405,000	4,573,038	14,315,146
2023	327,452	9,656	9,710,000	4,132,488	14,179,596
2024	166,605	1,948	8,780,000	3,677,938	12,626,491
2025-2029	-	-	24,635,000	13,250,532	37,885,532
2030-2034	-	-	21,270,000	8,127,807	29,397,807
2035-2039	-	-	19,625,000	2,507,500	22,132,500
Total	\$ 1,431,921	\$ 85,066	\$ 127,500,000	\$ 47,820,961	\$ 176,837,948

School Loan Revolving Fund

The School Loan Revolving Fund payable represents a direct borrowing from 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 (the "Act"), as amended. The School Loan Revolving Fund is accessible to school districts for borrowings that initiated after July 19, 2015. Interest during the year ended June 30, 2019 ranged from 3.19 percent to 3.46 percent. 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. If the School District fails to levy the appropriate debt mills in accordance with the agreement or defaults in loan repayment, the School District shall increase its debt levy in the next succeeding year, and a default late charge of 3 percent will apply. 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 debt maturity schedule. If the School District is in default of the loan agreement, the State of Michigan may withhold state aid funding until repayment terms satisfactory with the State of Michigan have been made.

Significant Terms

Direct Borrowings and Direct Placements

The outstanding debt related to the installment purchase agreements in the amount of \$1,431,921 at June 30, 2019 contains the following terms in relation to default: The School District will be in default of the agreement if the School District does not make payment within 15 days of the due date. If an event of the default occurs, the outstanding amount may be due and payable immediately, and if the School District is not able to make payment, the bank may exercise all remedies for default.

June 30, 2019

Note 11 - 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, 2019, property under capital leases consists of copiers with a gross cost of \$410,424. Accumulated depreciation on the property under capital leases was \$307,816 at June 30, 2019.

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

Years Ending June 30	Amount
2020	\$ 94,576
2021	31,525
Total	126,101
Less amount representing interest	16,655
Present value of net minimum lease payments	\$ 109,446

Note 12 - 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.

The School District estimates the liability for workers' compensation and dental claims that have been incurred through the end of each fiscal year, including claims that have been reported and those that have not yet been reported. The School District accounts for workers' compensation in the general fund, and the estimated liability for claims incurred but not reported is reported in the government-wide statements only. 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	
	2019	2018	2019	2018
Estimated liability - Beginning of year	\$ 110,000	\$ 110,000	\$ 46,000	\$ 40,000
Estimated claims incurred, including changes in estimates	658,083	600,501	-	37,323
Claim payments	(658,083)	(600,501)	(26,000)	(31,323)
Estimated liability - End of year	\$ 110,000	\$ 110,000	\$ 20,000	\$ 46,000

June 30, 2019**Note 13 - Michigan Public School Employees' Retirement System*****Plan Description***

The School District participates in the Michigan Public School Employees' Retirement System (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 to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

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.

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 when investment earnings exceed actuarial assumptions.

MPERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPERS, 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.

June 30, 2019

Note 13 - Michigan Public School Employees' Retirement System (Continued)

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 health care 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 stopped paying the 3 percent contribution to the retiree health care 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%
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%

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, 2019 were \$13,569,400, which include 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 \$5,491,888 in revenue received from the State of Michigan and remitted to the System to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2019.

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2019 were \$3,578,545, which include the School District's contributions required for those members with a defined contribution benefit.

June 30, 2019

Note 13 - Michigan Public School Employees' Retirement System (Continued)

Net Pension Liability

At June 30, 2019, the School District reported a liability of \$150,395,171 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017, which used updated procedures to roll forward the estimated liability to September 30, 2018. 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, 2018 and 2017, the School District's proportion was 0.50 and 0.51 percent, respectively, representing a change of (1.29) percent.

Net OPEB Liability

At June 30, 2019, the School District reported a liability of \$39,580,344 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2019 was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017, which used updated procedures to roll forward the estimated liability to September 30, 2018. 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, 2018 and 2017, the School District's proportion was 0.50 and 0.51 percent, respectively, representing a change of (1.88) percent.

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

For 2019, the School District recognized pension expense of \$19,002,264, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 697,862	\$ (1,092,896)
Changes in assumptions	34,831,398	-
Net difference between projected and actual earnings on pension plan investments	-	(10,283,207)
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	1,824,771	(3,200,510)
The School District's contributions to the plan subsequent to the measurement date	11,463,313	-
Total	<u>\$ 48,817,344</u>	<u>\$ (14,576,613)</u>

The \$5,491,888 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 ending June 30, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2020	\$ 9,894,973
2021	6,790,022
2022	4,289,600
2023	1,802,823
Total	<u>\$ 22,777,418</u>

June 30, 2019

Note 13 - Michigan Public School Employees' Retirement System (Continued)

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

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

For the year ended June 30, 2019, the School District recognized OPEB expense of \$1,753,516.

At June 30, 2019, 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	\$ -	\$ (7,366,919)
Changes in assumptions	4,191,579	-
Net difference between projected and actual earnings on OPEB plan investments	-	(1,521,167)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	10,928	(836,190)
Employer contributions to the plan subsequent to the measurement date	2,612,041	-
Total	<u>\$ 6,814,548</u>	<u>\$ (9,724,276)</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
2020	\$ (1,338,410)
2021	(1,338,410)
2022	(1,338,410)
2023	(1,029,605)
2024	(476,934)
Total	<u>\$ (5,521,769)</u>

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2018 are based on the results of an actuarial valuation as of September 30, 2017 and rolled forward. The total pension liability and OPEB liability were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal
Investment rate of return - Pension	6.00% - 7.05%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.15%	Net of investment expenses based on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75 percent for 2019 and 3.50 percent for 2018
Healthcare cost trend rate - OPEB	7.50%	Year 1 graded to 3.0 percent year 12
Mortality basis		RP2014 Male and Female Employee Annuitant Mortality tables, scaled 100 percent (retirees: 82 percent for males and 78 percent for females) and adjusted for mortality improvements using projection scale MP2017 from 2006
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

June 30, 2019

Note 13 - Michigan Public School Employees' Retirement System (Continued)

Assumption changes as a result of an experience study for the periods from 2012 to 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 to 7.05 percent as of September 30, 2018 depending on the plan option. The discount rate used to measure the total OPEB liability was 7.15 percent as of September 30, 2018. 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 %	5.70 %
Private equity pools	18.00	9.20
International equity pools	16.00	7.20
Fixed-income pools	10.50	0.50
Real estate and infrastructure pools	10.00	3.90
Absolute return pools	15.50	5.20
Short-term investment pools	2.00	-
Total	100.00 %	

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 (5.00 - 6.05%)	Current Discount Rate (6.00 - 7.05%)	1 Percent Increase (7.00 - 8.05%)
Net pension liability of the School District	\$ 197,457,244	\$ 150,395,171	\$ 111,294,239

June 30, 2019

Note 13 - 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 (6.15%)	Current Discount Rate (7.15%)	1 Percent Increase (8.15%)
Net OPEB liability of the School District	\$ 47,515,397	\$ 39,580,344	\$ 32,905,994

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 Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 32,554,397	\$ 39,580,344	\$ 47,640,539

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, 2019, the School District reported a payable of \$2,437,301 and \$410,790 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2019.

Note 14 - 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, and brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2019, the School District's property tax revenue was reduced by approximately \$401,000 under these programs.

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 \$268,000 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, 2019

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 9,237,372	\$ 9,124,652	\$ 9,133,695	\$ 9,043
State sources	64,657,187	65,859,105	65,806,661	(52,444)
Federal sources	2,751,288	2,748,622	2,724,358	(24,264)
Interdistrict sources	5,381,185	5,509,647	5,499,884	(9,763)
Total revenue	82,027,032	83,242,026	83,164,598	(77,428)
Expenditures				
Current:				
Instruction:				
Basic programs	41,704,355	42,038,029	41,670,713	(367,316)
Added needs	11,280,949	11,603,741	11,687,378	83,637
Total instruction	52,985,304	53,641,770	53,358,091	(283,679)
Support services:				
Pupil	6,381,489	6,730,591	6,810,810	80,219
Instructional staff	2,690,777	3,392,733	3,347,497	(45,236)
General administration	1,055,952	1,103,875	1,105,415	1,540
School administration	4,667,982	4,668,628	4,638,416	(30,212)
Business	854,238	846,145	866,519	20,374
Operations and maintenance	5,422,481	5,271,072	5,552,427	281,355
Pupil transportation services	3,590,610	3,461,123	3,619,693	158,570
Central	2,620,808	2,491,589	2,335,668	(155,921)
Total support services	27,284,337	27,965,756	28,276,445	310,689
Athletics	1,177,328	1,297,623	1,281,225	(16,398)
Community services	256,730	282,425	274,624	(7,801)
Total expenditures	81,703,699	83,187,574	83,190,385	2,811
Excess of Revenue Over (Under)				
Expenditures	323,333	54,452	(25,787)	(80,239)
Other Financing Sources (Uses)				
Transfers in	396,400	469,978	469,978	-
Transfers out	(412,110)	(337,108)	(337,108)	-
Total other financing (uses) sources	(15,710)	132,870	132,870	-
Net Change in Fund Balance	307,623	187,322	107,083	(80,239)
Fund Balance - Beginning of year	7,637,318	7,637,318	7,637,318	-
Fund Balance - End of year	<u>\$ 7,944,941</u>	<u>\$ 7,824,640</u>	<u>\$ 7,744,401</u>	<u>\$ (80,239)</u>

Lake Orion Community Schools

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

	Last Five Plan Years Plan Years Ended September 30				
	2018	2017	2016	2015	2014
School District's proportion of the net pension liability	0.50029 %	0.50685 %	0.51800 %	0.49925 %	0.49210 %
School District's proportionate share of the net pension liability	\$ 150,395,171	\$ 131,345,117	\$ 129,236,467	\$ 121,942,098	\$ 108,391,563
School District's covered employee payroll	\$ 42,321,611	\$ 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	355.36 %	315.84 %	291.47 %	293.84 %	257.25 %
Plan fiduciary net position as a percentage of total pension liability	62.12 %	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 Five Fiscal Years Years Ended June 30				
	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 13,415,890	\$ 12,676,174	\$ 11,828,203	\$ 11,824,219	\$ 9,500,078
Contributions in relation to the statutorily required contribution	13,415,890	12,676,174	11,828,203	11,824,219	9,500,078
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -
School District's Covered Employee Payroll	\$ 43,978,196	\$ 41,901,405	\$ 41,686,256	\$ 42,824,405	\$ 41,850,563
Contributions as a Percentage of Covered Employee Payroll	30.51 %	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 Two Plan Years	
	Plan Years Ended September 30	
	2018	2017
School District's proportion of the net OPEB liability	0.49793 %	0.50750 %
School District's proportionate share of the net OPEB liability	\$ 39,580,344	\$ 44,941,076
School District's covered employee payroll	\$ 42,321,611	\$ 41,585,316
School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	93.52 %	108.07 %
Plan fiduciary net position as a percentage of total OPEB liability	43.10 %	36.53 %

Lake Orion Community Schools

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

	Last Two Fiscal Years	
	Years Ended June 30	
	2019	2018
Statutorily required contribution	\$ 3,454,498	\$ 3,026,423
Contributions in relation to the statutorily required contribution	3,454,498	3,026,423
Contribution Deficiency	\$ -	\$ -
School District's Covered Employee Payroll	\$ 43,978,196	\$ 41,901,405
Contributions as a Percentage of Covered Employee Payroll	7.86 %	7.22 %

June 30, 2019

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 for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percent.
- 2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percent.

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 for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percent.

Other Supplemental Information

Lake Orion Community Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2019

	Special Revenue Funds			Debt Service Funds			Capital Project Funds		
	Food Service	Community Services	Pine Tree Center	2015 Debt	2015B Debt	2016 Debt	Operating Capital Projects Fund	Sinking Fund	Total
Assets									
Cash and investments	\$ 1,067,024	\$ 866,806	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,933,830
Receivables:									
Property taxes receivable	-	-	-	39	67	35	-	37	178
Other receivables	-	323	34,233	-	-	-	-	-	34,556
Due from other governments	55,705	-	-	-	-	-	-	-	55,705
Due from other funds	111,028	-	-	2,361	3,631	1,810	10,189	-	129,019
Inventory	16,961	-	-	-	-	-	-	-	16,961
Restricted assets	-	-	-	162,510	277,532	140,997	-	1,067,156	1,648,195
Total assets	\$ 1,250,718	\$ 867,129	\$ 34,233	\$ 164,910	\$ 281,230	\$ 142,842	\$ 10,189	\$ 1,067,193	\$ 3,818,444
Liabilities									
Accounts payable	\$ 68,619	\$ 32,118	\$ 246	\$ -	\$ -	\$ -	\$ -	\$ 66,630	\$ 167,613
Due to other governmental units	729	1,795	4,524	4,538	4,865	4,627	-	3,005	24,083
Due to other funds	-	8,030	150,424	-	-	-	-	168,153	326,607
Accrued liabilities and other	8,221	30,814	55,691	-	-	-	-	-	94,726
Unearned revenue	79,122	-	-	-	-	-	-	-	79,122
Total liabilities	156,691	72,757	210,885	4,538	4,865	4,627	-	237,788	692,151
Fund Balances									
Nonspendable - Inventory	16,961	-	-	-	-	-	-	-	16,961
Restricted:									
Debt service	-	-	-	160,372	276,365	138,215	-	-	574,952
Capital projects	-	-	-	-	-	-	-	829,405	829,405
Food service	1,077,066	-	-	-	-	-	-	-	1,077,066
Committed - Community service	-	794,372	-	-	-	-	-	-	794,372
Assigned - Capital projects	-	-	-	-	-	-	10,189	-	10,189
Unassigned	-	-	(176,652)	-	-	-	-	-	(176,652)
Total fund balances (deficit)	1,094,027	794,372	(176,652)	160,372	276,365	138,215	10,189	829,405	3,126,293
Total liabilities and fund balances (deficit)	\$ 1,250,718	\$ 867,129	\$ 34,233	\$ 164,910	\$ 281,230	\$ 142,842	\$ 10,189	\$ 1,067,193	\$ 3,818,444

Lake Orion Community Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds

Year Ended June 30, 2019

	Special Revenue Funds			Debt Service Funds			Capital Project Funds		
	Food Service	Community Services	Pine Tree Center	2015 Debt	2015B Debt	2016 Debt	Operating Capital Projects Fund	Sinking Fund	Total
Revenue									
Local sources	\$ 1,440,990	\$ 2,248,331	\$ -	\$ 4,150,933	\$ 7,093,896	\$ 3,594,384	\$ -	\$ 3,816,210	\$ 22,344,744
State sources	182,686	116,974	48,070	-	-	-	-	-	347,730
Federal sources	910,795	-	-	-	-	-	-	-	910,795
Interdistrict sources	80,086	-	616,952	-	-	-	-	-	697,038
Total revenue	2,614,557	2,365,305	665,022	4,150,933	7,093,896	3,594,384	-	3,816,210	24,300,307
Expenditures									
Current:									
Instruction	-	308,539	401,560	-	-	-	-	-	710,099
Support services	-	-	253,609	-	-	-	125,436	23,821	402,866
Food services	2,380,870	-	-	-	-	-	-	-	2,380,870
Community services	-	1,820,440	-	-	-	-	-	-	1,820,440
Debt service:									
Principal	-	-	-	4,650,000	8,580,000	2,715,000	298,355	225,000	16,468,355
Interest	-	-	-	763,409	720,636	2,019,497	38,754	156,913	3,699,209
Other debt costs	-	-	-	31,976	39,902	32,799	-	250	104,927
Capital outlay	111,221	6,038	-	-	-	-	168,518	2,598,430	2,884,207
Total expenditures	2,492,091	2,135,017	655,169	5,445,385	9,340,538	4,767,296	631,063	3,004,414	28,470,973
Excess of Revenue Over (Under) Expenditures	122,466	230,288	9,853	(1,294,452)	(2,246,642)	(1,172,912)	(631,063)	811,796	(4,170,666)
Other Financing Sources (Uses)									
Proceeds from sale of capital assets	-	-	-	-	-	-	7,685	-	7,685
School Bond Loan Revolving Fund proceeds	-	-	-	1,339,896	2,368,513	1,184,651	-	-	4,893,060
Transfers in	-	-	-	-	-	-	337,108	-	337,108
Transfers out	(100,000)	(250,000)	(119,978)	-	-	-	-	-	(469,978)
Total other financing (uses) sources	(100,000)	(250,000)	(119,978)	1,339,896	2,368,513	1,184,651	344,793	-	4,767,875
Net Change in Fund Balances	22,466	(19,712)	(110,125)	45,444	121,871	11,739	(286,270)	811,796	597,209
Fund Balances (Deficit) - Beginning of year	1,071,561	814,084	(66,527)	114,928	154,494	126,476	296,459	17,609	2,529,084
Fund Balances (Deficit) - End of year	<u>\$ 1,094,027</u>	<u>\$ 794,372</u>	<u>\$ (176,652)</u>	<u>\$ 160,372</u>	<u>\$ 276,365</u>	<u>\$ 138,215</u>	<u>\$ 10,189</u>	<u>\$ 829,405</u>	<u>\$ 3,126,293</u>

Lake Orion Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness

June 30, 2019

Years Ending June 30	Energy Bond 2013 Principal	2015 Refunding Bonds Principal	2015 Refunding Bonds, Series B Principal	2016 Refunding Bonds Principal	2019 Series 1 Bonds Principal	Total
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	2,470,000	9,405,000
2023	260,000	1,120,000	-	5,755,000	2,575,000	9,710,000
2024	270,000	-	-	5,835,000	2,675,000	8,780,000
2025	280,000	-	-	5,915,000	2,800,000	8,995,000
2026	295,000	-	-	830,000	2,950,000	4,075,000
2027	305,000	-	-	835,000	3,100,000	4,240,000
2028	320,000	-	-	-	3,250,000	3,570,000
2029	330,000	-	-	-	3,425,000	3,755,000
2030	345,000	-	-	-	3,575,000	3,920,000
2031	360,000	-	-	-	3,775,000	4,135,000
2032	375,000	-	-	-	3,950,000	4,325,000
2033	390,000	-	-	-	4,150,000	4,540,000
2034	-	-	-	-	4,350,000	4,350,000
2035	-	-	-	-	4,575,000	4,575,000
2036	-	-	-	-	4,800,000	4,800,000
2037	-	-	-	-	5,025,000	5,025,000
2038	-	-	-	-	5,225,000	5,225,000
Total remaining payments	<u>\$ 4,250,000</u>	<u>\$ 8,440,000</u>	<u>\$ 16,350,000</u>	<u>\$ 35,790,000</u>	<u>\$ 62,670,000</u>	<u>\$ 127,500,000</u>
Interest rate	2.25% to 4.25%	5.00%	2.11% to 2.45%	5.00%	4.00% to 5.00%	
Original issue	<u>\$ 5,280,000</u>	<u>\$ 26,165,000</u>	<u>\$ 37,590,000</u>	<u>\$ 38,505,000</u>	<u>\$ 62,670,000</u>	

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.