

Lake Orion Community Schools

**Financial Report
with Supplemental Information
June 30, 2016**

Lake Orion Community Schools

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Independent Auditor's Report

To the Board of Education
Lake Orion Community Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Lake Orion Community Schools (the "School District" or the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the 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.

To the Board of Education
Lake Orion Community Schools

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Lake Orion Community Schools as of June 30, 2016, and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedule, the schedule of School District's contributions to the Michigan Public School Employees Retirement System (MPSERS), and the schedule of the School District's proportionate share of the net pension liability to MPSERS, as disclosed 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 opinions on the financial statements that collectively comprise the 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.

To the Board of Education
Lake Orion Community Schools

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of the Lake Orion Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 24, 2016

Lake Orion Community Schools

Management's Discussion and Analysis

This section of Lake Orion Community Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Lake Orion Community Schools financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant fund - the General Fund, with all other funds presented in one column as nonmajor funds. The School District's Proprietary Internal Service Fund is reported separately from the governmental funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Basic Financial Statements

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

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Fund

Schedule of Proportionate Share of Net Pension Liability

Schedule of Contributions

Other Supplemental Information

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

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

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District. The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, food services, athletics, and community services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

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

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

Governmental and Proprietary Funds - All of the School District's services are reported in governmental and proprietary funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation. The School District's Proprietary Internal Service Fund reports on the full accrual basis and presents the School District's reserve for workers' compensation claims due in future years.

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

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

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2016 and 2015.

TABLE I

	Governmental Activities	
	June 30	
	2016	2015
	(in millions)	
Assets		
Current and other assets	\$ 19.3	\$ 19.3
Capital assets	144.9	149.4
Total assets	164.2	168.7
Deferred Outflows of Resources		
Deferred charges from refunding bonds	4.1	3.6
Deferred outflows related to pensions	14.3	7.1
Total assets and deferred outflows of resources	182.6	179.4
Liabilities		
Current liabilities	30.8	23.2
Long-term liabilities	107.8	123.6
Net pension liability	121.9	108.4
Total liabilities	260.5	255.2
Deferred Inflows of Resources - Related to pensions	3.7	8.0
Total liabilities and deferred inflows of resources	264.2	263.2
Net Position		
Invested in capital assets - Net of related debt	24.9	30.3
Restricted	0.1	0.6
Unrestricted	(106.6)	(114.7)
Total net position	\$ (81.6)	\$ (83.8)

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was (\$81.6) million at June 30, 2016 and (\$83.8) million at June 30, 2015. Net investment in capital assets totaling \$24.9 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of \$0.1 million is reported separately to amounts restricted for debt service. The remaining amount of net position, (\$106.6) million, was unrestricted.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years 2016 and 2015.

TABLE 2

	Governmental Activities	
	2016	2015
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.6	\$ 4.1
Operating grants and contributions	16.0	18.1
General revenue:		
Property taxes	20.0	19.2
State foundation allowance	52.3	52.4
Other	0.7	1.2
Total revenue	<u>93.6</u>	<u>95.0</u>
Functions/Program Expenses		
Instruction	50.0	50.0
Support services	26.8	27.7
Athletics	1.2	1.0
Food services	2.4	2.4
Community services	2.1	2.1
Debt issuance costs	0.7	-
Interest on long-term debt	3.0	2.5
Depreciaton (unallocated)	5.2	4.5
Total functions/program expenses	<u>91.4</u>	<u>90.2</u>
Increase in Net Position	2.2	4.8
Net Position - Beginning of year	<u>(83.8)</u>	<u>(88.6)</u>
Net Position - End of year	<u>\$ (81.6)</u>	<u>\$ (83.8)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$91.4 million. Certain activities were partially funded from those who benefited from the programs, \$4.6 million, or by other governments and organizations that subsidized certain programs with grants and contributions of \$16.0 million. We paid for the remaining "public benefit" portion of our governmental activities with \$20.0 million in taxes, \$52.3 million in state foundation allowance, and with \$0.7 million of other revenue, i.e., interest, and general entitlements.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

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

<u>Year Ended June 30</u>	<u>Government-wide Activities</u>			
	<u>2016</u>		<u>2015</u>	
	<u>(in millions)</u>		<u>(in millions)</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 50.0	\$ 40.8	\$ 50.0	\$ 38.0
Support services	26.8	21.1	27.7	22.5
Athletics	1.2	0.8	1.0	0.6
All others	13.4	8.3	11.5	6.9
Total	\$ 91.4	\$ 71.0	\$ 90.2	\$ 68.0

The School District experienced an increase in net position of \$2.2 million. The net position invested in capital assets (net of related debt) decreased by \$5.4 million. Net position restricted for debt service increased by \$0.1 million and for food service decreased by \$0.6 million. The unrestricted net position balance increased by \$8.1 million. Additionally, short-term liabilities increased \$7.6 million, long-term liabilities decreased by \$15.8 million, and the net capital assets balance decreased by \$4.5 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.

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.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

As the School District completed this year, the governmental funds reported a combined fund balance of \$8.3 million, which is a decrease of \$1.2 million from last year. The changes by major and nonmajor funds are as follows:

	General Fund	Nonmajor Governmental Funds	Total
Fund balance - Beginning of year	\$ 7,602,179	\$ 1,925,676	\$ 9,527,855
(Decrease) increase	(1,609,395)	405,102	(1,204,293)
Fund balance - End of year	<u>\$ 5,992,784</u>	<u>\$ 2,330,778</u>	<u>\$ 8,323,562</u>

In the General Fund, our principal operating fund, the fund balance decreased by \$1.6 million from 2015. Revenue and other financing sources increased by approximately \$1.2 million from 2015, of which \$4.6 million was section 147c State Aid revenue pass-through funds, while expenditures and other financing uses increased by approximately \$2.1 million, of which \$4.6 million were section 147c State Aid pass-through expenditures. The fund balance of the General Fund is available to fund costs related to allowable school operating purposes.

The other nonmajor funds decreased by \$0.4 million during the year ended June 30, 2016.

General Fund Budgetary Highlights

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

A budget is a fluid document. Therefore, as expected, there were revisions made to the 2015-2016 General Fund budget. Revisions to the expenditures were due to adjustments based on more accurate information.

There were two areas of significant variances between the final budget amounts and actual, based on dollar amounts and percentages. Expenditures were less than budgeted for Basic Programs by \$0.4 million and added needs by \$0.1 million which are both tied to teacher salary and benefit projections being greater than actual. Operation and maintenance expenditures were more than budgeted by \$0.1 million related to higher than expected repair and maintenance costs. No other areas of significance were noted.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2016, the School District had \$144.9 million invested in a broad range of capital assets, including land, construction in progress, buildings and improvements, furniture and equipment, and transportation equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$4.4 million, or 3.0 percent, from last year.

	2016	2015
Land	\$ 13,421,804	\$ 13,421,804
Construction in progress	-	1,514,113
Buildings and building improvements	202,035,659	200,732,620
Buses and other vehicles	4,793,689	4,793,689
Furniture and equipment	12,102,284	12,152,542
Total capital assets	232,353,436	232,614,768
Less accumulated depreciation	(87,447,157)	(83,230,556)
Net capital assets	<u>\$ 144,906,279</u>	<u>\$ 149,384,212</u>

The decrease of \$4.4 million in the fiscal year 2016 (net of current year depreciation) is due to the current year's additions being less than the amount of depreciation. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$111.5 million in bonds outstanding versus \$87.5 million in the previous year - an increase of 27.4 percent. During the year, the School District issued \$37.6 million in general obligation bonds with an average interest rate of 2.046 percent. The proceeds of these bonds were used to refund \$37.3 million of outstanding School Bond Loan Fund and School Loan Revolving Fund long-term debt with an average interest rate of 3.43 percent. Those bonds consisted of the following:

	2016	2015
General obligation bonds	<u>\$ 111,455,000</u>	<u>\$ 87,475,000</u>

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

The School District's general obligation bond rating is "AA-" from Standard and Poor's Ratings Services and "Aa3" from Moody's Investor Services. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding qualified general obligation debt of \$111.5 million is below the \$301.3 million statutorily imposed limit.

Other obligations include the School Bond Loan Fund, School Bond Loan Revolving Fund, installment purchase agreements, capital leases, accrued vacation pay, and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's fiscal year 2017 budget. Two of the most important factors affecting the budget are the economic condition of the State of Michigan and our student count. The June 30, 2017 budget was adopted in June 2016, based on an estimate of property tax revenue, state aid, and grant funding. State law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations. Since the District's revenue is primarily dependent on state aid from the School Aid Fund and local property taxes, the actual revenue received by the District depends on the health of the District's tax base and the State's ability to collect revenue to fund its appropriations to school districts. Under state law, the School District cannot assess additional property tax revenue for general operations.

The state foundation revenue is determined by multiplying the blended student count by foundation allowance per pupil. The blended count for the fiscal year 2017 is 90 percent of the October 2016 and 10 percent of the February 2016 student counts. The 2017 budgets were adopted in June 2016, based on an estimate of students that will be enrolled in September 2016.

In the recent past, the State of Michigan has issued several executive orders prorating and reducing, midyear, the State's funding commitment to the District. This possibility continues to exist for fiscal year 2017. The extent to which possible funding prorating by the State of Michigan and how it affects Lake Orion Community Schools' budget has yet to be determined. While legislators must work toward balancing a budget in times of limited financial resources, the School District recognizes it must do the same. The School District's recent budgetary history reflects how it has made every effort over the past decade to prepare for and excel programmatically while meeting the challenges of the State's struggling 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, 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 2016-17, it is the intention of the School District to provide premium programming within a balanced operating budget.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

Contacting the School District's Management

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

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

Lake Orion Community Schools

Statement of Net Position June 30, 2016

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 6,092,156
Receivables (Note 5)	12,249,024
Inventories	18,799
Prepaid costs and other assets	206,309
Restricted assets (Note 4)	765,585
Capital assets - Net (Note 6)	<u>144,906,279</u>
Total assets	164,238,152
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 8)	4,134,802
Deferred outflows related to pensions (Note 10)	<u>14,326,890</u>
Total deferred outflows of resources	<u>18,461,692</u>
Total assets and deferred outflows of resources	182,699,844
Liabilities	
Accounts payable	290,648
Accrued payroll-related liabilities	8,283,214
Other accrued liabilities	633,228
Due to other governmental units	1,741,246
Unearned revenue (Note 5)	648,621
Noncurrent liabilities (Note 8):	
Due within one year	19,174,846
Due in more than one year	107,861,526
Net pension liability (Note 10)	<u>121,942,098</u>
Total liabilities	260,575,427
Deferred Inflows of Resources - Related to pension and revenue in support of pension payments (Note 10)	<u>3,727,954</u>
Total liabilities and deferred inflows of resources	<u>264,303,381</u>
Net Position	
Net investment in capital assets	24,906,865
Restricted - Debt service	131,440
Unrestricted	<u>(106,641,842)</u>
Total net position	<u><u>\$ (81,603,537)</u></u>

Lake Orion Community Schools

Statement of Activities Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Primary government - Governmental activities:				
Instruction	\$ 50,048,317	\$ -	\$ 9,265,280	\$ (40,783,037)
Support services	26,758,938	78,703	5,590,735	(21,089,500)
Athletics	1,205,374	453,999	-	(751,375)
Food services	2,388,268	1,565,480	1,110,550	287,762
Community services	2,079,384	2,450,969	-	371,585
Interest	3,036,524	-	-	(3,036,524)
Debt issuance costs	716,844	-	-	(716,844)
Depreciation expense (unallocated)	5,194,834	-	-	(5,194,834)
Total primary government	\$ 91,428,483	\$ 4,549,151	\$ 15,966,565	(70,912,767)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				7,292,469
Property taxes, levied for debt service				12,754,628
State aid not restricted to specific purposes				52,288,378
Interest and investment earnings				5,346
Gain on the sale of capital assets				14,700
Other				681,946
Total general revenue				73,037,467
Change in Net Position				2,124,700
Net Position - Beginning of year				(83,728,237)
Net Position - End of year				\$ (81,603,537)

Lake Orion Community Schools

Governmental Funds Balance Sheet June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 4,502,689	\$ 1,588,318	\$ 6,091,007
Receivables (Note 5):			
Accounts receivable	125,486	1,387	126,873
Due from other governmental units	12,042,395	79,756	12,122,151
Due from other funds (Note 7)	271,118	189,304	460,422
Inventories	-	18,799	18,799
Prepaid costs and other assets	206,209	100	206,309
Restricted assets (Note 4)	-	765,585	765,585
	<u>\$ 17,147,897</u>	<u>\$ 2,643,249</u>	<u>\$ 19,791,146</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 445,163	\$ 27,708	\$ 472,871
Accrued payroll-related liabilities	8,237,929	45,285	8,283,214
Due to other governmental units	1,736,249	4,997	1,741,246
Due to other funds (Note 7)	160,500	117,699	278,199
Unearned revenue (Note 5)	531,839	116,782	648,621
	<u>11,111,680</u>	<u>312,471</u>	<u>11,424,151</u>
Deferred Inflows of Resources -			
Unavailable revenue (Note 5)	43,433	-	43,433
	<u>43,433</u>	<u>-</u>	<u>43,433</u>
	<u>11,155,113</u>	<u>312,471</u>	<u>11,467,584</u>
Fund Balances			
Nonspendable:			
Inventory	-	18,799	18,799
Prepaid assets	206,209	100	206,309
Restricted:			
Debt service	-	764,670	764,670
Food service	-	722,079	722,079
Committed - Community service	-	685,878	685,878
Assigned:			
Capital projects	-	139,252	139,252
Long-term obligations - Compensated absences and self-insurance	2,899,965	-	2,899,965
Unassigned	2,886,610	-	2,886,610
	<u>5,992,784</u>	<u>2,330,778</u>	<u>8,323,562</u>
	<u>\$ 17,147,897</u>	<u>\$ 2,643,249</u>	<u>\$ 19,791,146</u>

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

Lake Orion Community Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position Year Ended June 30, 2016

Fund Balance Reported in Governmental Funds	\$	8,323,562
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	\$	232,353,436
Accumulated depreciation	<u>(87,447,157)</u>	144,906,279
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds		43,433
Deferred outflows of resources (deferred refunding costs) that do not benefit the current period are not reported in the governmental funds		4,134,802
Deferred outflows related to pension payments made subsequent to the measurement date		9,368,164
Deferred outflow related to pensions		4,958,726
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds payable including premium	(120,385,736)	
Compensated absences	(2,230,726)	
Installment purchase agreement obligations	(2,306,561)	
Self insurance	(669,239)	
Capital leases	(1,104,549)	
School Loan Revolving Fund	<u>(339,561)</u>	(127,036,372)
Accrued interest payable is not included as a liability in governmental funds		(633,228)
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position		1,149
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(121,942,098)
Deferred inflows related to pension investment returns and changes in assumptions are not reported in the governmental funds		<u>(3,727,954)</u>
Net Position of Governmental Activities	\$	<u>(81,603,537)</u>

Lake Orion Community Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Local sources	\$ 8,844,583	\$ 16,494,588	\$ 25,339,171
State sources	62,907,109	274,240	63,181,349
Federal sources	2,458,965	929,980	3,388,945
Interdistrict sources	5,008,695	-	5,008,695
Total revenue	<u>79,219,352</u>	<u>17,698,808</u>	<u>96,918,160</u>
Expenditures			
Current:			
Instruction	50,976,103	-	50,976,103
Support services	27,199,706	5,532	27,205,238
Athletics	1,217,834	-	1,217,834
Food services	-	2,408,791	2,408,791
Community services	253,354	1,856,620	2,109,974
Debt service:			
Principal	61,094	9,599,849	9,660,943
Interest	-	4,618,777	4,618,777
Other	-	716,844	716,844
Capital outlay	316,009	275,266	591,275
Total expenditures	<u>80,024,100</u>	<u>19,481,679</u>	<u>99,505,779</u>
Excess of Expenditures Over Revenue	(804,748)	(1,782,871)	(2,587,619)
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	15,500	-	15,500
Payment to escrow agent/ repayment of school bond loan fund and school bond loan revolving fund	-	(81,596,147)	(81,596,147)
Transfers in (Note 7)	388,000	2,302,065	2,690,065
Transfers out (Note 7)	(1,208,147)	(1,481,918)	(2,690,065)
Face value of debt issued	-	76,095,000	76,095,000
Premium on debt issued	-	6,102,165	6,102,165
School Bond Loan Revolving Fund proceeds	-	766,808	766,808
Total other financing (uses) sources	<u>(804,647)</u>	<u>2,187,973</u>	<u>1,383,326</u>
Net Change in Fund Balances	(1,609,395)	405,102	(1,204,293)
Fund Balances - Beginning of year	<u>7,602,179</u>	<u>1,925,676</u>	<u>9,527,855</u>
Fund Balances - End of year	<u>\$ 5,992,784</u>	<u>\$ 2,330,778</u>	<u>\$ 8,323,562</u>

Lake Orion Community Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$	(1,204,293)
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:		
Depreciation expense	\$ (5,194,834)	
Capitalized capital outlay	<u>717,701</u>	(4,477,133)
Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of carrying value of the disposed assets		
		(800)
Revenue is reported in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end		
		(55,634)
Debt proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities		
		(77,272,232)
Premium on bonds reported as revenue in funds and amortized in the statement of activities		
		(3,957,877)
Repayment of bond principal, capital lease obligations, and payments on installment purchase agreements are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		
		90,239,943
Interest expense is recorded in the statement of activities when incurred; it is not reported in the governmental funds until paid		
		(42,079)
Deferred charges (interest) reported as expenditures in the governmental funds are capitalized and amortized in the statement of activities.		
		497,191
Revenue in support of pension contributions made subsequent to measurement date		
		(3,324,046)
Change in pension expense related to deferred items		
		1,230,410
Compensated absences, as well as the estimated self-insured liability claims and other liabilities, are recorded when earned in the statement of activities.		
		491,247
Internal Service Funds are included as part of governmental activities		
		<u>3</u>
Change in Net Position of Governmental Activities	\$	<u>2,124,700</u>

Lake Orion Community Schools

Proprietary Fund - Internal Service Fund Statement of Net Position June 30, 2016

	Proprietary - Internal Service
Assets - Current assets - Cash and investments (Note 3)	<u>\$ 1,149</u>
Net Position - Unrestricted	<u>\$ 1,149</u>

Lake Orion Community Schools

Proprietary Fund - Internal Service Fund Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2016

	Proprietary - Internal Service
Nonoperating Revenue - Interest and investment earnings	\$ 3
Net Position - Beginning of year	<u>1,146</u>
Net Position - End of year	<u>\$ 1,149</u>

Lake Orion Community Schools

Proprietary Fund - Internal Service Fund Statement of Cash Flows Year Ended June 30, 2016

	Internal Service Fund
Cash Flows from Investment Activities - Interest	\$ 3
Cash and Cash Equivalents - Beginning of year	<u>1,146</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 1,149</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income (loss)	\$ -
Adjustments to reconcile operating income (loss) to net cash from operating activities	<u>-</u>
Net cash provided by (used in) operating activities	<u><u>\$ -</u></u>

Lake Orion Community Schools

Fiduciary Funds Fiduciary Assets and Liabilities June 30, 2016

	<u>Student Activities</u>
Assets	
Cash and investments	\$ 924,362
Receivables	<u>14,331</u>
Total assets	<u>\$ 938,693</u>
Liabilities	
Accounts payable	\$ 48,631
Due to student activities	707,839
Due to other funds (Note 7)	<u>182,223</u>
Total liabilities	<u>\$ 938,693</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note I - Nature of Business and Significant Accounting Policies

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

Reporting Entity

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note I - Nature of Business and Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note I - Nature of Business and Significant Accounting Policies (Continued)

Proprietary fund and fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The School District reports the following major governmental funds:

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

Additionally, the School District reports the following fund types:

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

Debt Service Funds - The 2006, 2012, 2015, 2015B, 2016, and Energy Bond Debt Service Funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the 2006, 2012, 2015, 2015B, 2016, and Energy Bond bond issues or bond refundings, respectively.

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

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

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

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note I - Nature of Business and Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position or Equity

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

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

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

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

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

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

Buildings and building additions	20 to 40 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	5 to 20 years

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

Long-term Obligations - In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. The School District only has two items that qualify for reporting in this category. First is the deferred outflow related to the bond refunding. The other is the deferred outflow related to the pension plan.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note I - Nature of Business and Significant Accounting Policies (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District has three types of item. The first item arises only under a modified accrual basis of accounting, and is therefore only reported in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes that are not collected during the period of availability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The next two items, which arise only on the district-wide statement of net position is deferred inflows related to the pension plan and revenue in support of pension payments made subsequent to the measurement date.

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

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the superintendent or designee, who is authorized by resolution approved by the Board of Education to make assignments.
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the general fund.

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 1 - Nature of Business and 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.

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

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

Adoption of New Standard - As of June 30, 2016, the School District adopted Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application*, and No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. GASB statement No. 79 provides guidance for determining whether certain investment pools can continue to be accounted for using amortized cost. The adoption did not have a significant impact on amounts reported in the financial statements.

Note 2 - Stewardship, Compliance, and Accountability

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

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

The budget document presents information by fund and function for the General Fund. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level for the General Fund. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year.

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

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances, except for operations and maintenance expenditures, which were more than budgeted by approximately \$91,000 related to higher than expected utility and repair and maintenance costs.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. For the 2015-2016 school year, the School District has designated nine banks for the deposit of its funds. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government and bank accounts, CDs, and all other investments as noted by the state statutory authority listed above.

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$8,081,943 had \$7,807,961 of bank deposits (checking accounts) that was uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of 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 pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investments with custodial credit risk.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

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

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

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 policy prohibit investment in foreign currency.

Note 4 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent property taxes levied in the debt service funds	<u>\$ 765,585</u>

Note 5 - Receivables and Unavailable/Unearned Revenue

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

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Receivables:			
Accounts receivable	\$ 125,486	\$ 1,387	\$ 126,873
Due from other governmental units	<u>12,042,395</u>	<u>79,756</u>	<u>12,122,151</u>
Total receivables	<u>\$ 12,167,881</u>	<u>\$ 81,143</u>	<u>\$ 12,249,024</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 5 - Receivables and Unavailable/Unearned Revenue (Continued)

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

	Deferred Inflow - Unavailable	Liability - Unearned
Food service prepaid revenue	\$ -	\$ 56,455
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	592,166
Local revenue earned but not received within period of availability	<u>43,433</u>	<u>-</u>
Total	<u>\$ 43,433</u>	<u>\$ 648,621</u>

Note 6 - Capital Assets

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

Governmental Activities	Balance July 1, 2015	Transfers	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 13,421,804	\$ -	\$ -	\$ -	\$ 13,421,804
Construction in progress	<u>1,514,113</u>	<u>(1,514,113)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	14,935,917	(1,514,113)	-	-	13,421,804
Capital assets being depreciated:					
Buildings and improvements	200,732,620	1,259,668	43,371	-	202,035,659
Furniture and equipment	12,152,542	254,445	674,330	(979,033)	12,102,284
Buses	<u>4,793,689</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,793,689</u>
Subtotal	217,678,851	1,514,113	717,701	(979,033)	218,931,632
Accumulated depreciation:					
Buildings and improvements	71,011,954	-	3,999,319	-	75,011,273
Furniture and equipment	9,379,039	-	291,069	(978,233)	8,691,875
Buses	<u>2,839,563</u>	<u>-</u>	<u>904,446</u>	<u>-</u>	<u>3,744,009</u>
Subtotal	<u>83,230,556</u>	<u>-</u>	<u>5,194,834</u>	<u>(978,233)</u>	<u>87,447,157</u>
Net capital assets being depreciated	<u>134,448,295</u>	<u>1,514,113</u>	<u>(4,477,133)</u>	<u>(800)</u>	<u>131,484,475</u>
Net capital assets	<u>\$ 149,384,212</u>	<u>\$ -</u>	<u>\$ (4,477,133)</u>	<u>\$ (800)</u>	<u>\$ 144,906,279</u>

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Nonmajor Governmental Funds	Fiduciary Fund	
General Fund	\$ -	\$ 117,699	\$ 182,223	\$ 299,922
Nonmajor governmental funds	160,500	-	-	160,500
Total	<u>\$ 160,500</u>	<u>\$ 117,699</u>	<u>\$ 182,223</u>	<u>\$ 460,422</u>

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

Transfers In	Transfers Out		Total
	General Fund	Nonmajor Governmental Funds	
Transfer in - General Fund	\$ -	\$ 388,000	\$ 388,000
Transfer in - Nonmajor governmental funds	1,208,147	1,093,918	2,302,065
Total	<u>\$ 1,208,147</u>	<u>\$ 1,481,918</u>	<u>\$ 2,690,065</u>

The transfers represent indirect costs reimbursed to the General Fund from the Community Service Fund and the Food Service Fund, amounts paid to the Energy Bond Debt Fund and Operating Capital Projects Fund to fund principal and interest payments, and a transfer from the 2006 Debt Service Fund to the 2016 Debt Service Fund related to the bond refunding.

Note 8 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Qualified bonds are fully guaranteed by the State of Michigan. Other long-term obligations include installment purchase agreements, capital lease obligations, compensated absences, School Bond Loan Fund, School Loan Revolving Fund, and certain risk liabilities.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 8 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds	\$ 87,475,000	\$ 76,095,000	\$ 52,115,000	\$ 111,455,000	\$ 14,780,000
Less deferred amounts:					
Bond premium	4,972,859	6,102,165	2,144,288	8,930,736	1,286,363
Deferred outflows - Deferred charges from refunding bonds	(3,637,611)	(1,017,147)	(519,956)	(4,134,802)	(572,309)
Total bonds payable	88,810,248	81,180,018	53,739,332	116,250,934	15,494,054
Capital lease obligations	1,236,825	410,424	542,700	1,104,549	592,966
Installment purchase agreements	2,584,804	-	278,243	2,306,561	284,791
School Bond Loan and School Bond Loan Revolving Fund	36,880,117	763,444	37,304,000	339,561	-
Other obligations	3,391,212	1,370,260	1,861,507	2,899,965	2,230,726
Total governmental activities	<u>\$ 132,903,206</u>	<u>\$ 83,724,146</u>	<u>\$ 93,725,782</u>	<u>\$ 122,901,570</u>	<u>\$ 18,602,537</u>

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

<u>Years Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 14,780,000	\$ 4,189,729	\$ 18,969,729
2018	15,675,000	3,775,704	19,450,704
2019	16,170,000	3,470,977	19,640,977
2020	16,715,000	2,742,760	19,457,760
2021	17,360,000	2,094,700	19,454,700
2022-2026	27,495,000	4,123,064	31,618,064
2027-2031	2,495,000	406,570	2,901,570
2032-2033	765,000	48,619	813,619
Total	<u>\$ 111,455,000</u>	<u>\$ 20,852,123</u>	<u>\$ 132,307,123</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 8 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

\$23,880,000 - 2012 refunding bonds due in annual installments of \$3,905,000 to \$4,170,000 through May 2018; interest at 4.00 to 5.00 percent	\$ 8,075,000
\$5,280,000 - 2013 Energy Conservation Improvement Bonds due in annual installments of \$205,000 to \$390,000 through May 2033; interest at 2.00 to 4.25 percent	4,895,000
\$26,165,000 - 2015 Series B refunding bonds due in annual installments of \$1,120,000 to \$4,650,000 through May 2023; interest at 4.00 to 5.00 percent	22,390,000
\$37,590,000 - 2015 Refunding bonds due in annual installments of \$6,020,000 to \$10,070,000 through May 2021; interest at 1.13 through 2.45 percent	37,590,000
\$38,505,000- 2016 refunding bonds due in annual installments of \$830,000 to \$5,915,000 through May 2027; interest at 5 percent	<u>38,505,000</u>
Total bonded debt	<u><u>\$ 111,455,000</u></u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 8 - Long-term Debt (Continued)

Capital Leases - The School District has entered into lease agreements as lessee for financing the purchase of buses and copiers. This lease agreements qualify as a capital lease for accounting purposes. As of June 30, 2016, property under capital leases has a gross cost and accumulated depreciation of \$3,046,033 and \$1,782,032, respectively. The future minimum lease obligations and the net present value are as follows:

Years Ending June 30	Amount
2017	\$ 608,082
2018	347,864
2019	94,576
2020	94,576
2021	31,524
Total	1,176,622
Less amount representing interest	72,073
Present value of net minimum lease payments	<u>\$ 1,104,549</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 2,230,726
Self insurance	669,239
Total	<u>\$ 2,899,965</u>

School Loan Revolving Fund - The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in accordance with Section 9 of Act No. 92 of the Public Acts of 2005, as amended. Interest rates went into effect beginning on October 1, 2005 pursuant to Public Act 92. Interest at the annual rate of 3.34041 at June 30, 2016 has been assessed for the year ended June 30, 2016. Repayment begins as soon as annual tax collections exceed annual debt service payment requirements. The predetermined mandatory final loan repayment date is May 1, 2033. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 8 - Long-term Debt (Continued)

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

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

Years Ending June 30	Amount
2017	\$ 284,791
2018	291,494
2019	298,355
2020	305,377
2021	312,565
2022-2024	813,979
Total	<u>\$ 2,306,561</u>

Advance and Current Refundings - During the year, the School District issued \$37,590,000 in general obligation bonds with an average interest rate of 2.046 percent. The proceeds of these bond, were used to refund \$37,304,000 of outstanding SBLF and SLRF loans with a current interest rate of 3.43 percent. The net proceeds of \$37,304,000 (after payment of \$286,000 in underwriting fees, insurance, and other issuance costs) were used to pay off the outstanding principal portion of the loans. The refunding of the SBLF and SLRF reduced the District's payments by approximately \$9,823,000.

During the year, the School District issued \$38,505,000 in general obligation bonds with an average interest rate of 5.0 percent. The proceeds of these bonds, along with a premium of \$6,102,165 were used to advance refund \$43,275,000 of outstanding 2006 refunding bonds with an average interest rate of 4.84 percent. The net proceeds of \$44,292,147 (after payment of \$315,018 in underwriting fees, insurance, and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt servie payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by approximately \$5,518,159, which represents an economic gain of approximately \$5,219,844. Deferred charges (interest) totaling \$1,017,147 are being capitalized and amortized over the life of the bonds using the straight-line method. Amortization expense of \$37,395 was recorded for the year ended June 30, 2016. At June 30, 2016 \$38,505,000 of bonds outstanding are considered defeased.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 9 - Risk Management

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

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

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

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

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

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

	<u>2016</u>	<u>2015</u>
Estimated liability - Beginning of year	\$ 882,000	\$ 431,000
Estimated claims incurred - Including changes in estimates	59,239	574,533
Claim payments	<u>(272,000)</u>	<u>(123,533)</u>
Unpaid claims - End of year	<u>\$ 669,239</u>	<u>\$ 882,000</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 10 - Michigan Public School Employees Retirement System

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

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

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

School District's contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS.

The range of rates are as follows:

School District

October 1, 2014 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - June 30, 2016	14.56% - 18.95%

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

The School District's required and actual contributions to the plan for the year ended June 30, 2016 totaled \$11,898,883. The School District's required and actual contributions include an allocation of \$3,324,046 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, 2016.

Note 10 - Michigan Public School Employees Retirement System (Continued)

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

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

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

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

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

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2016, the School District reported a liability of \$121,942,098 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, which used updated procedures to roll forward the estimated liability to September 30, 2015. 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, 2015, the School District's proportion was 0.499251 percent.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 10 - Michigan Public School Employees Retirement System (Continued)

For the year ended June 30, 2016, the School District recognized pension expense of \$10,665,704, exclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2016, 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
Differences between expected and actual experience	\$ -	\$ (403,908)
Changes of assumptions	3,002,473	-
Net difference between projected and actual earnings on pension plan assets	622,416	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	1,333,837	-
The School District's contributions subsequent to the measurement date	<u>9,368,164</u>	<u>-</u>
Total	<u>\$ 14,326,890</u>	<u>\$ (403,908)</u>

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

Years Ending June 30	Amount
2017	\$ 701,167
2018	701,167
2019	538,354
2020	2,614,130
2021	-
Thereafter	<u>-</u>
Total	<u>\$ 4,554,818</u>

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 10 - Michigan Public School Employees Retirement System (Continued)

Actuarial Assumptions - The total pension liability as of September 30, 2015 is based on the results of an actuarial valuation date of September 30, 2014 and rolled forward:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 - 12.3%, including wage inflation of 3.5%
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3% annual noncompounded for MIP members

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 10 - Michigan Public School Employees Retirement System (Continued)

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0 %	9.2 %
International equity pools	16.0 %	7.2 %
Fixed-income pools	10.5 %	0.9 %
Real estate and infrastructure pools	10.0 %	4.3 %
Real return, opportunistic, and absolute pool	15.5 %	6.0 %
Short-term investment pools	2.0 %	- %
Total	100.0 %	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the School District calculated using the discount rate of 7.00-8.00 percent, 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 1.00 percentage point lower (6.0 - 7.0 percent) or 1.00 percentage point higher (8.0 - 9.0 percent) than the current rate:

1.00 Percent Decrease (6.0 - 7.0 Percent)	Current Discount Rate (7.0 - 8.0 Percent)	1.00 Percent Increase (8.0 - 9.0 Percent)
\$ 157,214,623	\$ 121,942,098	\$ 92,205,914

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

Payable to the Pension Plan - At June 30, 2016, the School District reported a payable of \$2,490,078 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2016

Note 10 - Michigan Public School Employees Retirement System (Continued)

Postemployment Benefits Other Than Pensions (OPEB) - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. School District - The employer contribution rate ranged from 2.2 percent to 2.71 percent of covered payroll for the period from July 1, 2015 to September 30, 2015 and from 6.4 percent to 6.83 percent of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403(b) account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016, 2015, and 2014 were \$2,531,719, \$1,387,212, and \$2,936,438, respectively. In addition, a portion ranging from 35-100 percent of the the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

Note 11 - Upcoming Accounting Pronouncements

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

Required Supplemental Information

Lake Orion Community Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	\$ 8,805,065	\$ 8,890,411	\$ 8,844,583	\$ (45,828)
State sources	62,229,998	63,208,484	62,907,109	(301,375)
Federal sources	2,365,199	2,495,229	2,458,965	(36,264)
Interdistrict sources	5,540,196	4,995,043	5,008,695	13,652
Other revenue	365,000	415,000	388,000	(27,000)
Total revenue	79,305,458	80,004,167	79,607,352	(396,815)
Expenditures				
Current:				
Instruction:				
Basic program	39,176,620	41,189,380	40,806,555	(382,825)
Added needs	10,581,097	10,469,049	10,372,213	(96,836)
Total instruction	49,757,717	51,658,429	51,178,768	(479,661)
Support services:				
Pupil	6,448,303	6,718,577	6,725,988	7,411
Instruction Improvement	483,971	568,149	534,452	(33,697)
Educational media services	1,221,046	1,280,827	1,259,745	(21,082)
Technology assisted instruction	405,542	456,491	432,977	(23,514)
Instructional staff supervision	645,513	651,293	610,137	(41,156)
General administration	976,129	1,065,184	1,024,352	(40,832)
School administration	4,570,943	4,768,537	4,720,452	(48,085)
Business	877,255	958,164	955,672	(2,492)
Operations and maintenance	5,191,196	5,234,294	5,325,239	90,945
Pupil transportation services	3,511,222	3,507,127	3,478,409	(28,718)
Communication services	119,646	95,473	95,029	(444)
Human resources	676,985	943,582	931,561	(12,021)
Technology services	1,158,069	1,301,221	1,275,279	(25,942)
Total support services	26,285,820	27,548,919	27,369,292	(179,627)
Athletics	1,179,720	1,216,192	1,222,685	6,493
Community services	279,864	271,992	253,355	(18,637)
Total expenditures	77,503,121	80,695,532	80,024,100	(671,432)
Excess of Revenue Over (Under)				
Expenditures	1,802,337	(691,365)	(416,748)	274,617
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	15,500	15,500
Transfers out	(1,156,605)	(1,208,148)	(1,208,147)	1
Total other financing (uses) sources	(1,156,605)	(1,208,148)	(1,192,647)	15,501
Net Change in Fund Balance	645,732	(1,899,513)	(1,609,395)	290,118
Fund Balance - Beginning of year	7,602,179	7,602,179	7,602,179	-
Fund Balance - End of year	\$ 8,247,911	\$ 5,702,666	\$ 5,992,784	\$ 290,118

Lake Orion Community Schools

Required Supplemental Information Schedule of Lake Orion Community Schools' Proportionate Share of the Net Pension Liability Michigan Public School Employees Retirement System Determined as of the Plan Year Ended September 30

	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability (asset)	0.49925 %	0.49210 %
School District's proportionate share of the net pension liability (asset)	\$ 121,942,098	\$ 108,391,563
School District's covered employee payroll	41,499,311	41,135,063
School District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	293.84 %	257.25 %
Plan fiduciary net position as a percentage of the total pension liability	62.92 %	66.20 %

Lake Orion Community Schools

Required Supplemental Information Schedule of Lake Orion Community Schools' Contributions Michigan Public School Employees Retirement System Determined as of the Year Ended June 30

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 11,824,219	\$ 9,500,078
Contributions in relation to the statutorily required contribution	11,824,219	9,500,078
Contribution deficiency (excess)	-	-
School District's covered employee payroll	42,824,405	41,850,563
Contributions as a percentage of covered employee payroll	27.61 %	22.70 %

Lake Orion Community Schools

Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2016

Benefit Changes - There were no changes of benefit terms for the plan year ended September 30, 2015.

Changes in Assumptions - There were no changes of benefit assumptions for the plan year ended September 30, 2015.

Other Supplemental Information

Lake Orion Community Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue Funds		Debt Service Funds					Capital Projects Fund		Total Nonmajor Governmental Funds	
	Food Service	Community Services	2006 Debt	2012 Refunding	Energy Bond	2015 Debt	2015B Debt	2016 Debt	Energy Bond Capital Projects Fund		Operating Capital Projects Fund
Assets											
Cash and investments	\$ 673,813	\$ 834,557	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ 79,942	\$ 1,588,318
Receivables	17,570	617	852	1,218	-	1,475	-	-	-	59,411	81,143
Due from other funds	102,865	-	1,804	-	125	-	-	24,284	-	60,226	189,304
Inventories	18,799	-	-	-	-	-	-	-	-	-	18,799
Prepaid costs and other assets	-	100	-	-	-	-	-	-	-	-	100
Restricted assets	-	-	(2,124)	147,200	(125)	158,586	-	462,048	-	-	765,585
Total assets	\$ 813,047	\$ 835,274	\$ 532	\$ 148,418	\$ -	\$ 160,061	\$ -	\$ 486,332	\$ 6	\$ 199,579	\$ 2,643,249
Liabilities and Fund Balances											
Liabilities											
Accounts payable	\$ 6,767	\$ 20,941	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,708
Accrued payroll-related liabilities	8,286	36,999	-	-	-	-	-	-	-	-	45,285
Due to other governmental units	661	2,154	532	750	-	900	-	-	-	-	4,997
Due to other funds	-	89,202	-	9,173	-	10,991	-	8,327	6	-	117,699
Unearned revenue	56,455	-	-	-	-	-	-	-	-	60,327	116,782
Total liabilities	72,169	149,296	532	9,923	-	11,891	-	8,327	6	60,327	312,471
Fund Balances											
Nonspendable:											
Inventory	18,799	-	-	-	-	-	-	-	-	-	18,799
Prepaid assets	-	100	-	-	-	-	-	-	-	-	100
Restricted:											
Debt service	-	-	-	138,495	-	148,170	-	478,005	-	-	764,670
Food service	722,079	-	-	-	-	-	-	-	-	-	722,079
Committed - Community service	-	685,878	-	-	-	-	-	-	-	-	685,878
Assigned - Capital projects	-	-	-	-	-	-	-	-	-	139,252	139,252
Total fund balances	740,878	685,978	-	138,495	-	148,170	-	478,005	-	139,252	2,330,778
Total liabilities and fund balances	\$ 813,047	\$ 835,274	\$ 532	\$ 148,418	\$ -	\$ 160,061	\$ -	\$ 486,332	\$ 6	\$ 199,579	\$ 2,643,249

Lake Orion Community Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2016

	Special Revenue Funds							Capital Projects Fund		Total Nonmajor Governmental Funds	
	Food Service	Community	2006 Debt	2012	Energy	2015 Debt	2015B Debt	2016 Debt	Energy Bond		Operating
		Services		Refunding	Bond				Capital		Capital
Revenue											
Local sources	\$ 1,565,646	\$ 2,145,358	\$ 3,116,257	\$ 4,391,885	\$ -	\$ 5,274,924	\$ -	\$ 8	\$ 28	\$ 482	\$ 16,494,588
State sources	180,570	93,670	-	-	-	-	-	-	-	-	274,240
Federal sources	929,980	-	-	-	-	-	-	-	-	-	929,980
Total revenue	2,676,196	2,239,028	3,116,257	4,391,885	-	5,274,924	-	8	28	482	17,698,808
Expenditures											
Current:											
Support services	-	-	-	-	-	-	-	-	553	4,979	5,532
Food services	2,408,791	-	-	-	-	-	-	-	-	-	2,408,791
Community services	-	1,856,620	-	-	-	-	-	-	-	-	1,856,620
Debt service:											
Principal	-	-	1,000,000	3,870,000	195,000	3,775,000	-	-	-	759,849	9,599,849
Interest	-	-	1,076,532	664,668	169,213	1,697,671	345,723	581,133	-	83,837	4,618,777
Other	-	-	22,077	48,528	250	65,137	281,472	299,380	-	-	716,844
Capital outlay	4,552	3,095	-	-	-	-	-	-	21,600	246,019	275,266
Total expenditures	2,413,343	1,859,715	2,098,609	4,583,196	364,463	5,537,808	627,195	880,513	22,153	1,094,684	19,481,679
Excess of Revenue Over (Under)											
Expenditures	262,853	379,313	1,017,648	(191,311)	(364,463)	(262,884)	(627,195)	(880,505)	(22,125)	(1,094,202)	(1,782,871)
Other Financing (Uses) Sources											
Payment to escrow agent/repayment of school bond loan fund and school bond loan revolving fund	-	-	-	-	-	-	37,304,000	(44,292,147)	-	-	(81,596,147)
Transfers in	-	-	-	-	364,463	-	266,195	827,723	-	843,684	2,302,065
Transfers out	(113,000)	(275,000)	(1,093,918)	-	-	-	-	-	-	-	(1,481,918)
Proceeds from debt issued	-	-	-	-	-	-	37,590,000	38,505,000	-	-	76,095,000
Premium on debt issued	-	-	-	-	-	-	-	6,102,165	-	-	6,102,165
School Bond Loan Revolving Fund proceeds	-	-	-	223,168	-	252,871	75,000	215,769	-	-	766,808
Total other financing (uses) sources	(113,000)	(275,000)	(1,093,918)	223,168	364,463	252,871	627,195	1,358,510	-	843,684	2,187,973
Net Change in Fund Balances	149,853	104,313	(76,270)	31,857	-	(10,013)	-	478,005	(22,125)	(250,518)	405,102
Fund Balances - Beginning of year	591,025	581,665	76,270	106,638	-	158,183	-	-	22,125	389,770	1,925,676
Fund Balances - End of year	\$ 740,878	\$ 685,978	\$ -	\$ 138,495	\$ -	\$ 148,170	\$ -	\$ 478,005	\$ -	\$ 139,252	\$ 2,330,778

Lake Orion Community Schools

June 30	2012 Refunding		Energy Bond 2014	
	Principal	Interest	Principal	Interest
2017	\$ 3,905,000	\$ 323,000	\$ 205,000	\$ 165,313
2018	4,170,000	166,800	215,000	161,213
2019	-	-	225,000	156,913
2020	-	-	230,000	152,413
2021	-	-	240,000	147,238
2022	-	-	250,000	141,238
2023	-	-	260,000	133,738
2024	-	-	270,000	125,938
2025	-	-	280,000	117,500
2026	-	-	295,000	108,400
2027	-	-	305,000	98,444
2028	-	-	320,000	86,244
2029	-	-	330,000	73,444
2030	-	-	345,000	60,244
2031	-	-	360,000	46,444
2032	-	-	375,000	32,044
2033	-	-	390,000	16,575
Total principal	\$ 8,075,000	\$ 489,800	\$ 4,895,000	\$ 1,823,343
Principal payments due	May 1		May 1	
Interest payments due	May/November		May/November	
Interest rate	4.00% to 5.00%		2.00% to 4.25%	
Original issue	\$ 23,880,000	\$ -	\$ 5,280,000	\$ -

**Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2016**

2015 Debt		2015B Debt		2016 Refunding	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 4,650,000	\$ 1,073,000	\$ 6,020,000	\$ 703,166	\$ -	\$ 1,925,250
4,650,000	887,000	6,640,000	635,442	-	1,925,250
4,650,000	654,500	8,580,000	534,314	2,715,000	1,925,250
4,650,000	422,000	6,280,000	378,846	5,555,000	1,789,500
1,510,000	189,500	10,070,000	246,212	5,540,000	1,511,750
1,160,000	114,000	-	-	5,525,000	1,234,750
1,120,000	56,000	-	-	5,755,000	958,500
-	-	-	-	5,835,000	670,750
-	-	-	-	5,915,000	379,000
-	-	-	-	830,000	83,250
-	-	-	-	835,000	41,750
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 22,390,000	\$ 3,396,000	\$ 37,590,000	\$ 2,497,980	\$ 38,505,000	\$ 12,445,000
May 1		May 1		May 1	
May/November		May/November		May/November	
4.00% to 5.00%		1.13% to 2.45%		5.00%	
\$ 26,165,000	\$ -	\$ 37,590,000	\$ -	\$ 38,505,000	\$ -