

Lake Orion Community Schools

**Financial Report
with Supplemental Information
June 30, 2017**

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 funds, 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, 2017 and the related notes to the financial statements, which collectively comprise Lake Orion Community Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 funds, and the aggregate remaining fund information of Lake Orion Community Schools as of June 30, 2017 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 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 18, 2017 on our consideration of Lake Orion Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Orion Community Schools' internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 18, 2017

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, 2017. 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 funds - the General Fund and Sinking Fund - with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. This report is comprised of the following elements:

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 Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Schedule of Proportionate Share of the Net Pension Liability

Schedule of the School District's Pension Plan 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, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District. The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

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

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics 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 an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation. The School District's proprietary Internal Service Fund reports on the full accrual basis and presents the School District's reserve for dental self-insurance claims due in future years.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

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.

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, 2017 and 2016:

TABLE I

	Governmental Activities	
	June 30	
	2017	2016
	(in millions)	
Assets		
Current and other assets	\$ 22.2	\$ 19.3
Capital assets	141.1	144.9
Total assets	163.3	164.2
Deferred Outflows of Resources		
Deferred charges from refunding bonds	-	4.1
Deferred outflows related to pensions	-	14.3
Total assets and deferred outflows of resources	163.3	182.6
Liabilities		
Current liabilities	30.3	30.8
Long-term liabilities	94.8	107.8
Net pension liability	-	121.9
Total liabilities	125.1	260.5
Deferred Inflows of Resources - Related to pensions	-	3.7
Total liabilities and deferred inflows of resources	125.1	264.2
Net Position		
Net investment in capital assets	34.9	24.9
Restricted	-	0.1
Unrestricted	(106.8)	(106.6)
Total net position	\$ (71.9)	\$ (81.6)

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was (\$71.9) million at June 30, 2017 and (\$81.6) million at June 30, 2016. Capital assets, net of related debt totaling \$34.9 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 is reported separately to show legal constraints from debt covenants and enabling legislation that limits the School District's ability to use that net position for day-to-day operations. The remaining amount of net position, (\$106.8) million, was unrestricted.

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

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2017 and 2016.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2017	2016
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.2	\$ 4.6
Operating grants and contributions	20.1	16.0
General revenue:		
Property taxes	24.1	20.0
State foundation allowance	52.9	52.3
Other	0.7	0.7
Total revenue	102.0	93.6
Functions/Program Expenses		
Instruction	51.1	50.0
Support services	27.0	26.8
Athletics	1.2	1.2
Food services	2.5	2.4
Community services	2.2	2.1
Other	0.1	0.7
Interest on long-term debt	3.5	3.0
Depreciation (unallocated)	4.7	5.2
Total functions/program expenses	92.3	91.4
Change in Net Position	9.7	2.2
Net Position - Beginning of year	(81.6)	(83.8)
Net Position - End of year	<u><u>\$ (71.9)</u></u>	<u><u>\$ (81.6)</u></u>

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$92.3 million. Certain activities were partially funded from those who benefited from the programs (\$4.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$20.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$24.1 million in taxes, \$52.9 million in state foundation allowance, and with our other revenue, i.e., interest and general entitlements.

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.

TABLE 3

	Government-wide Activities			
	2017		2016	
	(in millions)		(in millions)	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 51.1	\$ 39.4	\$ 50.0	\$ 40.8
Support services	27.0	20.0	26.8	21.1
Athletics	1.2	0.7	1.2	0.8
All others	13.0	7.9	13.4	8.3
Total	<u>\$ 92.3</u>	<u>\$ 68.0</u>	<u>\$ 91.4</u>	<u>\$ 71.0</u>

The School District experienced an increase in net position of \$9.7 million. The net position invested in capital assets (net of related debt) increased by \$10 million. Net position restricted for debt service decreased by \$0.1 million. The unrestricted net position balance decreased by \$0.2 million. Additionally, short-term liabilities increased \$0.5 million, long-term liabilities decreased by \$13 million, and the net capital assets balance decreased by \$3.8 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 \$11.8 million, which is an increase of \$3.5 million from last year. The changes by major and nonmajor funds are as follows:

TABLE 4

	Fund Balance			
	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total
Fund balance - Beginning of year	\$ 5,992,784	\$ -	\$ 2,330,778	\$ 8,323,562
Increase (decrease)	<u>1,127,994</u>	<u>2,420,276</u>	<u>(27,288)</u>	<u>3,520,982</u>
Fund balance - End of year	<u>\$ 7,120,778</u>	<u>\$ 2,420,276</u>	<u>\$ 2,303,490</u>	<u>\$ 11,844,544</u>

The primary reasons for the increase (decrease) are as follows:

In the General Fund, our principal operating fund, the fund balance increased \$1.1 million to \$7.1 million. The change is mainly due to the following:

- The implementation of phase I, by the administration, of the Board of Education-approved multi-phased districtwide operational restructuring plan. The phase I changes have reduced the School District's cost of operations and increased the School District's revenue, resulting in our operational surplus of \$1.1 million.

The General Fund's fund balance is available to fund costs related to allowable school operating purposes.

In the Sinking Fund, the fund balance increased to \$2.4 million. The change is due to the following:

- The School District collected \$3.4 million in voter-approved sinking fund millage in its inaugural levy. This voter-approved millage is available to fund specific capital projects as allowed by state law. Related capital project costs for the year were approximately \$1.0 million.

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 actually 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 2016-2017 General Fund budget. Revisions to the expenditures were due to adjustments based on more accurate information.

There were three significant variances between the final budget and actual amounts based on dollar amounts and percentages. Expenditures were less than budgeted for in the basic programs by \$0.6 million, instruction improvement by \$0.15 million, and \$0.1 million in transportation services.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the School District had \$141.1 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$3.8 million, or 2.7 percent, from last year.

TABLE 5	2017	2016
Land	\$ 13,421,804	\$ 13,421,804
Construction in progress	829,940	-
Buildings and building improvements	202,050,359	202,035,659
Buses and other vehicles	4,793,689	4,793,689
Furniture and equipment	12,146,116	12,102,284
Total capital assets	233,241,908	232,353,436
Less accumulated depreciation	(92,182,271)	(87,447,157)
Net capital assets	<u>\$ 141,059,637</u>	<u>\$ 144,906,279</u>

The decrease of \$3.8 million in fiscal year 2017 (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 \$96.7 million in bonds outstanding versus \$111.5 million in the previous year - a change of 13.3 percent. Those bonds consisted of the following:

TABLE 6	2017	2016
General obligation bonds	<u>\$ 96,675,000</u>	<u>\$ 111,455,000</u>

The School District's general obligation bond rating is "AA-" from Standard & Poor's Ratings Services. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$96.7 million is significantly below this statutorily imposed limit.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

Other obligations include the School Bond Loan Revolving Fund, accrued vacation pay, sick leave, capital leases, and self insurance. 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 2018 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, 2018 budget was adopted in June 2017, based on an estimate of property tax revenue, state aid, and grant funding. State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations. Since the School District's revenue is primarily dependent on state aid from the School Aid Fund and local property taxes, the actual revenue received by the School District depends on the health of the School 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 fiscal year 2018 is 90 percent of the October 2017 and 10 percent of the February 2017 student counts. The 2018 budgets as adopted in June 2017 and are based on an estimate of students that will be enrolled in September 2017.

In the recent past, the State of Michigan has issued several executive orders prorating and reducing, mid-year, the State's funding commitment to the School District. This possibility continues to exist for fiscal year 2018. 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 2017-2018, it is the intention of the School District to provide premium programming within a balanced operating budget.

Contacting the School District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

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

Lake Orion Community Schools

Statement of Net Position June 30, 2017

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 6,015,596
Receivables (Note 5)	12,578,826
Inventories	12,659
Prepaid costs and other assets	187,409
Restricted assets (Note 4)	3,397,409
Capital assets - Net (Note 6)	141,059,637
Total assets	163,251,536
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 8)	3,562,493
Deferred outflows related to pensions (Note 10)	20,124,500
Total deferred outflows of resources	23,686,993
Total assets and deferred outflows of resources	186,938,529
Liabilities	
Accounts payable	1,200,796
Accrued payroll-related liabilities	7,252,277
Other accrued liabilities	557,471
Due to other governmental units	1,009,249
Unearned revenue (Note 5)	655,055
Noncurrent liabilities (Note 8):	
Due within one year	19,734,464
Due in more than one year	94,700,184
Net pension liability (Note 10)	129,236,467
Total liabilities	254,345,963
Deferred Inflows of Resources - Related to pension and revenue in support of pension payments (Note 10)	4,569,706
Total liabilities and deferred inflows of resources	258,915,669
Net Position	
Net investment in capital assets	34,929,594
Unrestricted	(106,906,734)
Total net position	\$ (71,977,140)

Lake Orion Community Schools

Statement of Activities Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government - Governmental activities:				
Instruction	\$ 51,121,693	\$ 9,913	\$ 11,617,919	\$ (39,493,861)
Support services	27,014,135	76,195	6,949,243	(19,988,697)
Athletics	1,193,193	465,941	-	(727,252)
Food services	2,454,702	1,510,450	1,189,917	245,665
Community services	2,245,691	2,124,720	354,580	233,609
Interest	3,506,837	-	-	(3,506,837)
Other	104,556	-	-	(104,556)
Depreciation expense (unallocated)	4,735,114	-	-	(4,735,114)
Total primary government	<u>\$ 92,375,921</u>	<u>\$ 4,187,219</u>	<u>\$ 20,111,659</u>	(68,077,043)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				7,349,260
Property taxes, levied for debt service				13,248,542
Property taxes, levied for capital projects				3,515,644
State aid not restricted to specific purposes				52,903,066
Interest and investment earnings				13,486
Other				673,442
Total general revenue				<u>77,703,440</u>
Change in Net Position				9,626,397
Net Position - Beginning of year				<u>(81,603,537)</u>
Net Position - End of year				<u>\$ (71,977,140)</u>

Lake Orion Community Schools

Governmental Funds Balance Sheet June 30, 2017

	General Fund	Sinking Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 4,486,279	\$ -	\$ 1,529,317	\$ 6,015,596
Receivables (Note 5)	12,506,593	2,023	70,210	12,578,826
Due from other funds (Note 7)	102,855	-	633,150	736,005
Inventories	-	-	12,659	12,659
Prepaid costs and other assets	78,429	-	-	78,429
Restricted assets (Note 4)	-	3,161,901	235,508	3,397,409
Total assets	<u>\$17,174,156</u>	<u>\$ 3,163,924</u>	<u>\$ 2,480,844</u>	<u>\$ 22,818,924</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 371,940	\$ 735,167	\$ 26,270	\$ 1,133,377
Accrued payroll-related liabilities	7,208,241	-	44,036	7,252,277
Due to other governmental units	1,006,301	-	2,948	1,009,249
Due to other funds (Note 7)	883,730	8,481	32,211	924,422
Unearned revenue (Note 5)	583,166	-	71,889	655,055
Total liabilities	10,053,378	743,648	177,354	10,974,380
Fund Balances				
Nonspendable:				
Inventory	-	-	12,659	12,659
Prepaid assets	78,427	-	-	78,427
Restricted:				
Capital projects	-	2,420,276	-	2,420,276
Debt service	-	-	211,745	211,745
Food service	-	-	903,446	903,446
Committed - Community service	-	-	804,794	804,794
Assigned:				
Capital projects	-	-	370,846	370,846
Long-term obligations - Compensated absences and self insurance	2,211,836	-	-	2,211,836
Unassigned	4,830,515	-	-	4,830,515
Total fund balances	<u>7,120,778</u>	<u>2,420,276</u>	<u>2,303,490</u>	<u>11,844,544</u>
Total liabilities and fund balances	<u>\$17,174,156</u>	<u>\$ 3,163,924</u>	<u>\$ 2,480,844</u>	<u>\$ 22,818,924</u>

Lake Orion Community Schools

Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2017

Fund Balance Reported in Governmental Funds	\$ 11,844,544
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	\$ 233,241,908
Accumulated depreciation	<u>(92,182,271)</u>
	141,059,637
Deferred outflows of resources (deferred refunding costs) that do not benefit the current period are not reported in the governmental funds	3,562,493
Deferred outflows related to pension payments made subsequent to the measurement date	9,875,777
Deferred outflows related to pensions	10,248,723
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable including premium	(104,319,373)
Compensated absences	(2,171,836)
Installment purchase agreement obligations	(2,021,770)
Self insurance - Workers' compensation	(40,000)
Capital leases	(524,074)
School Loan Revolving Fund	<u>(5,247,595)</u>
	(114,324,648)
Accrued interest payable is not included as a liability in governmental funds	(557,471)
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position	119,978
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities	(129,236,467)
Deferred inflows related to pension investment returns and changes in assumptions are not reported in the governmental funds	<u>(4,569,706)</u>
Net Position of Governmental Activities	<u>\$ (71,977,140)</u>

Lake Orion Community Schools

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2017

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 8,591,646	\$ 3,515,644	\$ 16,923,736	\$ 29,031,026
State sources	64,289,026	-	352,337	64,641,363
Federal sources	2,450,743	-	939,335	3,390,078
Interdistrict sources	5,523,331	-	78,239	5,601,570
Total revenue	80,854,746	3,515,644	18,293,647	102,664,037
Expenditures				
Current:				
Instruction	51,083,674	-	-	51,083,674
Support services	25,569,736	9,400	-	25,579,136
Athletics	1,178,803	-	-	1,178,803
Food services	-	-	2,391,723	2,391,723
Community services	257,746	-	1,918,322	2,176,068
Debt service:				
Principal	87,924	-	15,557,342	15,645,266
Interest	-	-	4,296,648	4,296,648
Other	-	-	104,556	104,556
Capital outlay	383,224	1,085,968	126,023	1,595,215
Total expenditures	78,561,107	1,095,368	24,394,614	104,051,089
Excess of Revenue Over (Under)				
Expenditures	2,293,639	2,420,276	(6,100,967)	(1,387,052)
Other Financing Sources (Uses)				
Transfers in (Note 7)	299,000	-	1,464,645	1,763,645
Transfers out (Note 7)	(1,464,645)	-	(299,000)	(1,763,645)
School Bond Loan Revolving Fund proceeds	-	-	4,908,034	4,908,034
Total other financing (uses) sources	(1,165,645)	-	6,073,679	4,908,034
Net Change in Fund Balances	1,127,994	2,420,276	(27,288)	3,520,982
Fund Balances - Beginning of year	5,992,784	-	2,330,778	8,323,562
Fund Balances - End of year	\$ 7,120,778	\$ 2,420,276	\$ 2,303,490	\$ 11,844,544

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, 2017**

Net Change in Fund Balances - Total Governmental Funds	\$	3,520,982
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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	\$ (4,735,114)	
Capitalized capital outlay	<u>888,472</u>	(3,846,642)

Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(43,433)
---	----------

Debt proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities	(4,908,034)
--	-------------

Premium on bonds reported as revenue in the governmental funds are capitalized are amortized in the statement of activities	1,286,363
---	-----------

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)	15,645,266
--	------------

Interest expense is recorded in the statement of activities when incurred; it is not reported in the governmental funds until paid	75,757
--	--------

Deferred charges (interest) reported as expenditures in the governmental funds are capitalized and amortized in the statement of activities	(572,309)
---	-----------

Revenue in support of pension contributions made subsequent to measurement date	(618,285)
---	-----------

Change in pension expense related to deferred items	(1,720,226)
---	-------------

Compensated absences, as well as the estimated workers' compensation self-insured liability claims and other liabilities, are recorded when earned in the statement of activities.	688,129
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Internal Service Funds are included as part of governmental activities	<u>118,829</u>
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Change in Net Position of Governmental Activities	\$	<u>9,626,397</u>
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Lake Orion Community Schools

Proprietary Funds Statement of Net Position June 30, 2017

	Governmental Activities
	Proprietary - Internal Service Fund
Assets - Current assets	
Due from other funds (Note 7)	\$ 250,580
Prepaid costs and other assets	108,980
Total assets	359,560
Liabilities - Current liabilities	
Accounts payable	129,582
Self-insurance claims - Dental IBNR	110,000
Total liabilities	239,582
Net Position - Unrestricted	<u><u>\$ 119,978</u></u>

Lake Orion Community Schools

Proprietary Funds **Statement of Revenue, Expenses, and Changes in Net Position** **Year Ended June 30, 2017**

	Governmental Activities
	Proprietary - Internal Service Fund
Operating Revenue - Charges for services	\$ 828,075
Operating Expenses - Cost of claims	709,246
Change in Net Position - Operating income	118,829
Net Position - Beginning of year	1,149
Net Position - End of year	<u><u>\$ 119,978</u></u>

Lake Orion Community Schools

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2017

	Governmental Activities
	Proprietary - Internal Service Fund
Cash Flows from Operating Activities	
Receipts from interfund services and reimbursements	\$ 468,514
Payments for claims	(469,664)
Net cash used in operating activities	(1,150)
Cash Flows from Investing Activities - Interest received on investment earnings	1
Net Decrease in Cash and Cash Equivalents	(1,149)
Cash and Cash Equivalents - Beginning of year	1,149
Cash and Cash Equivalents - End of year	\$ -
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 118,829
Adjustments to reconcile operating income to net cash from operating activities -	
Changes in assets and liabilities:	
Due from General Fund	(250,580)
Prepaid and other assets	(108,981)
Accounts payable	129,582
IBNR liability	110,000
Net cash used in operating activities	\$ (1,150)

Lake Orion Community Schools

Fiduciary Funds **Statement of Fiduciary Assets and Liabilities** **June 30, 2017**

	Student Activities
Assets - Cash and investments (Note 3)	\$ 1,012,518
Liabilities	
Accounts payable	\$ 62,835
Due to student activities	887,520
Due to other funds (Note 7)	62,163
Total liabilities	\$ 1,012,518

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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 (GASB) 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. 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.

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 are reported as separate columns in the fund financial statements.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

Note 1 - 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, 2017

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.

Sinking Fund - The Sinking Fund records capital projects activities funded with sinking fund millage.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Food Service and Community 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 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 2012, 2015, 2015B, 2016, and Energy Bond bond issues or bond refundings, respectively.

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

Fiduciary Fund - 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, 2017

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 are referred to as "advances to/from other funds."

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

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. 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 and Sinking Fund are required to be set aside for future bond principal and interest and approved Sinking Fund projects, respectively. 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 acquisition value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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 net position reports deferred outflows of resources, which represents a consumption of net position or fund balance that applies to a future period and will not be recognized as an outflow of resources (expenditure) until then. The School District reports deferred outflows related to pensions and deferred charges relating to bond refundings.

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

In addition to liabilities, the statement of net position reports deferred inflows of resources, which 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's deferred inflows of resources are related to funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date, amounts related to the pension plan, and deferred charges related to bond refundings.

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. Currently, the fund balance is below 10 percent and the District has a three-year plan to restore General Fund fund balance to 10 percent.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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.

Note 2 - Stewardship, Compliance, and Accountability

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

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

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

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

Note 3 - Deposits and Investments

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

The School District has designated two banks for the deposit of its funds.

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

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

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District'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 \$11,990,249 had \$11,453,114 of bank deposits (checking accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. 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.

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

<u>Investment</u>	<u>Amortized Cost</u>	<u>Rating</u>	<u>Rating Organization</u>
MILAF	\$ 22,479	AAAm	Standard & Poor's

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

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

Note 4 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	Governmental Activities
Unspent property taxes levied in the Sinking Fund	\$ 3,161,901
Unspent property taxes levied in the debt service funds	235,508
Total restricted assets	<u>\$ 3,397,409</u>

Note 5 - Receivables and Unavailable/Unearned Revenue

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

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total
Receivables:				
Taxes receivable	\$ 4,900	\$ 2,023	\$ 8,447	\$ 15,370
Accounts receivable	96,931	-	-	96,931
Due from other governmental units	12,404,762	-	61,763	12,466,525
Total receivables	<u>\$ 12,506,593</u>	<u>\$ 2,023</u>	<u>\$ 70,210</u>	<u>\$ 12,578,826</u>

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	\$ -	\$ 71,889
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	583,166
Total	<u>\$ -</u>	<u>\$ 655,055</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

Note 6 - Capital Assets

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

	Balance July 1, 2016	Transfers	Additions	Disposals	Balance June 30, 2017
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 13,421,804	\$ -	\$ -	\$ -	\$ 13,421,804
Construction in progress	-	-	829,940	-	829,940
Subtotal	13,421,804	-	829,940	-	14,251,744
Capital assets being depreciated:					
Buildings and improvements	202,035,659	-	14,700	-	202,050,359
Furniture and equipment	12,102,284	-	43,832	-	12,146,116
Buses	4,793,689	-	-	-	4,793,689
Subtotal	218,931,632	-	58,532	-	218,990,164
Accumulated depreciation:					
Buildings and improvements	75,011,273	-	3,755,259	-	78,766,532
Furniture and equipment	8,691,875	-	498,446	-	9,190,321
Buses	3,744,009	-	481,409	-	4,225,418
Subtotal	87,447,157	-	4,735,114	-	92,182,271
Net capital assets being depreciated	131,484,475	-	(4,676,582)	-	126,807,893
Net capital assets	\$ 144,906,279	\$ -	\$ (3,846,642)	\$ -	\$ 141,059,637

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

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From				Total
	General Fund	Sinking Fund	Nonmajor Governmental Funds	Fiduciary Fund	
General Fund	\$ -	\$ 8,481	\$ 32,211	\$ 62,163	\$ 102,855
Nonmajor governmental funds	633,150	-	-	-	633,150
Internal Service Fund	250,580	-	-	-	250,580
Total	\$ 883,730	\$ 8,481	\$ 32,211	\$ 62,163	\$ 986,585

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

Note 7 - Interfund Receivables, Payables, and Transfers (Continued)

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

Transfers In	Transfers Out		Total
	General Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 299,000	\$ 299,000
Nonmajor governmental funds	1,464,645	-	1,464,645
Total	\$ 1,464,645	\$ 299,000	\$ 1,763,645

The transfers represent indirect costs reimbursed to the General Fund from the Community Service Fund and the Food Service Fund and amounts paid to the 2014 Energy Bond Debt Fund and Operating Capital Projects Fund to fund principal and interest payments.

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, including the School Bond Loan Fund, are fully guaranteed by the State of Michigan. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include capital lease obligations, compensated absences, and certain risk liabilities.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 111,455,000	\$ -	\$ 14,780,000	\$ 96,675,000	\$ 15,675,000
Less deferred amounts - Bond premium	8,930,736	-	1,286,363	7,644,373	1,153,591
Total bonds payable	120,385,736	-	16,066,363	104,319,373	16,828,591
Capital lease obligations	1,104,549	-	580,475	524,074	332,543
Installment purchase agreements	2,306,561	-	284,791	2,021,770	291,494
School Bond Loan Revolving Fund	339,561	4,908,034	-	5,247,595	-
Other obligations	2,899,965	2,667,555	3,245,684	2,321,836	2,281,836
Total governmental activities	\$ 127,036,372	\$ 7,575,589	\$ 20,177,313	\$ 114,434,648	\$ 19,734,464

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

Note 8 - Long-term Debt (Continued)

At June 30, 2017, the School District had deferred outflows of \$3,562,493 related to deferred charges on bond refundings.

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2018	\$ 15,675,000	\$ 3,775,704	\$ 19,450,704
2019	16,170,000	3,270,976	19,440,976
2020	16,715,000	2,742,759	19,457,759
2021	17,360,000	2,094,700	19,454,700
2022	6,935,000	1,489,988	8,424,988
2023-2027	21,700,000	2,773,270	24,473,270
2028-2032	1,730,000	298,420	2,028,420
2033	390,000	16,575	406,575
Total	<u>\$ 96,675,000</u>	<u>\$ 16,462,392</u>	<u>\$ 113,137,392</u>

Governmental Activities

General obligation bonds consist of the following:

\$23,880,000 - 2012 refunding bonds due in an annual installment of \$4,170,000 through May 2018; interest at 4.00 to 5.00 percent	\$ 4,170,000
\$5,280,000 - 2013 Energy Conservation Improvement Bonds due in annual installments of \$215,000 to \$390,000 through May 2033; interest at 2.00 to 4.25 percent	4,690,000
\$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	17,740,000
\$37,590,000 - 2015 Refunding bonds due in annual installments of \$6,280,000 to \$10,070,000 through May 2021; interest at 1.13 through 2.46 percent	31,570,000
\$38,505,000 - 2016 refunding bonds due in annual installments of \$830,000 to \$5,915,000 through May 2027; interest at 5.00 percent	<u>38,505,000</u>
Total bonded debt	<u>\$ 96,675,000</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the respective inception date. At June 30, 2017, property under capital leases had a gross cost of \$3,406,033 and accumulated depreciation of \$2,303,386.

The future minimum lease obligations and the net present value are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2018	\$ 347,864
2019	94,576
2020	94,576
2021	<u>31,525</u>
Total	568,541
Less amount representing interest	<u>44,467</u>
Present value of net minimum lease payments	<u>\$ 524,074</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 2,171,836
Self insurance - Workers' compensation	40,000
Self insurance - Dental	<u>110,000</u>
Total	<u>\$ 2,321,836</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

Note 8 - Long-term Debt (Continued)

School Loan Revolving Fund - The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in accordance with Section 9 of Act No. 92 of the Public Acts of 2005, as amended. Interest rates went into effect beginning October 1, 2005 pursuant to Public Act 92. Interest at the annual rate of 3.13323 percent at June 30, 2017 has been assessed for the year ended June 30, 2017. 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.

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 of principal to maturity for the installment purchase agreements are as follows:

Years Ending June 30	Amount
2018	\$ 291,494
2019	298,355
2020	305,377
2021	312,565
2022	319,922
2023-2024	494,057
Total	<u>\$ 2,021,770</u>

Advance and Current Refundings - In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2017, \$38,505,000 of bonds outstanding are considered defeased.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

Note 9 - Risk Management

The School District is exposed to various risk of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical benefit claims and participates in the SET-SEG risk pool for claims relating to property loss, torts, and error and omissions; the School District is partially uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

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

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

Workers' compensation

	2017	2016
Estimated liability - Beginning of year	\$ 610,000	882,000
Estimated claims incurred - Including changes in estimates	(436,908)	(164,249)
Claim payments	(133,092)	(107,751)
Unpaid claims - End of year	<u>\$ 40,000</u>	<u>\$ 610,000</u>

Dental

	2017	2016
Estimated liability - Beginning of year	\$ 59,239	\$ -
Estimated claims incurred - Including changes in estimates	662,637	59,239
Claim payments	(611,876)	-
Unpaid claims - End of year	<u>\$ 110,000</u>	<u>\$ 59,239</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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. Certain School District employees also receive defined contribution retirement and health care benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The 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 districts' 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 is as follows:

School District

October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - June 30, 2017	15.27% - 19.03%

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

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

The School District's required and actual contributions to the plan for the years ended June 30, 2017 and 2016 were \$11,906,997 and \$11,898,883, respectively, which includes the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual contributions include an allocation of \$3,942,331 and \$3,324,046 of 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 years ended June 30, 2017 and 2016, respectively.

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

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

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2017, the School District reported a liability of \$129,236,467 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, which used update procedures to roll forward the estimated liability to September 30, 2016. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.517999 percent and 0.499251 percent, respectively.

For the year ended June 30, 2017, the School District recognized pension expense of \$13,551,932, inclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,610,628	\$ (306,294)
Changes of assumptions	2,020,511	-
Net difference between projected and actual earnings on pension plan assets	2,147,909	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	4,469,675	(321,081)
The School District's contributions subsequent to the measurement date	9,875,777	-
Total	<u>\$ 20,124,500</u>	<u>\$ (627,375)</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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

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
2018	\$ 2,251,811
2019	2,082,885
2020	4,240,445
2021	1,046,207
Total	<u>\$ 9,621,348</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.

Actuarial Assumptions - The total pension liability as of September 30, 2016 is based on the results of an actuarial valuation date of September 30, 2015 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 - 12.30 percent, including wage inflation of 3.50 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost-of-living pension adjustments	3 percent annual noncompounded for MIP members

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

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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

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.

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 pools	15.5 %	6.0 %
Short-term investment pools	2.0 %	- %
Total	100.0 %	

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent. As a result, the actuarial computed employer contributions and the net pension liability will increase for the measurement period ending September 30, 2017.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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

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)
\$ 166,424,040	\$ 129,236,467	\$ 97,883,768

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, 2017, the School District reported a payable of \$1,658,217 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

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. The employer contribution rate ranged from 6.4 percent to 6.83 percent of covered payroll for the period from July 1, 2016 to September 30, 2016 and from 5.69 percent to 5.91 percent of covered payroll for the period from October 1, 2016 through June 30, 2017 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.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2017

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

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were \$2,502,739, \$2,531,719, and \$1,387,212, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

Note 11 - Tax Abatements

The School District may receive reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) and Brownfield Redevelopment Agreements granted by cities, villages, and townships within the boundaries of the School District. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

The School District is reimbursed for lost revenue caused by tax abatements, if any, on the operating millage of nonhomestead properties from the State of Michigan under the School Aid formula. The School District is not reimbursed for lost revenue from the Sinking Fund or debt service millages. There are no abatements made by the School District.

For the fiscal year ended June 30, 2017, the School District's property tax revenue was not reduced under these programs; thus, the School District did not receive any reimbursements for lost revenue.

Note 12 - 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.

Note 12 - Upcoming Accounting Pronouncements (Continued)

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2020.

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

Required Supplemental Information

Lake Orion Community Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	\$ 8,923,236	\$ 8,648,916	\$ 8,591,646	\$ (57,270)
State sources	63,010,696	64,338,349	64,289,026	(49,323)
Federal sources	2,495,229	2,496,459	2,450,743	(45,716)
Interdistrict sources	4,995,043	5,334,994	5,523,331	188,337
Other revenue	315,000	340,000	299,000	(41,000)
Total revenue	79,739,204	81,158,718	81,153,746	(4,972)
Expenditures				
Current:				
Instruction:				
Basic program	40,838,506	41,599,335	41,086,495	(512,840)
Added needs	10,481,199	10,291,539	10,313,927	22,388
Total instruction	51,319,705	51,890,874	51,400,422	(490,452)
Support services:				
Pupil	6,313,626	6,106,517	6,125,150	18,633
Instruction improvement	568,149	671,629	520,573	(151,056)
Educational media services	1,013,618	955,539	971,204	15,665
Technology assisted instruction	25,900	50,570	55,345	4,775
Instructional staff supervision	648,309	804,712	730,949	(73,763)
General administration	1,054,194	1,033,676	1,054,489	20,813
School administration	4,697,963	4,689,259	4,657,441	(31,818)
Business	911,807	882,324	848,884	(33,440)
Operations and maintenance	4,931,594	5,132,816	5,228,114	95,298
Pupil transportation services	2,986,767	3,030,240	2,928,904	(101,336)
Communication services	95,473	96,000	86,673	(9,327)
Human resources	871,239	911,699	916,633	4,934
Technology services	1,547,729	1,625,304	1,574,653	(50,651)
Total support services	25,666,368	25,990,285	25,699,012	(291,273)
Athletics	1,117,055	1,169,377	1,179,468	10,091
Community services	271,992	296,174	282,205	(13,969)
Total expenditures	78,375,120	79,346,710	78,561,107	(785,603)
Excess of Revenue Over Expenditures	1,364,084	1,812,008	2,592,639	780,631
Other Financing Uses - Transfers out	(1,208,148)	(1,211,356)	(1,464,645)	(253,289)
Net Change in Fund Balance	155,936	600,652	1,127,994	527,342
Fund Balance - Beginning of year	5,992,784	5,992,784	5,992,784	-
Fund Balance - End of year	<u>\$ 6,148,720</u>	<u>\$ 6,593,436</u>	<u>\$ 7,120,778</u>	<u>\$ 527,342</u>

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**

	2016	2015	2014
School District's proportion of the net pension liability	0.51800 %	0.49925 %	0.49210 %
School District's proportionate share of the net pension liability	\$ 129,236,467	\$ 121,942,098	\$ 108,391,563
School District's covered employee payroll	44,339,139	41,499,311	42,135,063
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	291.47 %	293.84 %	257.25 %
Plan fiduciary net position as a percentage of the total pension liability	63.01 %	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

	2017	2016	2015
Statutorily required contribution	\$ 11,828,203	\$ 11,824,219	\$ 9,500,078
Contributions in relation to the statutorily required contribution	11,828,203	11,824,219	9,500,078
Contribution deficiency (excess)	-	-	-
School District's covered employee payroll	41,686,256	42,824,405	41,850,563
Contributions as a percentage of covered employee payroll	28.37 %	27.61 %	22.70 %

Lake Orion Community Schools

Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2017

Benefit Changes - There were no changes of benefit terms for the plan year ended September 30, 2016.

Changes in Assumptions - There were no changes of benefit assumptions for the plan year ended September 30, 2016.

Other Supplemental Information

Lake Orion Community Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Special Revenue Funds		Debt Service Funds				Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	Community Services	2012 Debt	Energy Bond	2015 Debt	2015B Debt	2016 Debt	Operating Capital Projects Fund
Assets								
Cash and investments	\$ 700,572	\$ 771,395	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,350
Receivables	61,761	-	2,032	-	2,722	2,971	723	1
Due from other funds	225,308	94,347	-	-	-	-	-	313,495
Inventories	12,659	-	-	-	-	-	-	-
Restricted assets	-	-	53,762	-	74,245	91,702	15,799	-
	<u>\$ 1,000,300</u>	<u>\$ 865,742</u>	<u>\$ 55,794</u>	<u>\$ -</u>	<u>\$ 76,967</u>	<u>\$ 94,673</u>	<u>\$ 16,522</u>	<u>\$ 370,846</u>
Total assets								<u>\$ 2,480,844</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 61	\$ 26,209	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll-related liabilities	11,472	32,564	-	-	-	-	-	-
Due to other governmental units	773	2,175	-	-	-	-	-	-
Due to other funds	-	-	7,403	-	9,528	13,043	2,237	-
Unearned revenue	71,889	-	-	-	-	-	-	-
	<u>84,195</u>	<u>60,948</u>	<u>7,403</u>	<u>-</u>	<u>9,528</u>	<u>13,043</u>	<u>2,237</u>	<u>-</u>
Total liabilities								177,354
Fund Balances								
Nonspendable - Inventory	12,659	-	-	-	-	-	-	-
Restricted:								
Debt service	-	-	48,391	-	67,439	81,630	14,285	-
Food service	903,446	-	-	-	-	-	-	-
Committed - Community service	-	804,794	-	-	-	-	-	-
Assigned - Capital projects	-	-	-	-	-	-	-	-
	<u>916,105</u>	<u>804,794</u>	<u>48,391</u>	<u>-</u>	<u>67,439</u>	<u>81,630</u>	<u>14,285</u>	<u>370,846</u>
Total fund balances								2,303,490
Total liabilities and fund balances	<u>\$ 1,000,300</u>	<u>\$ 865,742</u>	<u>\$ 55,794</u>	<u>\$ -</u>	<u>\$ 76,967</u>	<u>\$ 94,673</u>	<u>\$ 16,522</u>	<u>\$ 370,846</u>
								<u>\$ 2,480,844</u>

Lake Orion Community Schools

	Special Revenue Funds		
	Food Service	Community Services	Total
Revenue			
Local sources	\$ 1,511,064	\$ 2,129,078	\$ 3,640,142
State sources	172,343	109,020	281,363
Federal sources	939,335	-	939,335
Governmental - Intergovernmental	78,239	-	78,239
Total revenue	2,700,981	2,238,098	4,939,079
Expenditures - Current			
Support services:			
Food services	2,391,723	-	2,391,723
Community services	-	1,918,322	1,918,322
Debt service:			
Principal	-	-	-
Interest	-	-	-
Other	-	-	-
Capital outlay	35,031	960	35,991
Total expenditures	2,426,754	1,919,282	4,346,036
Excess of Revenue Over (Under) Expenditures	274,227	318,816	593,043
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	(99,000)	(200,000)	(299,000)
School Bond Loan Revolving Fund proceeds	-	-	-
Total other financing (uses) sources	(99,000)	(200,000)	(299,000)
Net Change in Fund Balances	175,227	118,816	294,043
Fund Balances - Beginning of year	740,878	685,978	1,426,856
Fund Balances - End of year	\$ 916,105	\$ 804,794	\$ 1,720,899

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2017

Debt Service Funds						Capital Projects Fund	Total Nonmajor Governmental Funds
2012 Debt	Energy Bond	2015 Debt	2015B Debt	2016 Debt	Total	Operating Capital Projects Fund	
\$ 3,040,133	\$ -	\$ 4,141,587	\$ 5,206,802	\$ 894,818	\$13,283,340	\$ 254	\$ 16,923,736
-	-	-	-	-	-	70,974	352,337
-	-	-	-	-	-	-	939,335
-	-	-	-	-	-	-	78,239
3,040,133	-	4,141,587	5,206,802	894,818	13,283,340	71,228	18,293,647
-	-	-	-	-	-	-	2,391,723
-	-	-	-	-	-	-	1,918,322
3,905,000	205,000	4,650,000	6,020,000	-	14,780,000	777,342	15,557,342
332,284	165,313	1,085,648	719,081	1,927,980	4,230,306	66,342	4,296,648
31,112	250	40,296	14,893	18,005	104,556	-	104,556
-	-	-	-	-	-	90,032	126,023
4,268,396	370,563	5,775,944	6,753,974	1,945,985	19,114,862	933,716	24,394,614
(1,228,263)	(370,563)	(1,634,357)	(1,547,172)	(1,051,167)	(5,831,522)	(862,488)	(6,100,967)
-	370,563	-	-	-	370,563	1,094,082	1,464,645
-	-	-	-	-	-	-	(299,000)
1,138,159	-	1,553,626	1,628,802	587,447	4,908,034	-	4,908,034
1,138,159	370,563	1,553,626	1,628,802	587,447	5,278,597	1,094,082	6,073,679
(90,104)	-	(80,731)	81,630	(463,720)	(552,925)	231,594	(27,288)
138,495	-	148,170	-	478,005	764,670	139,252	2,330,778
\$ 48,391	\$ -	\$ 67,439	\$ 81,630	\$ 14,285	\$ 211,745	\$ 370,846	\$ 2,303,490

Lake Orion Community Schools

June 30	2012 Debt		Energy Bond 2014	
	Principal	Interest	Principal	Interest
2018	\$ 4,170,000	\$ 166,800	\$ 215,000	\$ 161,212
2019	-	-	225,000	156,912
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	<u>\$ 4,170,000</u>	<u>\$ 166,800</u>	<u>\$ 4,690,000</u>	<u>\$ 1,658,028</u>
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	<u>\$ 23,880,000</u>	<u>\$ -</u>	<u>\$ 5,280,000</u>	<u>\$ -</u>

**Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2017**

2015 Debt		2015B Debt		2016 Refunding	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 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
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 17,740,000	\$ 2,323,000	\$ 31,570,000	\$ 1,794,814	\$ 38,505,000	\$ 10,519,750
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	\$ -