

# **Lake Orion Community Schools**

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**Financial Report  
with Supplemental Information  
June 30, 2012**

# Lake Orion Community Schools

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## Independent Auditor's Report

To the Board of Education  
Lake Orion Community Schools

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Lake Orion Community Schools (the "School District") as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake Orion Community Schools' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Lake Orion Community Schools as of June 30, 2012 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the Board of Education  
Lake Orion Community Schools

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2012 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions 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* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

September 17, 2012

# 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, 2012. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### Using this Annual Report

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

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

### Basic Financial Statements

Government-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)  
Budgetary Information for Major Fund

Other Supplemental Information

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

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

# Lake Orion Community Schools

## Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - 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 assets - 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 assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, food services, athletics, and community services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

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

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

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

# 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 assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2012 and 2011.

TABLE I

	Governmental Activities	
	2012	2011
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 22.9	\$ 27.6
Capital assets	<u>151.9</u>	<u>154.4</u>
Total assets	174.8	182.0
<b>Liabilities</b>		
Current liabilities	20.7	23.7
Long-term liabilities	<u>132.4</u>	<u>137.4</u>
Total liabilities	<u>153.1</u>	<u>161.1</u>
<b>Net Assets</b>		
Investment in capital assets - Net of related debt	17.8	14.2
Restricted for debt service	0.6	0.6
Restricted for food service	0.8	-
Unrestricted	<u>2.5</u>	<u>6.1</u>
Total net assets	<u>\$ 21.7</u>	<u>\$ 20.9</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$21.7 million at June 30, 2012 and \$20.9 million at June 30, 2011. Capital assets, net of related debt totaling \$17.8 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 assets of \$1.4 million are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$2.5 million, was unrestricted.

# Lake Orion Community Schools

## Management's Discussion and Analysis (Continued)

The \$2.5 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2012 and 2011.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2012	2011
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 4.3	\$ 4.1
Operating grants	15.5	14.3
General revenue:		
Property taxes	19.1	21.0
State foundation allowance	53.2	53.6
Federal unrestricted revenue	0.1	2.2
Other	1.1	1.1
Total revenue	<u>93.3</u>	<u>96.3</u>
<b>Functions/Program Expenses</b>		
Instruction	46.6	47.0
Support services	30.6	28.8
Food service	2.3	2.3
Athletics	1.1	1.2
Community services	2.0	2.0
Interest on long-term debt	5.8	7.4
Depreciation (unallocated)	4.1	4.0
Total functions/program expenses	<u>92.5</u>	<u>92.7</u>
<b>Increase in Net Assets</b>	<u>\$ 0.8</u>	<u>\$ 3.6</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 \$92.5 million. Certain activities were partially funded from those who benefited from the programs, \$4.3 million, or by other governments and organizations that subsidized certain programs with grants and contributions of \$15.5 million. We paid for the remaining "public benefit" portion of our governmental activities with \$19.1 million in taxes, \$53.2 million in state foundation allowance, \$0.1 million in Education Jobs funds, and with \$1.1 million of 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.

Year Ended June 30	Government-wide Activities		Government-wide Activities	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2012		2011	
	(in millions)		(in millions)	
Instruction	\$ 46.6	\$ 36.5	\$ 47.0	\$ 37.7
Support services	30.6	25.9	28.8	24.6
Athletics	1.1	0.7	1.2	0.7
All others	14.2	9.6	15.7	11.4
Total	<u>\$ 92.5</u>	<u>\$ 72.7</u>	<u>\$ 92.7</u>	<u>\$ 74.4</u>

The School District experienced an increase in net assets of \$0.8 million. The net assets invested in capital assets (net of related debt) increased by \$3.6 million. Net assets restricted for debt service remain unchanged. The unrestricted net asset balance decreased by \$3.6 million. Additionally, long-term debt decreased by \$5.0 million, and the net capital assets balance decreased by \$2.5 million.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

# Lake Orion Community Schools

## Management's Discussion and Analysis (Continued)

### The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$14.4 million, which is a decrease of \$1.9 million from last year. The changes by major and nonmajor funds are as follows:

	General Fund	Other Nonmajor Funds	Total
Fund balance - Beginning of year	\$ 14,250,656	\$ 1,987,462	\$ 16,238,118
Decrease	(1,783,141)	(76,669)	(1,859,810)
Fund balance - End of year	<u>\$ 12,467,515</u>	<u>\$ 1,910,793</u>	<u>\$ 14,378,308</u>

In the General Fund, our principal operating fund, the fund balance decreased by \$1.8 million from 2011. Revenue and other financing sources decreased by \$1.9 million from 2011, while expenditures decreased by \$0.5 million. The fund balance of the General Fund is available to fund costs related to allowable school operating purposes.

The other nonmajor funds decreased slightly by \$0.1 million during the year ended June 30, 2012.

### General Fund Budgetary Highlights

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

A budget is a fluid document. Therefore, as expected, there were revisions made to the 2011-2012 General Fund budget. Revisions to the expenditures were due to adjustments based on more accurate information.

# Lake Orion Community Schools

## Management's Discussion and Analysis (Continued)

There were four areas of significant variances between the final budget amounts and actual, based on dollar amount and percentages. Expenditures were less than budgeted for basic programs and added needs by \$0.6 million which is tied to grant funding. Additionally, expenditures were less than budgeted for business services, operations and maintenance, and technology services by \$0.6 million, \$0.5 million, and \$0.2 million, respectively. These variances relate to tax abatements, where we paid less than expected, and maintenance and technology projects not completed during the 2011-2012 fiscal year as expected. No other areas of significance were noted.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2012, the School District had \$151.9 million invested in a broad range of capital assets, including land, buildings and improvements, transportation equipment, and furniture and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$2.5 million or 1.6 percent, from last year.

	2012	2011
Land	\$ 13,421,804	\$ 13,421,804
Buildings and building improvements	197,120,589	195,683,377
Buses and other vehicles	2,425,484	9,756,003
Furniture and equipment	9,357,586	4,039,660
Subtotal	222,325,463	222,900,844
Accumulated depreciation	(70,375,696)	(68,470,794)
Net capital assets	<u>\$ 151,949,767</u>	<u>\$ 154,430,050</u>

The decrease of \$2.5 million in the fiscal year 2012 (net of current year depreciation) is due to the current year's depreciation being greater than the amount of additions. 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 \$112.3 million in bonds outstanding versus \$123.0 million in the previous year - a decrease of 8.7 percent. Those bonds consisted of the following:

	2012	2011
General obligation bonds	<u>\$ 112,260,000</u>	<u>\$ 122,960,000</u>

# Lake Orion Community Schools

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## Management's Discussion and Analysis (Continued)

The School District's general obligation bond rating is "AA-" from Standard and Poor's Ratings Services and "Aaa" from Moody's Investor Services. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding qualified general obligation debt of \$112.3 million is below the \$230.9 million statutorily imposed limit.

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

### Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2013 fiscal year 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, 2013 budget was adopted in June 2012, 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 School 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 severity in the decline 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 the 2013 fiscal year is 10 percent of the February 2012 and 90 percent of the September 2012 student counts. The 2012-2013 budget was adopted in June 2012, based on an estimate of students that will be enrolled in September 2012. Based on early enrollment data at the start of the 2012-2013 school year, we anticipate that the fall student count will be in line with the estimates used to create the 2012-2013 budget.

# **Lake Orion Community Schools**

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## **Management's Discussion and Analysis (Continued)**

In the recent past, the State of Michigan has issued several executive orders prorating and reducing, midyear, the State's funding commitment to the School District. This possibility continues to exist for fiscal year 2012-2013. 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. We continue to feel that it is highly probable that school funding will stabilize at a significantly lower level. While legislators must work toward balancing a budget in times of limited financial resources, the School District must do the same. The School District has made every effort over the past decade to prepare itself to deal with the struggling economy. Budget reductions in excess of \$20.0 million, resulting from ongoing operational cost-sharing, outsourcing, and restructuring, have been made to stabilize our financial health. Based on these 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 make operational changes to realign our expenditures with our new level of revenue. For 2012-2013, it is the intention of the School District to absorb expenditures beyond revenue with fund balance.

### **Contacting the School District's Management**

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

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

# Lake Orion Community Schools

## Statement of Net Assets June 30, 2012

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 10,342,146
Receivables (Note 4)	11,664,304
Other assets	202,165
Restricted assets (Notes 1 and 3)	602,231
Capital assets - Net (Note 5)	<u>151,949,767</u>
Total assets	174,760,613
<b>Liabilities</b>	
Accounts payable	396,725
Accrued payroll and other liabilities	8,274,315
Due to other governmental units	125,516
Deferred revenue (Note 4)	416,423
Long-term liabilities (Note 7):	
Due within one year	11,449,142
Due in more than one year	<u>132,406,472</u>
Total liabilities	<u>153,068,593</u>
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	17,790,750
Restricted for debt service	564,125
Restricted for food service	854,914
Unrestricted	<u>2,482,231</u>
Total net assets	<u><u>\$ 21,692,020</u></u>

# Lake Orion Community Schools

## Statement of Activities Year Ended June 30, 2012

	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
Instruction	\$ 46,646,239	\$ -	\$ 10,187,146	\$ (36,459,093)
Support services	30,605,073	310,057	4,365,919	(25,929,097)
Food services	2,277,638	1,586,153	948,734	257,249
Athletics	1,106,371	451,148	-	(655,223)
Community services	1,974,288	1,934,987	-	(39,301)
Interest on long-term debt	5,824,334	-	-	(5,824,334)
Depreciation (unallocated)	4,082,625	-	-	(4,082,625)
Total primary government - Governmental activities	<u>\$ 92,516,568</u>	<u>\$ 4,282,345</u>	<u>\$ 15,501,799</u>	(72,732,424)
General revenue:				
Taxes:				
Property taxes - Levied for general purposes				7,350,016
Property taxes - Levied for debt services				11,717,821
Property taxes - Delinquent				93,996
State aid not restricted to specific purposes				53,184,772
Federal unrestricted revenue				97,638
Interest and investment earnings				31,127
Other				1,039,802
				<u>73,515,172</u>
				Total general revenue
				<u>782,748</u>
				<b>Change in Net Assets</b>
				<u>20,909,272</u>
				<b>Net Assets - Beginning of year</b>
				<u>\$ 21,692,020</u>
				<b>Net Assets - End of year</b>

# Lake Orion Community Schools

## Governmental Funds Balance Sheet June 30, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 3)	\$ 8,969,955	\$ 1,372,191	\$ 10,342,146
Receivables (Note 4):			
Accounts receivable	33,703	575	34,278
Due from other governmental units	11,575,646	54,380	11,630,026
Due from other funds (Note 6)	28,016	-	28,016
Other assets	153,315	48,850	202,165
Restricted assets (Notes 1 and 3)	-	602,231	602,231
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u><u>\$ 20,760,635</u></u>	<u><u>\$ 2,078,227</u></u>	<u><u>\$ 22,838,862</u></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 389,963	\$ 7,324	\$ 397,287
Accrued payroll and other liabilities	7,493,874	-	7,493,874
Due to other funds (Note 6)	-	27,454	27,454
Due to other governmental units	48,378	77,138	125,516
Deferred revenue (Note 4)	360,905	55,518	416,423
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	8,293,120	167,434	8,460,554
<b>Fund Balances</b>			
Nonspendable - Inventories and prepaid costs	153,315	48,850	202,165
Restricted:			
Debt service	-	564,125	564,125
Food service	-	811,137	811,137
Committed - Community services	-	486,681	486,681
Assigned:			
Repairs, equipment, capital, and tax abatements	1,752,000	-	1,752,000
Long-term obligations - Compensated absences and self-insurance	2,586,578	-	2,586,578
2012-2013 budgeted deficit	1,782,835	-	1,782,835
Unassigned - General Fund	6,192,787	-	6,192,787
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	12,467,515	1,910,793	14,378,308
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balance	<u><u>\$ 20,760,635</u></u>	<u><u>\$ 2,078,227</u></u>	<u><u>\$ 22,838,862</u></u>

# Lake Orion Community Schools

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2012

<b>Fund Balances</b> - Total governmental funds	\$ 14,378,308
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:	
Cost of capital assets	\$ 222,325,463
Accumulated depreciation	<u>(70,375,696)</u> 151,949,767
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable and related premium, deferred charges, and issuance costs - Net of amortization	(113,850,750)
Capital lease obligations	(125,481)
Compensated absences	(2,234,578)
School Bond Loan Fund	(21,204,830)
School Loan Revolving Fund	(6,012,975)
Self-insurance and other	<u>(427,000)</u> (143,855,614)
Accrued interest payable is not included as a liability in governmental funds	<u>(780,441)</u>
<b>Net Assets</b> - Governmental activities	<b><u>\$ 21,692,020</u></b>

# Lake Orion Community Schools

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Local sources	\$ 9,141,395	\$ 15,310,072	\$ 24,451,467
State sources	59,144,768	111,053	59,255,821
Federal sources	2,810,999	837,681	3,648,680
Medicaid and ISD sources	5,879,708	-	5,879,708
Total revenue	76,976,870	16,258,806	93,235,676
<b>Expenditures</b>			
Current:			
Instruction	46,640,926	-	46,640,926
Support services	27,865,442	-	27,865,442
Food services	-	2,254,561	2,254,561
Athletics	1,108,357	-	1,108,357
Community services	310,320	1,632,208	1,942,528
Debt service:			
Principal	-	9,160,000	9,160,000
Interest	-	6,957,166	6,957,166
Other	-	774,641	774,641
Capital outlay	3,320,416	226,143	3,546,559
Total expenditures	79,245,461	21,004,719	100,250,180
<b>Excess of Expenditures Over Revenue</b>	(2,268,591)	(4,745,913)	(7,014,504)
<b>Other Financing Sources (Uses)</b>			
Proceeds from sale of capital assets	80,450	-	80,450
Transfers in (Note 6)	405,000	-	405,000
Transfers out (Note 6)	-	(405,000)	(405,000)
School Bond Loan Fund debt issued	-	4,224,316	4,224,316
Face value of debt issued	-	23,880,000	23,880,000
Premium on debt issued	-	2,389,928	2,389,928
Payment to escrow agent	-	(25,420,000)	(25,420,000)
Total other financing sources	485,450	4,669,244	5,154,694
<b>Net Change in Fund Balances</b>	(1,783,141)	(76,669)	(1,859,810)
<b>Fund Balances - Beginning of year</b>	14,250,656	1,987,462	16,238,118
<b>Fund Balances - End of year</b>	<b>\$ 12,467,515</b>	<b>\$ 1,910,793</b>	<b>\$ 14,378,308</b>

# 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, 2012

**Net Change in Fund Balances** - Total governmental funds \$ (1,859,810)

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

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

Depreciation expense	\$ (4,082,625)	
Capitalized capital outlay	<u>1,619,153</u>	(2,463,472)

The net effect of the sale of transactions involving capital assets that decreased net assets including disposals (16,811)

School Bond Loan Fund and School Loan Revolving Fund proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities (4,224,316)

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities (23,880,000)

Deferred charges (interest) reported as expenditures in the governmental funds are capitalized and amortized in the statement of activities 279,370

Underwriter's premium and issuance costs are reported as revenue in the funds and amortization is recorded as an expense in the statement of activities (1,705,233)

Repayment of bond principal and capital lease obligations is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 34,679,317

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 168,767

Compensated absences, as well as the estimated self-insured liability claims and other liabilities, are recorded when earned in the statement of activities. In the current year, more was earned than paid out (195,064)

**Change in Net Assets of Governmental Activities** **\$ 782,748**

# Lake Orion Community Schools

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## Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2012

	Student Activities <u>Agency Fund</u>
<b>Assets - Cash and investments</b>	<b><u>\$ 722,067</u></b>
<b>Liabilities</b>	
Due to other funds	\$ 562
Due to student and other groups	<u>721,505</u>
Total liabilities	<b><u>\$ 722,067</u></b>

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2012

### Note 1 - Summary of Significant Accounting Policies

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

#### **Reporting Entity**

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

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

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

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2012

### Note I - Summary of Significant Accounting Policies (Continued)

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. 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.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental fund:

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

Additionally, the School District reports the following fund types:

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Food Service and Community Services Funds. Revenue sources for the Food Service Fund include sales to customers, dedicated grants from 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 funds is the responsibility of the General Fund.

**Debt Service Funds** - The 2002, 2005, 2006, and 2012 Debt Service Funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the 2002, 2005, 2006, and 2012 bond issues or bond refundings, respectively.

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2012

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Projects Fund** - The 2002 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, technology, buses, and remodeling. The fund is kept open until the purpose for which the fund was created is accomplished. This fund is complete as of June 30, 2012.

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

#### **Assets, Liabilities, and Net Assets or Fund Balance**

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

**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 rather than when consumed. United States Department of Agriculture Commodities inventory received by the Food Service Fund is recorded as inventory and expensed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

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

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2012

### Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

**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 assets. Bond premiums and discounts, as well as issuance costs, 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 deferred charges and are amortized over the term of the related debt.

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.

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2012

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fund Balance** - 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:** Includes the residual classification for the School District's General Fund and includes all spendable amounts not contained in other classifications.

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

**Upcoming Accounting Pronouncements** - GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the School District's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2012

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the School District as of June 30, 2014.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). 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 financial statements for the year ending June 30, 2015.

### **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.

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2012

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

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

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The School District did not have significant expenditure budget variances. There are differences between the classification of revenue and expenditures in the budgetary comparison schedule compared with the statement of revenue, expenditures, and changes in fund balance related to proceeds from the sale of assets and capital outlay expenditures.

### Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. For the 2011-2012 school year, the School District designated 12 banks for the deposit of its funds. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The investment policy adopted by the board, in accordance with state statutes, has authorized investment in all the allowable investment vehicles noted above.

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$12,534,420 had \$10,831,618 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.

### Note 3 - Deposits and Investments (Continued)

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

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

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

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

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

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2012

### Note 4 - Receivables and Deferred Revenue

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

	General Fund	Nonmajor Governmental Funds	Total
Receivables:			
Accounts	\$ 33,703	\$ 575	\$ 34,278
Intergovernmental	<u>11,575,646</u>	<u>54,380</u>	<u>11,630,026</u>
Net receivables	<u>\$ 11,609,349</u>	<u>\$ 54,955</u>	<u>\$ 11,664,304</u>

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

	Unearned
Food Service pre-paid revenue	\$ 55,518
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>360,905</u>
Total	<u>\$ 416,423</u>

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2012

### Note 5 - Capital Assets

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

	Balance July 1, 2011	Additions	Disposals	Balance June 30, 2012
Capital assets not being depreciated -				
Land	\$ 13,421,804	\$ -	\$ -	\$ 13,421,804
Capital assets being depreciated:				
Building and building improvements	195,683,377	1,437,212	-	197,120,589
Furniture and equipment	9,756,003	181,941	580,358	9,357,586
Buses and other vehicles	4,039,660	-	1,614,176	2,425,484
Subtotal	209,479,040	1,619,153	2,194,534	208,903,659
Accumulated depreciation:				
Building and building improvements	57,299,739	3,452,323	-	60,752,062
Furniture and equipment	8,250,845	369,411	563,547	8,056,709
Buses and other vehicles	2,920,210	260,891	1,614,176	1,566,925
Subtotal	68,470,794	4,082,625	2,177,723	70,375,696
Net capital assets being depreciated	141,008,246	(2,463,472)	16,811	138,527,963
Net governmental capital assets	<u>\$ 154,430,050</u>	<u>\$ (2,463,472)</u>	<u>\$ 16,811</u>	<u>\$ 151,949,767</u>

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

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From		
	Nonmajor Governmental Funds	Fiduciary Fund	Total
General Fund	<u>\$ 27,454</u>	<u>\$ 562</u>	<u>\$ 28,016</u>

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

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2012

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

#### Interfund Transfers

	Transfer Out - Nonmajor Governmental Funds
	<hr/>
Transfer in - General Fund	<u>\$ 405,000</u>

The transfers represent indirect costs reimbursed to the General Fund from the Community Service Fund and the Food Service Fund.

### Note 7 - Long-term Debt

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

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Governmental activities:					
Bonds	\$ 122,960,000	\$ 23,880,000	\$ 34,580,000	\$ 112,260,000	\$ 8,755,000
Less deferred amounts:					
Bond premium	4,840,624	2,389,928	518,250	6,712,302	783,797
Bond issuance costs	(715,537)	(234,451)	(68,006)	(881,982)	(94,056)
Deferred charges from refunding bonds	<u>(3,960,200)</u>	<u>(615,477)</u>	<u>(336,107)</u>	<u>(4,239,570)</u>	<u>(404,494)</u>
Total bonds payable	123,124,887	25,420,000	34,694,137	113,850,750	9,040,247
Capital lease obligations	224,798	-	99,317	125,481	99,317
Other obligations	<u>25,460,003</u>	<u>5,299,427</u>	<u>880,047</u>	<u>29,879,383</u>	<u>2,309,578</u>
Total governmental activities	<u>\$ 148,809,688</u>	<u>\$ 30,719,427</u>	<u>\$ 35,673,501</u>	<u>\$ 143,855,614</u>	<u>\$ 11,449,142</u>

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2012

### Note 7 - Long-term Debt (Continued)

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

	Governmental Activities		
	Principal	Interest	Total
2013	\$ 8,755,000	\$ 5,335,035	\$ 14,090,035
2014	9,265,000	4,821,175	14,086,175
2015	9,735,000	4,357,925	14,092,925
2016	9,820,000	3,919,025	13,739,025
2017	9,860,000	3,438,025	13,298,025
2018-2022	44,420,000	10,899,918	55,319,918
2023-2027	20,405,000	2,100,031	22,505,031
Total	<u>\$ 112,260,000</u>	<u>\$ 34,871,134</u>	<u>\$ 147,131,134</u>

The School District entered into a lease agreement as a lessee for financing the purchase of copiers. The lease agreement qualifies as a capital lease for accounting purposes. The present value of the net minimum lease payments have been capitalized and are being amortized over the useful life of the assets. The future minimum lease payments under the capital leases are as follows:

Years Ending June 30	Amount
2013	\$ 109,458
2014	28,821
Total	138,279
Less amount representing interest	12,798
Present value of net minimum lease payments	<u>\$ 125,481</u>
Current obligation	<u>\$ 99,317</u>

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2012

### Note 7 - Long-term Debt (Continued)

#### Governmental Activities

General obligation bonds consist of the following:

\$71,500,000 - 2005 refunding bonds due in annual installments of \$1,140,000 to \$4,955,000 through May 2023; interest at 3.80 to 5.00 percent	\$ 43,105,000
\$45,275,000 - 2006 refunding bonds due in annual installments of \$840,000 to \$5,940,000 through May 2027; interest at 4.00 to 5.00 percent	45,275,000
\$23,880,000 - 2012 refunding bonds due in annual installments of \$3,785,000 to \$4,325,000 through May 2018; interest at 3.00 to 5.00 percent	<u>23,880,000</u>
Total bonded debt	<u>\$ 112,260,000</u>

Other governmental activities long-term obligations include the following:

Employee Compensated Absences	\$ 2,234,578
School Bond Loan Fund	21,204,830
School Loan Revolving Fund	6,012,975
Workers' Compensation and Other	<u>427,000</u>
Total	<u>\$ 29,879,383</u>

**School Bond Loan Fund** - The School Bond Loan Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest, at the annual rate ranging from 4.625 to 5.000 percent through June 30, 2012, has been assessed for the year ended June 30, 2012. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7.491 mills. The School District is required to levy 7.491 mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of taxable value of property in the School District, no provision for repayment has been included in the above amortization schedule.

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2012

### Note 7 - 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 3.000 percent through June 30, 2012 has been assessed for the year ended June 30, 2012. Repayment begins as soon as annual tax collections exceed annual debt service payment requirements. The predetermined mandatory final loan repayment date is May 1, 2033. Due to the variability of the factors that affect the timing of repayment, including the future amount of taxable value of property in the School District, no provision for repayment has been included in the above amortization schedule.

**Advance and Current Refundings** - During the year, the School District issued \$23,880,000 in general obligation bonds with an average interest rate of 4.2 percent. The proceeds of these bonds, along with a premium of \$2,389,928, were used to advance refund \$25,420,000 of outstanding 2002 bonds with an average interest rate of 4.9 percent. The net proceeds of \$26,035,477 (after payment of \$234,451 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by \$2,787,925, which represents an economic gain of \$2,695,966. Deferred charges (interest) totaling \$615,477 are being capitalized and amortized over the life of the bonds using the straight-line method. Amortization expense of \$34,193 was recorded for the year ended June 30, 2012.

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, 2012, \$117,190,000 of bonds outstanding are considered defeased.

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2012

### Note 8 - Risk Management

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

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

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

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

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

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

	2012	2011
Estimated liability - Beginning of year	\$ 305,000	\$ 135,000
Estimated claims incurred - Including changes in estimates	332,082	380,059
Claim payments	<u>285,082</u>	<u>210,059</u>
Estimated liability - End of year	<u>\$ 352,000</u>	<u>\$ 305,000</u>

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2012

### Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

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

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

**Pension Benefits** - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate for basic plan members was 12.16 percent of covered payroll for the period from July 1, 2011 through September 30, 2011 and 15.96 percent for the period from October 1, 2011 through June 30, 2012. The employer contribution rate for pension plus plan members was 10.66 percent for the period from July 1, 2011 through September 30, 2011 and 14.73 percent for the period from October 1, 2011 through June 30, 2012. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3.0 to 4.3 percent of gross wages, or up to 6.4 percent of gross wages for members entering the MIP Plus plan on or after July 1, 2008 or the Hybrid plan on or after July 1, 2010. The School District's required and actual contributions to the plan for the years ended June 30, 2012, 2011, and 2010 were \$6,783,283, \$5,179,065, and \$4,727,005, respectively.

**Postemployment Benefits** - 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 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 was 8.50 percent of covered payroll for the period from July 1, 2011 through June 30, 2012. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2012, 2011, and 2010 were \$3,854,044, \$3,551,691, and \$3,208,245, respectively.

# **Lake Orion Community Schools**

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## **Notes to Financial Statements June 30, 2012**

### **Note 10 - Subsequent Events**

On July 17, 2012, the School District entered into an agreement to purchase 44 school buses under an installment purchase agreement. Payments of \$253,288 began in July 2012 and will be made biannually in July and January through July 2017.

## **Required Supplemental Information**

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# Lake Orion Community Schools

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 9,275,468	\$ 9,116,868	\$ 9,221,845	\$ 104,977
State sources	57,841,710	59,378,498	59,144,768	(233,730)
Federal sources	2,934,654	3,078,084	2,810,999	(267,085)
Medicaid and ISD sources	5,379,417	5,901,617	5,879,708	(21,909)
Other revenue	330,000	405,000	405,000	-
Total revenue	75,761,249	77,880,067	77,462,320	(417,747)
<b>Expenditures - Current</b>				
Instruction:				
Basic programs	36,573,070	36,287,860	36,004,618	(283,242)
Added needs	11,613,458	11,237,254	10,879,094	(358,160)
Support services:				
Pupil support services	5,624,879	5,911,563	5,864,646	(46,917)
Instructional staff support services:				
Instruction improvement	397,603	431,147	355,241	(75,906)
Educational media services	935,659	945,294	936,658	(8,636)
Technology assisted instruction	372,558	700,011	645,048	(54,963)
Instructional staff supervision	689,804	670,191	653,284	(16,907)
General administration	966,643	786,089	773,245	(12,844)
School administration	4,278,359	4,215,170	4,260,308	45,138
Business services	1,324,161	2,194,257	1,626,527	(567,730)
Operation and maintenance	7,983,527	7,940,700	7,463,285	(477,415)
Transportation services	4,269,702	4,326,944	4,329,742	2,798
Human resources	636,699	824,090	802,179	(21,911)
Technology services	3,013,220	3,341,946	3,138,062	(203,884)
Athletics	1,123,625	1,134,225	1,119,183	(15,042)
Community services	370,126	440,762	394,341	(46,421)
Total expenditures	80,173,093	81,387,503	79,245,461	(2,142,042)
<b>Net Change in Fund Balance</b>	(4,411,844)	(3,507,436)	(1,783,141)	1,724,295
<b>Fund Balance - July 1, 2011</b>	14,250,656	14,250,656	14,250,656	-
<b>Fund Balance - June 30, 2012</b>	<u>\$ 9,838,812</u>	<u>\$ 10,743,220</u>	<u>\$ 12,467,515</u>	<u>\$ 1,724,295</u>

## **Other Supplemental Information**

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# Lake Orion Community Schools

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2012

	Special Revenue Funds		Debt Service Funds			Total
	Food Service	Community Services	2005 Debt	2006 Debt	2012 Debt	
<b>Assets</b>						
Cash and investments	\$ 852,280	\$ 519,911	\$ -	\$ -	\$ -	\$ 1,372,191
Accounts receivable	360	215	-	-	-	575
Due from other governmental units	15,890	-	18,391	5,505	14,594	54,380
Other assets	43,777	5,073	-	-	-	48,850
Restricted assets	-	-	288,599	78,270	235,362	602,231
Total assets	<u>\$ 912,307</u>	<u>\$ 525,199</u>	<u>\$ 306,990</u>	<u>\$ 83,775</u>	<u>\$ 249,956</u>	<u>\$ 2,078,227</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 326	\$ 6,998	\$ -	\$ -	\$ -	\$ 7,324
Due to other funds	1,007	26,447	-	-	-	27,454
Due to other governmental units	542	-	37,614	10,084	28,898	77,138
Deferred revenue	55,518	-	-	-	-	55,518
Total liabilities	57,393	33,445	37,614	10,084	28,898	167,434
<b>Fund Balances</b>						
Nonspendable - Inventories	43,777	5,073	-	-	-	48,850
Restricted:						
Debt service	-	-	269,376	73,691	221,058	564,125
Food service	811,137	-	-	-	-	811,137
Committed - Community services	-	486,681	-	-	-	486,681
Total fund balances	854,914	491,754	269,376	73,691	221,058	1,910,793
Total liabilities and fund balances	<u>\$ 912,307</u>	<u>\$ 525,199</u>	<u>\$ 306,990</u>	<u>\$ 83,775</u>	<u>\$ 249,956</u>	<u>\$ 2,078,227</u>

# Lake Orion Community Schools

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2012

	Special Revenue Funds		Debt Service Funds				Capital Projects Fund	Total
	Food Service	Community Services	2002 Debt	2005 Debt	2006 Debt	2012 Debt	2002 Capital Projects Fund	
<b>Revenue</b>								
Local sources	\$ 1,587,363	\$ 1,935,873	\$ 4,515,944	\$ 5,827,310	\$ 1,443,582	\$ -	\$ -	\$ 15,310,072
State sources	111,053	-	-	-	-	-	-	111,053
Federal sources	837,681	-	-	-	-	-	-	837,681
Total revenue	2,536,097	1,935,873	4,515,944	5,827,310	1,443,582	-	-	16,258,806
<b>Expenditures</b>								
Current:								
Food services	2,254,561	-	-	-	-	-	-	2,254,561
Community services	-	1,632,208	-	-	-	-	-	1,632,208
Debt service:								
Principal	-	-	4,270,000	4,890,000	-	-	-	9,160,000
Interest	-	-	1,241,399	2,790,969	2,309,321	615,477	-	6,957,166
Other	-	-	202,760	271,838	69,319	230,399	325	774,641
Capital outlay	23,077	39,246	-	-	-	-	163,820	226,143
Total expenditures	2,277,638	1,671,454	5,714,159	7,952,807	2,378,640	845,876	164,145	21,004,719
<b>Excess of Revenue Over (Under) Expenditures</b>	258,459	264,419	(1,198,215)	(2,125,497)	(935,058)	(845,876)	(164,145)	(4,745,913)
<b>Other Financing (Uses) Sources</b>								
Transfers in/out	(150,000)	(255,000)	(217,006)	-	-	217,006	-	(405,000)
School bond loan funds debt issued	-	-	1,187,109	2,101,630	935,577	-	-	4,224,316
Face value of debt issued	-	-	-	-	-	23,880,000	-	23,880,000
Premium on debt issued	-	-	-	-	-	2,389,928	-	2,389,928
Payment to escrow agent	-	-	-	-	-	(25,420,000)	-	(25,420,000)
Total other financing (uses) sources	(150,000)	(255,000)	970,103	2,101,630	935,577	1,066,934	-	4,669,244
<b>Net Change in Fund Balances</b>	108,459	9,419	(228,112)	(23,867)	519	221,058	(164,145)	(76,669)
<b>Fund Balances - Beginning of year</b>	746,455	482,335	228,112	293,243	73,172	-	164,145	1,987,462
<b>Fund Balances - End of year</b>	<u>\$ 854,914</u>	<u>\$ 491,754</u>	<u>\$ -</u>	<u>\$ 269,376</u>	<u>\$ 73,691</u>	<u>\$ 221,058</u>	<u>\$ -</u>	<u>\$ 1,910,793</u>

# Lake Orion Community Schools

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2012

June 30	2005 Refunding		2006 Refunding	
	Principal	Interest	Principal	Interest
2013	\$ 4,930,000	\$ 2,030,461	\$ -	\$ 2,153,064
2014	4,940,000	1,783,961	-	2,153,064
2015	4,950,000	1,536,961	1,000,000	2,153,064
2016	4,950,000	1,289,461	1,000,000	2,113,064
2017	4,955,000	1,041,961	1,000,000	2,073,064
2018	4,895,000	853,671	1,000,000	2,033,064
2019	4,825,000	663,990	5,330,000	1,993,064
2020	4,830,000	422,740	5,575,000	1,771,869
2021	1,520,000	181,241	5,560,000	1,493,119
2022	1,170,000	105,241	5,545,000	1,215,119
2023	1,140,000	46,741	5,780,000	937,868
2024	-	-	5,860,000	648,868
2025	-	-	5,940,000	355,868
2026	-	-	840,000	73,718
2027	-	-	845,000	36,968
Total	<b><u>\$ 43,105,000</u></b>	<b><u>\$ 9,956,429</u></b>	<b><u>\$ 45,275,000</u></b>	<b><u>\$ 21,204,845</u></b>
Principal payments due	May 1		May 1	
Interest payments due	May/November		May/November	
Interest rate	3.80% to 5.00%		4.00% to 5.00%	
Original issue	<b><u>\$ 71,500,000</u></b>		<b><u>\$ 45,275,000</u></b>	

# Lake Orion Community Schools

## Other Supplemental Information Schedule of Bonded Indebtedness (Continued) Year Ended June 30, 2012

June 30	2012 Refunding		Total Principal	Total Interest
	Principal	Interest		
2013	\$ 3,825,000	\$ 1,151,510	\$ 8,755,000	\$ 5,335,035
2014	4,325,000	884,150	9,265,000	4,821,175
2015	3,785,000	667,900	9,735,000	4,357,925
2016	3,870,000	516,500	9,820,000	3,919,025
2017	3,905,000	323,000	9,860,000	3,438,025
2018	4,170,000	166,800	10,065,000	3,053,535
2019	-	-	10,155,000	2,657,054
2020	-	-	10,405,000	2,194,609
2021	-	-	7,080,000	1,674,360
2022	-	-	6,715,000	1,320,360
2023	-	-	6,920,000	984,609
2024	-	-	5,860,000	648,868
2025	-	-	5,940,000	355,868
2026	-	-	840,000	73,718
2027	-	-	845,000	36,968
Total	<u>\$ 23,880,000</u>	<u>\$ 3,709,860</u>	<u>\$ 112,260,000</u>	<u>\$ 34,871,134</u>

Principal payments due

May 1

Interest payments due

May/November

Interest rate

3.00% to 5.00%

Original issue

\$ 23,880,000